Community benefits policies in construction
Evaluating the impacts
Contents

3. Executive summary

5. Introduction

6. Summary and analysis of responses

11. Conclusions

15. Key messages

15. Recommendations
Community benefits or ‘social’ requirements in public sector procurement are intended to ensure that wider social and economic issues are considered when delivering construction, service or supplies contracts.

The Welsh Government’s Programme for Government has a specific policy commitment to deliver community benefits from public sector procurements, viewing procurement as a key driver for delivering its sustainable development commitments for Wales. This policy focuses on delivering outcomes that help build stronger communities, reduce social exclusion and poverty and encourage the development of the economy, specifically by:

- Creating training and employment opportunities
- Creating opportunities for SMEs, including Third Sector enterprises and Supported Factories and Businesses, to bid for work as part of the supply chain
- Contributing to education
- Engaging with communities

The policy was the subject of early pilots in 2003 prior to the formal launch of the policy in 2006. The policy was refreshed in 2010 and then relaunched by the Minister for Finance.

This report, commissioned by Value Wales and produced by Constructing Excellence in Wales, provides a construction suppliers’ view on the impact of the Welsh Government’s policy and sets out:

a) What suppliers are already doing regardless of the policy
b) Whether or not the policy has had an effect on their approach
c) What barriers, if any, exist to delivering greater community benefits

The views of 16 different suppliers were sought over a period of two weeks via face-to-face or telephone interviews. Suppliers were chosen from across Wales and comprise a mix of major UK contractors, albeit based in Wales with significant Welsh supply chains, as well as smaller indigenous contractors. Although this number is not statistically relevant it does provide a view from the industry that will allow Value Wales to follow up issues identified and inform a policy checkpoint review.

It is worth noting that all the suppliers interviewed demonstrated enthusiasm and passion for the community benefits that the construction industry can deliver. They recognised the huge contribution that the industry, when properly harnessed, can make to community regeneration, and regarded this aspect of their work as highly important, regardless of government policy.

The suppliers also made the following observations:

- All had been involved in community benefit initiatives, either through contractual or negotiated requirements, and they had observed an increase in this activity over the last one to two years.
- Their experiences were mixed, with most finding that they agreed with the intentions of clients/procurers wishing to provide community benefits, but often struggling with the way the policy was implemented in practice.
- Many were concerned over the tendency of clients to focus on short-term targets rather than longer-term outcomes.
- All highlighted their willingness and ability to bid for contracts containing community benefit clauses or intentions, but many made the point that these requirements should be fairly and transparently evaluated and monitored.

Executive summary
The key messages from suppliers were:

- They are already delivering community benefits – albeit in their own way.
- They need a level of consistency in community benefit requirements if they are to deliver greater value.
- They need greater continuity if they are to deliver sustainable community benefits.
- Rigid application of targets should be avoided as this approach does not guarantee the delivery of sustainable employment benefits.
- Clients should demonstrate leadership in applying community benefits policy and avoid focusing on the choice between ‘core’ and ‘non-core’ approaches.
- Clients/procurers need to take a strategic view of community benefits rather than merely passing on short-term, unrealistic targets to the supply chain.
- Coordination of employment/training support agencies by the client will improve the delivery of community benefits by the supply chain.
- The wider industry needs greater awareness and understanding of community benefits – hearts and minds need to be won if sustainable community benefits are to be achieved.

To take these messages forward three recommendations are proposed:

**Recommendation 1:** Investigate how clients can be better supported in their leadership of community benefits policy

**Recommendation 2:** Investigate how employment/training support agencies can be better coordinated to improve effective provision of apprentices and work opportunities

**Recommendation 3:** Investigate how community benefit targets can be better applied to deliver sustainable employment benefits
1. Introduction

Background

The Welsh Government’s community benefits policy, led by Value Wales, is aimed at producing positive socioeconomic impacts for the citizens of Wales from its public sector investments by influencing the way its procurement activities are delivered.

The project offers advice to Welsh public sector procurers on how to deliver added value from their procurement activities. Guidance shows how community benefits can be legitimately promoted within the policy and legal framework governing public procurement.

The Welsh Government views procurement as a key driver for delivering its sustainable development objectives. Specific policy commitments have been made within its Programme for Government to deliver community benefits from public sector procurements. The policy focuses on delivering outcomes that help build stronger communities, reduce social exclusion and poverty and encourage the development of the economy, specifically by:

• Creating training and employment opportunities
• Creating opportunities for SMEs, including Third Sector enterprises, to bid for work as part of the supply chain
• Contributing to education and upskilling
• Engaging with communities

The inclusion of community benefit or ‘social’ requirements in public sector procurement is designed to ensure that wider social and economic issues are taken into account when tendering construction, service or supplies contracts. While all public procurement is required to achieve value for money, the community benefits project supports procurers in achieving wider value for money in economic and social terms.

A key decision for contracting authorities when procuring goods and services is whether to make community benefits ‘core’ or ‘non-core’ to their contracts. The non-core approach formed the basis of a Value Wales pilot in 2003 that informed the development of the policy launched in 2006, which continues to be used as a method of delivering community benefits. The core approach involves specifying community benefits as a ‘core’ part of the contract, but the way this is applied is determined by the contracting authority. Appendix A outlines, in greater detail, the difference between these two approaches.

Welsh Government ministers wish to maximise the wider benefit from procurement expenditure, in particular considering whether the community benefits approach can be strengthened. The approach has already been adopted on a range of projects worth up to £3 billion, some using the core and some the non-core approach.

Scope of the report

The purpose of this report is to seek the views of suppliers on the impact of the Welsh Government’s existing community benefits policy.

It examines the extent to which contractors supporting the Welsh public sector are delivering community benefits and what impact, if any, the policy has had on their behaviour. It examines the effect of both core and non-core approaches on outcomes, and the extent to which factors such as company policy, client leadership and quality of contract management play a part. It also asks what are the incentives for suppliers to deliver community benefits, what barriers they face, and what measures could be taken to spread awareness and encourage clients and suppliers to deliver community benefits more effectively.

The report provides a summary and analysis of suppliers’ responses, identifies learning points and key messages from the industry, and provides recommendations on how the approach to community benefits could be improved.

Methodology

The analysis is based on the views of 16 construction sector contractors (suppliers) located across north, southeast and southwest Wales. A full list of the contractors interviewed is included at the end of the report. Views were gathered via face-to-face or telephone interviews and based on a pre-agreed questionnaire.
2. Summary and analysis of responses

1. Current involvement in delivering community benefits

Suppliers were asked if they have ever been requested, as part of a tendering process, to provide a method statement to deliver community benefits as part of a contract which, if successful, they would be required to implement. They were asked if they have ever been set a specific condition to deliver certain community benefits, such as employing a given number of apprentices or long-term unemployed people, and also if such requirements had ever been scored as part of a tender evaluation.

Almost all contractors said they had been expected to deliver community benefits in some form. This had ranged from ‘softer’ requirements to deliver benefits through negotiation to ‘harder’ requirements linked to specific targets. Feedback from the sample projects [3 recent projects identified by the supplier, involving community benefits] indicated that requirements were relatively evenly divided between core and non-core approaches, although over the last 12 months there is a tendency for the core approach to be more frequently used.

Although both approaches are being applied across Wales, it would appear that use of both approaches has been more limited in north Wales, which may be due to client/procurer culture and/or workload.

2. Experiences of community benefit policies

Suppliers were asked whether their experience of community benefit policies has been good, bad or indifferent.

On the whole, experiences of community benefit policies have been positive, albeit less so in north Wales. The situation in north Wales may be a result of clients being slower to apply community benefit policies, and/or the level of workload.

A number of contractors expressed concerns about inconsistent approaches among clients, making it hard to achieve positive outcomes.

Although some clients approached the process with a very clear purpose and were able to negotiate positive outcomes, many failed to embrace the process and tended to ‘pass the buck’ to the supply chain by imposing unrealistic and poorly considered targets. Many suppliers felt that unless the principle of community benefits is embedded in the client’s approach from the outset, the task of securing sustainable community benefits is extremely difficult. This may be due to cultural issues within client organisations who see community benefits as an unnecessary and unhelpful burden on the construction process, or could be due to a lack of knowledge or awareness of the value of community benefits. A number of suppliers compared clients’ approach to community benefits with attitudes towards health and safety 10 to 15 years ago – i.e. something that could be passed to the supply chain to deal with.

3. Willingness to bid

Suppliers were asked how they react when they see the presence of ‘social clauses’ in tendering documents, and whether it encourages or discourages them from bidding.

The presence of ‘social clauses’ has little or no impact on contractors’ willingness to bid for work. In fact, for many the impact is positive. However, concerns were expressed by many over how clients evaluate this element of a tender submission. In particular, some suppliers felt that clients did not always apply the social requirements as specified during the tender process, which meant that those who did make financial allowances to deliver social benefits felt disadvantaged by the process and sometimes had to ‘second guess’ how seriously a client viewed community benefits. Some suppliers mentioned the importance of ‘a level playing field’, reflecting a need for consistency of approach by clients.
4. Ability to respond to tenders

Suppliers were asked if the presence of ‘social clauses’ (core or non-core) affected their ability to respond to tenders.

The presence of ‘social clauses’ appears to have no impact on the contractor’s ability to bid for work. Again, many contractors view these requirements as a positive aspect of their business. However, the concept of community benefits is still relatively new, and there is considerable variation across the construction industry in the way such policies are understood and applied – especially among clients.

5. Extent of involvement in community benefit activities

Suppliers were asked a series of questions relating to their involvement in such activities as training and employment, local supply chain and SME development, prompt payment of suppliers, sponsorship, educational visits and other general corporate social responsibilities.

Are you involved in specific community benefit activities, and if so, was this specifically required by clients/procurers?

All those who responded are involved in community benefit activities to varying degrees. Sometimes this is prompted by the client, but such involvement is increasingly seen as a normal business activity that a contractor will undertake even if not requested by the client – so long as it adds value.

Have you noticed any increase or decrease in community benefit-type activities?

Generally, most have experienced an increase in activity although this has been tempered recently by the economic climate. In particular, one contractor has noted a decrease in the public housing sector, as social requirements have given way to a focus on lowest price.

Where you have taken part in community benefit activities as a result of a client/procurer’s specific requirements, were these requirements ‘core’ or ‘non-core’?

While most contractors are experiencing both approaches from clients, the approach in north Wales is tending towards non-core which, potentially, reflects a slower and more recent take-up by clients.

To what degree did the client drive you to deliver the requirements, did they monitor or audit the implementation, and how effective was their policy generally?

A continuous theme was the impact, both positive and negative, that the client/procurer has on the effective implementation of community benefits. Unfortunately, client/procurer input in terms of driving the process and monitoring its effectiveness is highly variable. Respondents generally felt that strong and clear leadership has a direct impact on the added value and longer term outcomes that can be gained from applying community benefit requirements, whether core or non-core.

Do you ensure prompt payment to suppliers?

While contractors generally ensure prompt payments to the supply chain, commercial issues can have a significant impact unless these are specifically prescribed by clients. This can particularly affect smaller contractors who are less able to manage cash flow issues and who, sometimes, need to delay payments to the supply chain to balance cash flow between projects. The greater the turnover of a company, the more able they are to manage fluctuating cash flow and hence give greater guarantees of timely payment.

Did the community benefits policy lead to increased costs?

While many contractors understand that applying community benefits requirements should not lead to substantial costs, the inconsistent application of these requirements by some clients is having an impact on the ability of the supply chains to add value rather than cost.
6. Local employment opportunities

Suppliers were asked questions relating to their employment of local people and provision of opportunities for unemployed people.

Do you record the location and travel distances of your directly employed staff? What percentage of your directly employed staff live within Wales?

All contractors are measuring their eco-footprint in terms of travel. A high proportion of directly employed staff are from Wales (90-100%).

Monitoring of subcontractor data is variable and it is difficult to deduce too much from the responses. However, the proportion of Welsh SMEs employed is felt to be generally high (80-90%), although this can vary if a project requires a high degree of specialism or when projects are located close to the Wales/England border. In north Wales the proportion drops to 60-70%, which may be due to the availability of the required skills.

In the last three years how many unemployed people have you employed (either directly or indirectly via your preferred supply chain partners)?

While all contractors are aware of the opportunities and support the employment of unemployed people, the variability of the data makes it difficult to deduce much from the responses unless ‘core’ requirements were involved, in which case the data is more reliable. According to the responses, the number of unemployed people taken on varied from one or two to 50-60, and this bore little relation to the value of works, core or non-core.

7. Local training opportunities

Suppliers were asked about their provision of apprenticeships and training opportunities for disadvantaged people.

How many apprentices have you directly employed in the last three years?

All are actively involved in recruiting apprentices as part of their normal business activities to ensure continuity of skills, etc. However, recruiting people to specific jobs as part of a community benefit requirement, while deliverable, can be less sustainable for the longer term and, therefore, not as successful in delivering the desired outcomes. This is discussed further in the latter part of the report. Problems particularly arise in the case of new recruits, as a contractor’s success in securing work may rely on the continuity provided by existing staff. An excessive focus on new entrants can have a detrimental effect on local and regional companies and distort their ‘organic’ process of recruitment and training. Inevitably, new entrants employed specifically to meet a target may struggle to maintain sustainable employment after a project ends.

How many job experience opportunities for disadvantaged individuals/groups have you provided in the last three years?

All respondents are actively involved in providing job experience opportunities for disadvantaged individuals; largely as a result of community benefit requirements, although the impact varies significantly according to the approach and drive of the client/procurer.
8. Company policies
Suppliers were asked if they have policies on sustainable procurement and community engagement. They were also asked if they apply ‘speedy payment’ policies to their supply chain.

All contractors have sustainable procurement policies in place. The vast majority has policies on community engagement, but even where there is no formal policy contractors pursue this at a practical level.

Most of the contractors have policies to pay their supply chain promptly, although many have recognised that commercial pressures can sometimes affect this.

9. Community engagement
Suppliers were asked to provide examples of projects within the last three years that involved engagement with local communities.

All contractors are involved in community engagement of various types. These include:
- Support to local community groups
- Educational visits
- Public exhibitions
- Drop-in centres

Some contractors record this involvement in terms of staff time and direct financial support to communities, but many view it as part of their normal business practices within their communities and have not kept detailed records. The data submitted is highly variable and is, therefore, unreliable in terms of comparison.
10. Additional information

Finally, suppliers were asked for their views on what would encourage greater commitment to community benefits, and what they felt were barriers to participation.

**What would encourage you to delivery greater community benefits?**

- Greater transparency and consistency of workload
- Greater transparency and consistency in client/procurer requirements
- Greater leadership from client/procurer
- Acknowledgement of existing/current local employment by contractors
- Greater consistency in measurement/benchmarking of community benefits
- Support structure put in place by client/procurer to support contractor from day one in delivering employment/training benefits – client/procurer (especially local authorities) best placed to do this
- Support by client/procurer in securing grants, where available
- Need for greater awareness of the role of Value Wales in providing a single source of clarity on community benefit requirements for suppliers and clients/procurers.

**What are the barriers to delivering greater community benefits?**

- Economic climate – concern about a return to lowest-price culture at expense of a value-driven approach
- Uncertainty of workload makes forward planning of sustainable community benefits difficult
- Inconsistency in client/procurer requirements
- Cost of delivery
- Short-term nature of many project-specific targets
- Poorly-considered targets
- Lack of local support structures in place to deliver employment/training requirements. Having ‘agencies’ in place before a job starts, ideally established by the client, means that the supplier can hit the ground running when the job starts and recruitment can be better targeted to suit local conditions. If these are not in place, the supplier has to make the contacts, which they are not best placed to do and is a distraction from the task in hand
- Community benefits agenda still viewed by many clients as a ‘tag on’

**Are case studies useful in encouraging delivery of community benefits?**

- All contractors were strongly in favour of the need for best practice case studies to demonstrate how successful outcomes could be achieved.
- Many felt that case studies could form part of a learning process for the industry.
- A number of contractors are already actively preparing their own case studies for internal learning, but felt that an independent scheme would help to spread a more consistent message across the industry.
- One contractor commented that case studies could help demonstrate the costs and benefits of a long-term approach to community benefits, leading to a greater legacy for the investments made in a community.

**What are your views on league tables showing which suppliers are delivering the most community benefits across Wales?**

- This question generated cautious but generally negative responses.
- While some could see benefits in benchmarking, the majority felt that due to the lack of understanding across the industry and the inconsistencies in data collection, the tables could be manipulated in a highly divisive fashion.
- Many felt that, at the current time at least, best practice case studies would be a better and more positive way to move the issues of community benefits forward.
- One contractor did comment that he would be supportive if it was linked to future workload.
3. Conclusions

What are suppliers already doing?

Historically the involvement of contractors and their supply chains in community-based activities has been seen as a normal part of their business activities and, indeed, their culture. The base of knowledge, experience and behaviours was, therefore, already strong prior to the introduction of specific community benefit policies.

Since the introduction of specific policies, all those who responded have already experienced specific community benefit requirements to varying degrees – either prompted by clients/procurers, or as normal business activities which the contractors have applied where they add value. In cases where clients/procurers specify these requirements as part of the tender process, both core and non-core approaches are common.

In terms of employment and training

• A high proportion of directly employed staff is from Wales (90-100%).

• Unemployed people are being given work, although the variability of the data makes it difficult to deduce too much from the responses.

• All are actively involved in recruiting apprentices as part of their normal business activities to ensure continuity of skills, etc. However, there are significant concerns over the sustainability of such measures where targets are poorly prescribed and where desired outcomes are not necessarily deliverable.

• All are actively involved in providing job experience opportunities for disadvantaged individuals, largely as a result of community benefit requirements. However, as for the recruitment of apprentices, there are significant concerns over the sustainability of such measures where targets are poorly prescribed and where desired outcomes are not necessarily deliverable.

In terms of business opportunities

• The employment of Welsh SMEs within the supply chain is generally high at 80-90%, although this falls if a project requires a high degree of specialism or when projects are located close to the Wales/England border. The average proportion in north Wales, however, drops to 60-70%, which may be due to the limited availability of certain resources and/or reduced workload.

• Most contractors have policies in place to pay their supply chain promptly, although in practice many recognise that commercial pressures can affect this policy unless prescribed by clients/procurers.

In terms of environmental sustainability

• All contractors have sustainable procurement policies in place.

• All contractors are measuring their eco-footprint in terms of travel.

In terms of community engagement

• The vast majority of contractors have policies in place for community engagement, but even those who do not have a policy are pursuing this at a practical level.

• All contractors are involved in community engagement of various types and specific examples have been provided.

In terms of performance measurement and benchmarking

• The measurement of current practices and involvement in community benefits, while widespread, is inconsistent, making it difficult to benchmark performance reliably.

• Some suppliers are utilising the Value Wales community benefits measurement tool to measure their current performance.
What effect has community benefit policy had on the approach of suppliers?

On the whole, experiences of specific community benefit policies have been positive. In fact, community benefits are increasingly seen as normal business activities which contractors will apply even if not requested by the client, as long as they add value.

Most suppliers have seen an increase in demand from clients/procurers for community-based activity over the last one to two years, although this has been tempered recently by the economic climate and tendency in some sectors to focus on lowest price at the expense of social requirements.

While overall most contractors find that clients are taking both core and non-core approaches, in north Wales the tendency is towards non-core which, potentially, reflects a slower take-up of community benefit policies by clients.

Willingness and ability to tender

- The inclusion of specific community benefit requirements has little or no effect on the willingness and ability of suppliers to tender for work.
- In most cases suppliers see the inclusion of these requirements as a positive step, albeit with a number of caveats – principally that clients/procurers need to be consistent in their aims and practices, and realistic about what can be delivered.

Effect of clients/procurers

- The approach by clients/procurers has a significant effect on the ability of suppliers to deliver successful community benefits. Some clients approach the process with a very clear purpose and are able to negotiate positive outcomes (through both core and non-core approaches). However, many fail to embrace the process and tend to ‘pass the buck’ to the supply chain by imposing unrealistic and poorly-considered targets.
- Clients/procurers vary considerably in the way they drive the community benefits process and monitor its effectiveness. It is generally felt that this impacts on the added value and longer-term outcomes that can be achieved.
- In terms of costs, while many of the contractors understand that applying community benefits requirements should not lead to substantial costs, the inconsistency in client approaches affects the ability of the supply chains to add value rather than cost.
- Contractors generally ensure prompt payments to the supply chain, but this can be affected by commercial issues unless specifically prescribed by clients.
- Overall, client inconsistency often makes it difficult to achieve positive outcomes from community benefit policies.

Performance measurement and benchmarking

- Although most suppliers were already collecting data on community benefits for their own performance management and marketing purposes, they have had to adjust many of their processes to suit the differing requirements of clients/procurers on specific projects. A clear set of performance indicators would help to provide consistency and greater benchmarking opportunities across Wales.

Regional differences

- Community benefits policies are generally viewed positively, but less so in north Wales than in southeast and southwest Wales.
- The non-core approach tends to be more favoured by clients/procurers in north Wales.
- These differences may be due to a slower application of community benefit requirements by public sector clients and procurers in the north, and may change once the requirements become better understood.
What incentives would encourage suppliers to deliver greater community benefits?

The following conclusions have been drawn from the responses.

High importance:

• Continuity of workload, potentially through long-term partnerships or at least through a transparent and realistic forward work programme, would allow suppliers to plan their resources better and give greater certainty in delivering community benefits, especially in terms of training and apprenticeship opportunities and work for disadvantaged individuals. Procurement models, such as well-structured long-term framework agreements, can support this continuity.

• Greater consistency and transparency in client/procurer requirements will level the playing field for suppliers, meaning that when tendering for work the suppliers are clear about what is expected and can plan accordingly.

• Greater leadership from the client/procurer will also ensure greater consistency in specification of requirements.

Medium importance:

• Acknowledgement of existing local employment by contractors will help to reflect the contribution already made and create a greater sense of fairness.

• Greater consistency in measurement/benchmarking of community benefits.

• Support structures put in place by the client/procurer before the job starts to help the contractor deliver employment/training benefits will secure better outcomes. The client/procurer (especially local authorities) is best placed to do this.

• Best practice case studies will demonstrate how successful outcomes can be achieved.

Low importance:

• Support by client/procurer with securing grants.

• A community benefits ‘guru’ to provide a single point of contact on requirements for both suppliers and clients will give greater clarity across the industry.

What are the barriers to delivering greater community benefits?

The following conclusions have been drawn from the responses.

High importance:

• Uncertainty of workload, resulting from limited forward planning as well as economic uncertainty, severely hinders the ability of suppliers to plan for better long-term outcomes for communities.

• Inconsistency in the application of client/procurer requirements for community benefits creates a lottery-type scenario where suppliers are uncertain of the emphasis that will eventually be placed on community benefits. This affects tender pricing as suppliers try to second guess whether they should allocate funds to the client’s social requirements, or lower their tender price to make themselves more competitive.

• Clients/procurers are highly inconsistent in their attitude towards community benefits, and some may view the requirements as an unwelcome ‘tag on’ to the project.

Medium importance:

• Unrealistic targets when considered alongside project type, value and continuity of workload demotivates suppliers and can lead to poor outcomes.

• The current economic climate is pushing clients/procurers back to a lowest-price culture, weakening the focus on a value-driven approach (including community benefits).

• Lack of local support structures makes it hard for contractors to deliver employment/training requirements.

• There is no consistent understanding of the concept of community benefits across Wales – although pockets of best practice do exist.

Low importance:

• Excessive cost of delivering community benefits in the absence of robust client/procurer support structures.
4. Key messages

The key messages from suppliers were:

- They are already delivering community benefits – albeit in their own way.
- They need a level of consistency in community benefit requirements if they are to deliver greater value.
- They need greater continuity if they are to deliver sustainable community benefits.
- Rigid application of targets should be avoided as this approach does not guarantee the delivery of sustainable employment benefits.
- Clients should demonstrate leadership in applying community benefits policy and avoid focusing on the choice between ‘core’ and ‘non-core’ approaches.
- Clients/procurers need to take a strategic view of community benefits rather than merely passing on short-term, unrealistic targets to the supply chain.
- Coordination of employment/training support agencies by the client will improve the delivery of community benefits by the supply chain.
- The wider industry needs greater awareness and understanding of community benefits – hearts and minds need to be won if sustainable community benefits are to be achieved.

5. Recommendations

To take these messages forward three recommendations are proposed:

**Recommendation 1:** Investigate how clients can be better supported in their leadership of community benefits policy

**Recommendation 2:** Investigate how employment/training support agencies can be better coordinated to improve effective provision of apprentices and work opportunities

**Recommendation 3:** Investigate how community benefit targets can be better applied to deliver sustainable employment benefits