

Submission
No 5

**INQUIRY INTO PROCUREMENT PRACTICES OF
GOVERNMENT AGENCIES IN NEW SOUTH WALES AND
ITS IMPACT ON THE SOCIAL DEVELOPMENT OF THE
PEOPLE OF NEW SOUTH WALES**

Organisation: Social Traders
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Social

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New South Wales Government Standing Committee on Social Issues

Submission to Inquiry into Procurement practices of government agencies in New South Wales and its impact on the social development of the people of New South Wales

January 2024



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Contents

Executive Summary	3
About Social Traders	5
Social Enterprise	5
Social Procurement.....	6
Recommended Procurement Practices:	11
Governance in Procurement (Terms of Reference D):.....	11
Evaluation Criteria (Terms of Reference E):.....	13
Transparency and Accountability (Terms of Reference F):.....	15
Procurement Practices (Terms of Reference G):	16
Summary	17
Contact	18

“Social enterprises deliver benefits, such as driving employment opportunities, for those who need them most ...By selecting a business certified by Social Traders when procuring goods and services, government agencies are supporting businesses that exist to benefit the public or community, including by creating jobs for groups facing higher barriers to employment”¹.

Minister Courtney Houssos, New South Wales Minister for Finance

“The sector has achieved a great amount over recent decades, but there is potential to do so much more with the right regulatory settings and the right partnerships with governments ... Now is the time to leverage for more... Social procurement is so important, and certification will be one of the first steps”².

Dr Daniel Mulino MP, Member for Fraser and Chair of the Standing Committee on Economics

“John Holland joined Social Traders in 2018 with the introduction of the Victorian Government’s Social Procurement Framework...Utilising Social Traders impact data has helped us to articulate the impact of our social enterprise procurement spend in the communities in which we operate across metropolitan and regional Australia...We continue to work with Social Traders...because our social procurement approach has matured from a compliance approach to a broader interest and appetite for social value creation and legacy and because purchasing with social enterprises makes good business sense.”

Stevie Cole, Group Manager – Social Impact, John Holland

¹ *Renewed Partnership a Boost for Social Enterprises – NSW Government Media Release (2023)*. Available at: <https://assets.socialtraders.com.au/downloads/230719-Social-enterprise-boost.pdf>

² *Social Traders Business for Good Summit Keynote: The Opportunity of Social Enterprise and Social Procurement within our Economy*, Dr Daniel Mulino MP (2023). Available at: <https://www.youtube.com/watch?v=8Hw5qGN5XKE>

Executive Summary

Social enterprise procurement is a ready-made solution to enhance community wellbeing across New South Wales (NSW). It will deliver 14,000 jobs for NSW's most marginalised job seekers and will create more opportunities for those most vulnerable and generate savings to society of over \$1.4 billion across NSW by 2030.

Social enterprises are businesses that exist for good. They are an untapped resource for the NSW Government to drive wellbeing outcomes and generate savings to society.

In response to the inquiry into government procurement practices and their impact on social development in NSW, Social Traders submits this statement with a focused commitment to advancing the role of social enterprises within the procurement landscape. Our purpose is to address the intersection of government procurement policies, practices, and their potential to drive meaningful social development outcomes across the state. Social Traders advocacy for social enterprises does not diminish opportunities or exposure for Indigenous businesses. We envision potential growth for all social impact and Indigenous businesses within the procurement market, advocating for a balanced and inclusive approach that benefits all sectors before initiating broader procurement practices.

This inquiry recognises the critical role that government procurement plays in shaping the socio-economic landscape of New South Wales. As an organisation dedicated to fostering positive change through social enterprises and social procurement, Social Traders acknowledges the far-reaching implications of procurement decisions on the well-being of communities, economic inclusivity, and environmental sustainability.

This submission specifically relates to Terms of Reference³ sections:

(d) any opportunities that may exist for co-regulation, and other incentives to improve labour market governance and enforcement through the procurement process to ensure the process delivers both value for money and social outcomes

(e) the evaluation criteria used in tenders and how they are weighted in making a decision to award a contract, in particular consideration of:

(ii) value for money

(iii) social, economic, and labour market outcomes

(v) innovation

(vi) subcontracting arrangements

(f) current approaches to transparency and accountability of procurement by New South Wales government agencies, in particular:

(i) function and requirements of the New South Wales Government Procurement Board and the New South Wales Procurement Policy Framework

(ii) record keeping arrangements for procurement activities

(iii) Agency annual self-reports and outcome reports

(g) the New South Wales Government's procurement practices, in particular its ability to:

(i) prioritise local content, local manufacturing, and local jobs

³Terms of Reference, Standing Committee on Social Issues. Available at: <https://www.parliament.nsw.gov.au/lcdocs/inquiries/3014/Terms%20of%20reference%20-%20Procurement%20practices%20-%20Updated%2019%20December%202023.pdf>

- (ii) improve opportunities for quality training and workforce participation
- (iii) provide opportunities for diversity, inclusion, and the participation of disadvantaged groups, including women and minorities
- (iv) support local suppliers, and small and medium enterprises

Social Traders Recommends:

- **Recommendation 1: Work towards a whole of government social enterprise procurement target:** Initiate steps toward a whole of government social procurement target, drawing inspiration from the successful Aboriginal Procurement Policy spend target of 1%.
- **Recommendation 2: Endorse certification for social impact suppliers:** Incorporate Social Traders certification as a means to verify social enterprises, ensuring government procurement investments create measurable and verified social impact, enhancing accountability and effectiveness, and de-risking the investment.
- **Recommendation 3: Implement social procurement departmental resources:** Implementing mandatory social procurement teams in each department can mitigate resistance and empower seamless integration of impactful procurement practices, addressing challenges and fostering an inclusive approach.
- **Recommendation 4: Provide education on social enterprises:** Utilising expert intermediaries to educate NSW government procurement teams on social enterprises and social procurement best practices. Mandate attendance at sessions like Social Traders whole of government training to enhance procurement teams' abilities, fostering social impact and strengthening social enterprises through increased government support and awareness.
- **Recommendation 5: Standardise tender and threshold processes:** Implement a standardised threshold system and incorporate social impact as a mandatory criterion in tender evaluations. Mandate buyers to provide justifications for not engaging social benefit suppliers.
- **Recommendation 6: Introduce mandatory set-aside:** Propose mandatory set-aside arrangements for social enterprises within the procurement framework.
- **Recommendation 7: Consider impact costs in contract valuation:** Consider additional impact costs incurred by Work Integrated Social Enterprises (WISEs) when assessing contracts' overall valuation and tenders.
- **Recommendation 8: Implement compliance monitoring:** Implement reporting mechanisms that track the allocation of contracts to impact suppliers during tender processes, providing insights into contract outcomes and facilitating improvements.
- **Recommendation 9: Utilise and develop reporting mechanisms:** Utilise Social Traders data collection and reporting tools for accurate and regular spend and impact reporting at various levels within the government.
- **Recommendation 10: Map supply-demand gap:** Partner with Social Traders to map out the supply-demand gap for certified social enterprise suppliers, enabling strategic alignment between procurement strategies and supplier resources.
- **Recommendation 11: Grow the number and maturity of certified social enterprise suppliers to provide market depth and capability:** Support expert bodies like Social Traders and state/territory social enterprise networks to offer tailored support, resources, and valuable feedback for the growth of certified social enterprises.

About Social Traders

Our vision is a thriving social enterprise sector that significantly contributes to a more inclusive and equitable Australia. We are a DGR1 not-for-profit intermediary. We have supported the social enterprise sector since 2008 through capacity building, start-up support, advocacy, networking, and finance. Today we work with almost 565⁴ certified social enterprises.

We play three core roles nationally, based on over a decade of listening to social enterprise sector needs:

- **Access to markets:** we lead Australia's social enterprise procurement marketplace. That includes capability building for social enterprises, advocacy, and education for business, supporting government policy development and implementation, and connections between social enterprises and buyers.
- **Certification:** we're Australia's only certifier of social enterprises.
- **Data:** we collect the deepest and richest data on the social enterprise sector, including social and economic impact.

We are endorsed by 160 corporate and government members⁵ including leading Australian businesses such as John Holland, SAP, Westpac, The University of Sydney, Lendlease and Downer, as well as the governments of Victoria, New South Wales, Queensland, and Australian Capital Territory.

We have the backing of some of Australia's leading philanthropists including Paul Ramsay Foundation, Gandel Foundation, Ian Potter Foundation and Helen McPherson Smith Trust.

We have a 10-year plan to unlock over \$5.5b in demand for social enterprises by 2030. This will enable social enterprises to create over 44,000 jobs for marginalised Australians and deliver a range of other environmental, cultural and community benefits.

Social Traders is currently in its fourth year of partnership with NSW Government⁶, where we look to continue to educate and support NSW Government agencies to integrate social enterprises into their supply chains and support the growth of NSW social enterprise sector.

Social Enterprise

A social enterprise is a business, for good. They trade and compete like any other business but exist specifically to make the world a better place.

Currently there are 106⁷ certified social enterprises across NSW, they create positive impact through jobs, community services and support for the most marginalised.

Social enterprises in Australia are defined⁸ by the following criteria: they:

- Have a clearly defined social, cultural, or environmental purpose; and
- Generate a substantial portion of their income from trade; and
- Invest profit and resources into their purpose so that public/community benefit outweighs private benefit.

Social enterprises are diverse in their impact. They generate their impact through three main ways:

1. Employment generating - social enterprises that deliver impact by creating employment and/or training opportunities for marginalised people. This may be within their own organisation through direct employment or

⁴ As at 12 January 2024 – sourced from Social Traders internal data.

⁵ Social Traders business and government members, Social Trader (2023). Available at: <https://www.socialtraders.com.au/business-and-government-members>

⁶ Renewed partnership a boost for social enterprises, NSW Government media release (July, 2023). Available at: <https://www.nsw.gov.au/media-releases/renewed-partnership-a-boost-for-social-enterprises>

⁷ As at 12 January 2024 – sourced from Social Traders internal data

⁸ This definition is derived from and operationalises the seminal definition in the Finding Australia's Social Enterprise Sector (FASES) reports (Barraket et al., 2010, 16; Barraket et al., 2016, 41). Available at: <https://www.csi.edu.au/research/finding-australias-social-enterprise-sector/>

may be by creating economic opportunity or providing targeted recruitment services for a particular marginalised cohort.

2. Community need - social enterprises that deliver impact by providing products/services/programs that meet a community need, otherwise not met by the mainstream market. Accessibility is inherent to the impact that these enterprises generate, in that their purpose is around ensuring their beneficiaries have access to the products/services/programs that they provide. Social enterprises with an environmental purpose, including circular economy, often fall into this impact model.
3. Redistribution of profit - social enterprises that deliver impact by distributing 50% or more of profits to a charitable purpose, which may be an external charity partner, or to a parent charity organisation.

Social enterprises are diverse in their legal structures, social enterprises choose a legal structure that facilitates impactful business practices, whether for-profit or not-for-profit⁹. Certified social enterprises, irrespective of their legal setup, channel the majority of their profits back into their social or environmental purpose.

They are certified under unified standards to assure consistency, signifying their commitment to delivering substantial public or community benefits that surpass individual gains. These impacts range from creating jobs and offering job training to supporting marginalised communities, emphasising their dedication to societal well-being.

Social enterprises are diverse in their target beneficiaries, including but not limited to people with disabilities, Aboriginal and Torres Strait Islander people, people of migrant and refugee background, formerly incarcerated people, marginalised women, youth, people with mental health challenges, animals, and the environment as some examples.

Through the Social Traders Pace dataset of 518 Australian certified social enterprises, we know that certified social enterprises spend \$690m¹⁰ annually on delivering impact – that's 31% of total revenue reinvested directly into delivering impact. This contributes to the following annual outcomes:

- 13.6m hours of employment for beneficiaries (direct paid employment)
- 880k hours of employability skills training for beneficiaries
- 11k pathway outcomes for beneficiaries into mainstream employment/further study
- \$276m investment into community services
- 98k tonnes of waste diverted from landfill
- \$19.4million of profit distributed to charitable partners

Social enterprise's impact is majority self-funded, with more than 77% of revenue coming from business activities rather than grants or donations (\$1.74bn of \$2.25bn is revenue generated through trade).

Social Procurement

Social procurement embodies a transformative force within sourcing strategies, harnessing the immense potential of procurement to drive societal impact. By procuring from suppliers committed to social impact, diversity, and community development, it becomes a catalyst for economic empowerment, promoting job creation and supporting marginalised communities.

This approach not only stimulates local economies but also fosters social inclusion, advocates for environmental sustainability, and champions ethical practices. Through its emphasis on partnerships with purpose-driven suppliers, social procurement amplifies the ripple effects of procurement, creating lasting positive change that transcends mere transactions, shaping a more equitable, inclusive, and socially conscious landscape.

⁹ The profile of Australia's certified social enterprises, Social Traders (2023). Available at: <https://www.socialtraders.com.au/news/pace23>

¹⁰ Impact Report FY22, Social Traders (2023). Available at: https://assets.socialtraders.com.au/downloads/ST-FY22_Impact-Report-FINAL.pdf

Social Procurement is the intentional purchase of social impact, beyond the products and services that are required.



Social procurement is one of government’s biggest levers to bring marginalised jobseekers into the labour market and create more opportunities for more people across NSW.

By harnessing money that is already being spent, both by government and business, social procurement provides a lever to address some of NSW’s critical social and economic challenges without adding to the Government’s budgetary pressures.

In 2016, 75% of social enterprises said that their biggest need was new access to markets and buyers¹¹. The NSW Government has the opportunity to buy from social enterprises and create policy that encourages industry to do the same. This will drive growth, generate social value beyond the value of the products being procured.

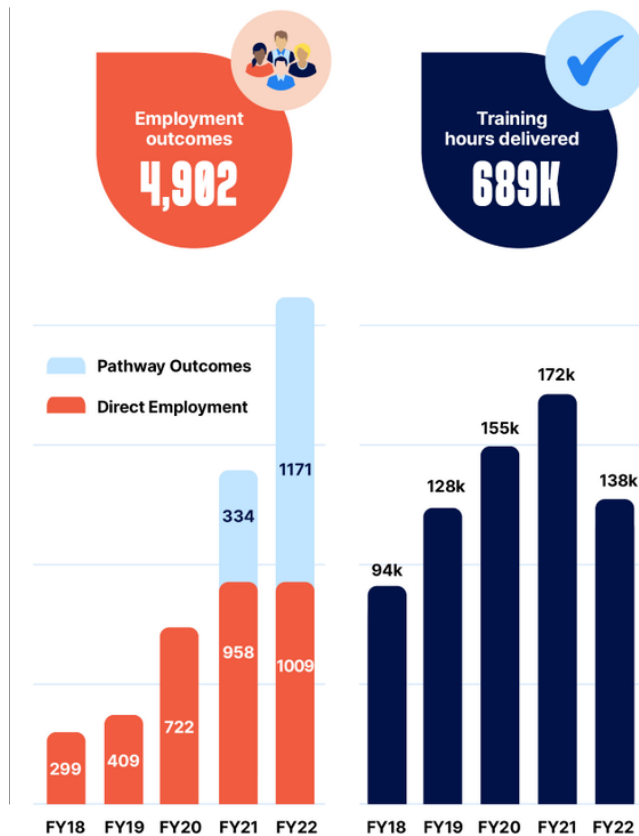
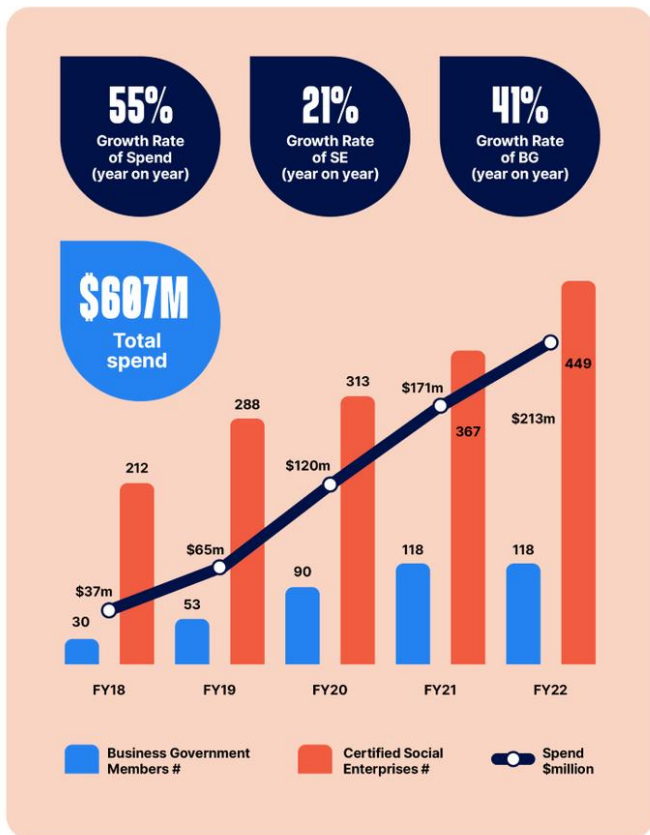
Social Traders is Australia’s leader in social enterprise procurement, with a robust proof of concept showing its viability and effectiveness.

In the five years from FY2018 to FY2022, \$607 million was spent between Social Traders buyer members and certified social enterprises, and that has grown at an average of 55 percent every year.

Social procurement is not a replacement for existing effective procurement practices but merely a reasonable adjustment to deliver significantly more value inclusive of social and community benefit.

¹¹Finding Australia’s Social Enterprise Sector 2016: Final Report, Centre for Social Impact Swinburne & Social Traders (2016). Available at: <https://www.socialtraders.com.au/news/finding-australias-social-enterprise-sector-fases>

Social enterprise procurement, supported by Social Traders, is growing nationally every year.



We are seeing an increase in the development of social procurement strategies and frameworks and the continuation of current frameworks across other state governments including Queensland and Victoria. Now is the time to develop policies and strategies that encourage social procurement.

At the Commonwealth level, there's a burgeoning interest in social enterprise and social procurement strategies, signifying the importance of exploring and adopting similar policies to align with the successes witnessed in other states.

Reports such as the Workforce Australia Employment Services final report¹² named and recommended a Commonwealth social procurement framework and encourages that “all States and Territories should be encouraged to adopt a similar approach”. These recommendations also echo through the Final Report of the Australian Social Impact Investing Taskforce¹³, advocating for social procurement strategies and introducing an exemption for small to medium social enterprises.

Internationally countries like Scotland, the UK, Canada, and New Zealand have taken steps in promoting social procurement. Scotland’s sustainable procurement is driven by legislation and policy by prioritising social, environmental,

¹² *Rebuilding Employment Services Final report, House of Representatives Select Committee on Workforce Australia Employment Services.* Available at: https://parlinfo.aph.gov.au/parlInfo/download/committees/reportrep/RB000017/toc_pdf/RebuildingEmploymentServices.pdf

¹³ *Final Report of the Australian Social Impact Investing Taskforce.* Available at: <https://treasury.gov.au/sites/default/files/2023-12/p2023-391009-taskforce-final-report-2020.pdf> -p115

and economic well-being into procurement practices¹⁴, while the UK implemented the Social Value Act¹⁵ in 2013, encouraging social impact considerations in service commissioning. Canada has strategised to involve social enterprises in government supply chains for community benefit and economic inclusivity¹⁶. Meanwhile, New Zealand prioritises within their government procurement rules that “agencies must consider how they can create opportunities for New Zealand businesses” such as Māori, Pasifika, regional businesses, and social enterprises¹⁷.

These approaches are also reflected in the Organisation for Economic Co-operation and Development’s (OECD) recommendation on social and solidarity economy and social innovation “encouraging the use of social and/or environmental considerations and clauses in public procurement through clear national or local procurement strategies and through legislation¹⁸.”

NSW stands to benefit by embracing this momentum and crafting its path toward a robust social procurement policy.

New South Wales proof of concept – Aboriginal Procurement Policy

The Aboriginal Procurement Policy (APP)¹⁹ in NSW sets an example across the state on how implementing a policy can drive growth and support social impact suppliers. The APP aims to enhance the economic opportunities for Aboriginal businesses.

It includes:

- Clusters to direct 1% of total addressable spend to Aboriginal businesses.
- Award 3% of the total number of goods and services contracts to Aboriginal businesses.
- Support 3000 FTE employment opportunities for Aboriginal and Torres Strait Islander peoples through Government procurement activities.

Since coming into effect January 2021, the APP has successfully increased year on year in the NSW Government’s procurement from Aboriginal businesses.

In FY21-22 the APP generated \$480 million²⁰ in contracting opportunities for Aboriginal businesses. With over 1000 Aboriginal businesses registered on the NSW Government Supplier Hub, NSW Government work with industry experts like Supply Nation²¹ to help support and identify verified Aboriginal businesses under their certification process.

Australian Government proof of concept – Indigenous Procurement Policy

The Commonwealth Indigenous Procurement Policy (IPP)²² shows how social procurement can be done at Federal level.

It includes:

- Annual targets for the number and value of contracts for Indigenous businesses from the Government.
- For contracts of a certain value, and for all contracts delivered in remote Australia, Indigenous businesses have the opportunity to demonstrate value for money before a general approach to market.
- Indigenous employment and business participation targets for contracts wholly delivered in Australia for contracts over a certain value in specific industries.

¹⁴The Sustainable Procurement Duty, Scottish Procurement Manual. Available at: <https://www.gov.scot/publications/scottish-procurement-policy-manual/pages/sustainable-procurement/>

¹⁵ Public Services (Social Value) Act 2012 –UK Public General Acts -Chapter 3. Available at: <https://www.legislation.gov.uk/ukpga/2012/3/enacted>

¹⁶ Policy on Social procurement, Government of Canada. Available at: <https://www.tpsgc-pwgsc.gc.ca/app-acq/pas-posp-eng.html>

¹⁷ New Zealand Government Procurement Rules, Rule 17 (2019). Available at: <https://www.procurement.govt.nz/assets/procurement-property/documents/government-procurement-rules.pdf>

¹⁸ Recommendation of the Council on OECD Legal Instruments the Social and Solidarity Economy and Social Innovation (2022). Available at: <https://www.lavoro.gov.it/temi-e-priorita/Economia-Sociale/Documents/Recommendation-Council-Social-Solidarity-Economy-Social-Innovation.pdf>

¹⁹ Aboriginal procurement policy, NSW Government (2021). Available at: https://info.buy.nsw.gov.au/_data/assets/pdf_file/0007/949174/app_policy_jan_2021.pdf

²⁰ NSW Government supporting growth in Aboriginal businesses - NSW Government Media release (2023), Available at: <https://www.treasury.nsw.gov.au/sites/default/files/2023-02/Matt-Kean-Damien-Tudehope-Ben-Franklin-med-rel-NSW-Government-supports-growth-in-Aboriginal-businesses.pdf>

²¹ How we verify Aboriginal and Torres Strait Islander businesses- Supply Nation. Available at: <https://supplynation.org.au/benefits/indigenous-business/>

²² Indigenous Procurement Policy, Australian Government (2020). Available at: https://www.niaa.gov.au/sites/default/files/publications/ipp-guide_0.pdf

The IPP has generated over \$6.9 billion in contracting opportunities for Indigenous businesses since 2015. And it has led other state governments and corporates to adopt Indigenous procurement policies and practices.

Victorian Government proof of concept – Social Procurement Framework

The work of the Victorian State Government also sets an example. It has adopted a Social Procurement Framework (SPF) that supports buying from Victorian social enterprises, Aboriginal businesses, and other social benefit suppliers. It also set a 3% social procurement spend target on the \$30 billion Big Build pipeline. Victoria is the most mature social enterprise procurement market in Australia, accounting for 54% of all social enterprise procurement activity.

The Victorian Government funded Social Traders over four years to grow the market of certified social enterprise suppliers and engage industry to adopt social procurement practices. Social Traders leveraged the investment to deliver 223% in the value of services to the Victorian social enterprise sector through matched funding from philanthropy and trade.

Over four years \$156 million was spent with social enterprises. That created \$87 million in savings to society through:

- 901 jobs for the most marginalised
- \$6.3 million in community services
- 207,000 hours of training for the most marginalised
- \$1.6 million in charitable donations

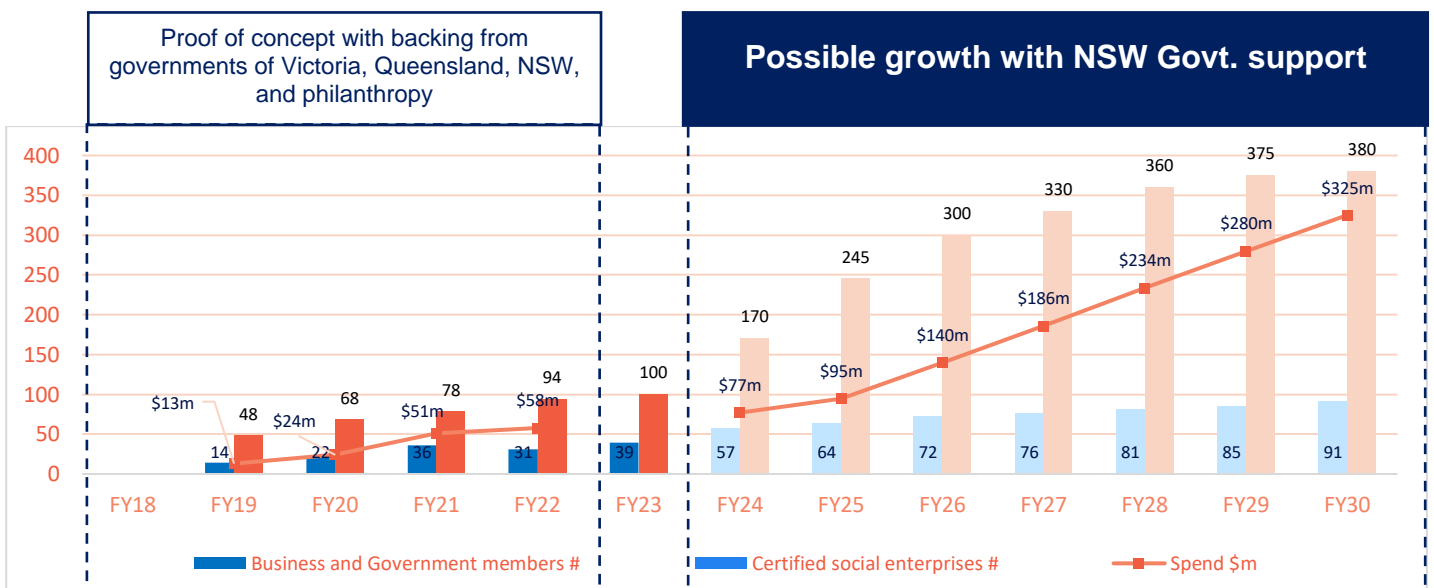
Social Procurement Return on Investment: additional value delivered beyond the goods and services being procured.

Every million dollars spent on goods and services through social enterprise procurement returns:

- 5.6 jobs for the most marginalised
- 1,137 hours of training
- \$72k investment into community services
- \$14k donated to charity
- 26 tonnes of waste diverted from landfill

Modelling reveals what is possible in NSW with state government support

Between FY19 and FY23 Social Traders have observed organic growth in the number of certified social enterprises, business members and spend occurring between the two. Social Traders vision 2030 modelling demonstrates what is possible through NSW Government’s support for social enterprise procurement.



Recommended Procurement Practices:

Governance in Procurement (Terms of Reference D):

Recommendation 1: Work towards a whole of government social enterprise procurement target

We recommend NSW Government follow the successful and well-established Aboriginal spend target of 1% set in the Aboriginal Procurement Policy²³ and create a similar target and commitment to procurement with certified social enterprises. This initiative would signify a purpose-driven commitment to leveraging procurement practices and government spend for social impact.

We support and recommend providing specific procurement targets to drive growth across specific suppliers as part of a potential broader social procurement framework as demonstrated in the Victorian Government's Social Procurement Framework.

To begin this process, steps should be taken to integrate social enterprise procurement spend into existing procurement practices. This could include conducting thorough assessments of current procurement spend, identifying potential areas where social procurement can be embedded, and actively engaging with certified social enterprises to understand their capabilities and offerings. Additionally, forming collaborative partnerships with social enterprise intermediaries like Social Traders would support the establishment of realistic and impactful social procurement targets and understanding the growth of the sector capabilities. These preliminary actions can lay the groundwork and lead to a structured and impactful social procurement strategy in NSW.

When reporting on what is possible for NSW, from the rich data collected from Social Traders business and government members and certified social enterprises, we can report that for every million dollars spent with certified social enterprises²⁴.

- 5.6 jobs for the most marginalised
- 1,137 hours of training
- \$72k investment into community services
- \$14k donated to charity
- 26 tonnes of waste diverted from landfill

There is a significant opportunity to go further and drive even greater value from the NSW Government's annual \$40 billion goods, services, and construction expenditure²⁵.

For example, if NSW were to allocate 1% of its estimated yearly procurement spend on goods, services, and construction to certified social enterprises, annually it could generate \$400 million of spend with certified social enterprises and create 2.2k jobs, 454k training hours, \$28.8million worth of community goods and services provided and \$5.6million donated to charity. This would calculate to a savings to society every year through jobs supported of \$217million²⁶.

The Commonwealth Government's final report on Workforce Australia Employment Services recommended a Commonwealth social procurement framework and encourages that "all States and Territories should be encouraged to

²³ Aboriginal procurement policy, NSW Government (2021). Available at: https://info.buy.nsw.gov.au/_data/assets/pdf_file/0007/949174/app_policy_jan_2021.pdf

²⁴ Impact Report FY22, Social Traders (2023). Available at: https://assets.socialtraders.com.au/downloads/ST-FY22_Impact-Report-FINAL.pdf

²⁵ NSW Government estimated yearly spend of the procurement of goods, services, and construction. Available at: <https://www.smallbusiness.nsw.gov.au/about-us/our-work/selling-to-the-nsw-government#:~:text=Selling%20to%20the%20NSW%20Government%20can%20be%20a%20great%20opportunity,it%20buys%20from%20small%20businesses>

²⁶ Using Deloitte Access Economics proxy of annual costs to society from 1 year of annual unemployment against our modelled FTE annualised years of work to 2030. Available at: <https://www.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-benefits-improving-social-inclusion-270819.pdf> - p34

adopt a similar approach²⁷. Social Traders would like to offer our expertise and support to NSW Government when the development of a social enterprise strategy for NSW is considered.

There is growing interest in social procurement and social enterprise at a Commonwealth level, with recommendations for a Commonwealth social procurement framework and scaling social enterprise certification from the Workforce Australia report and encouragement for social procurement coming out of the Australian Social Impacting Investing Taskforce final report²⁸. We recommend NSW Government work with key stakeholders like Social Traders to ensure alignment with the Commonwealth's strategies in social enterprise and social procurement.

Recommendation 2: Endorse certification for social impact suppliers

We recommend that the NSW Government incorporates Social Traders certification²⁹ as a means to verify social enterprises, mitigating risks associated with government investment and procurement policy.

Social Traders certification not only confirms the legitimacy of social enterprises but also ensures that government procurement investments create measurable and verified social impact, thereby enhancing accountability and effectiveness in public spending.

Social enterprises are diverse and take different legal forms. With the rise of social procurement and the competitive advantage this offers social enterprises, social washing is becoming an increasing concern. There is a growing need to be able to identify, define and elevate genuine social enterprises.

Social Traders developed certification in 2017 to de-risk social enterprise procurement. Since then, it has expanded to protect and define the whole social enterprise sector. Social Traders is the only certifier of social enterprise in Australia with over 565 certified social enterprises nationwide.

Social Traders certification verifies that a social enterprise:

- Has a defined primary social, cultural, or environmental purpose consistent with a public or community benefit.
- Derives a substantial portion of their income from trade.
- Invests efforts and resources into their purpose such that public/community benefit outweighs private benefit.

200+ data points captured and verified on each social enterprise to validate social enterprise status, including governing legal documents, financial data, impact data and social costs.

Social Traders certification is world-leading. It has been developed and adapted over five years.

It:

- ✓ Is backed by international research.
- ✓ Co-designed with Minter Ellison and EY.
- ✓ Overseen by an independent expert advisory group.
- ✓ Endorsed by the social enterprise sector and adapted ongoing based on sector needs.
- ✓ Inclusive of all social enterprise's models, legal structures, and stages of development.
- ✓ Provides one-to-one support for every applicant.
- ✓ Offers a Social Enterprise Finder – the digital platform to find certified social enterprises nationally.

Certification has been used to de-risk social enterprise grants and support by the Australian Government, Victorian Government, Queensland, and South Australian Governments.

The Victorian Government's Social Procurement Framework³⁰ (SPF) serves as an illustrative case, highlighting how an increased focus on social impact can unintentionally spur what's termed as "social washing". Within the SPF, there emerged a commercial incentive for businesses to seek social enterprise status and certification, primarily to secure procurement contracts. To prevent and address this issue, we recommend that the NSW Government actively supports

²⁷ Recommendation 5, Section 4.179 of the final report on Workforce Australia Employment Services published by the House of Representatives Select Committee on Workforce Australia Employment Services in November 2023.

²⁸ Available at: <https://treasury.gov.au/sites/default/files/2023-12/p2023-391009-taskforce-updated-report-2022.pdf>

²⁹ Social Enterprise Certification Guidance Notes and Standards, Social Traders (2022). Available at: <https://assets.socialtraders.com.au/downloads/Full-Guidance-Notes.pdf>

³⁰ Victoria's Social Procurement Framework (2018). Available at: <https://www.buyingfor.vic.gov.au/sites/default/files/2018-08/Victorias-Social-Procurement-Framework.PDF>

certification bodies like Social Traders and Supply Nation. This support will ensure a robust verification process, promoting authenticity and transparency among participating suppliers in procurement processes.

Recommendation 3: Implement social procurement departmental resources

We recommend the implementation of social procurement personnel resources within each department be made mandatory to support the change management process. Recognising the intricate challenges that procurement officers face across diverse departments and agencies. We acknowledge that a shift towards prioritising social impact in procurement adds further intricacies which may be met with resistance and scepticism due to its deviation from traditional procurement methods.

Internal social procurement personnel resources become paramount in overcoming obstacles and ensuring successful integration. They serve as advocates, adeptly addressing challenges, garnering support, and driving the incorporation of social procurement practices within each department with consistency. Their presence not only mitigates resistance but also empowers departments to embrace these practices more seamlessly, fostering a more impactful and inclusive procurement approach.

UTS research on social procurement champions in the construction industry³¹ indicates that assigning social procurement responsibility to a single individual is likely to fail. Organisations should foster a variety of social procurement champions. Effective implementation occurs when these champions have a clear organisational role, authority, and resources to drive change throughout the organisation and its supply chain, particularly in areas resistant to change.

Recommendation 4: Provide education on social enterprises

Leverage existing partnerships, resources, and expertise from intermediaries like Social Traders to offer training, education, and resources to empower procurement officers across departments and agencies to introduce social enterprises and social procurement.

Actively encourage engagement with established platforms to access specialised knowledge and tools, ensuring procurement officers are equipped with effective methodologies and ensuring a deep understanding of the 'what,' 'why,' and 'how' of social enterprise and procurement engagement.

In relation to social enterprise procurement, we recommended requiring all NSW procurement officers attend at least one of Social Traders NSW whole of government agreement training sessions³² throughout the year. This would provide invaluable understanding of what social enterprises are and exposure to best practices. This collaboration benefits procurement teams by enhancing their capacity to leverage social procurement for greater societal impact, while simultaneously bolstering social enterprises through increased awareness and engagement and support from government initiatives.

Evaluation Criteria (Terms of Reference E):

Consider the inclusion of social value in tender evaluation criteria, spend targets for social impact suppliers, and discretion for buyers to prioritise social procurement. We recommend the following evaluation procurement practices to be considered.

Recommendation 5: Standardise tender and threshold processes

When looking at how best to support social impact across procurement suppliers we recommend along with a social enterprise spend target (recommendation 1), applying procurement requirements for various levels of threshold spend

³¹ Loosemore, M, Keast R and Barraket J (2022) A typology of social procurement champions in the construction and engineering industry, *Construction Management and Economics*, 40:5, 391-405

³² Learn how to buy from social enterprises. Available at: https://info.buy.nsw.gov.au/news/2023/how-to-buy-from-social-enterprises?mkt_tok=MDkylVBRRS0zMzQAAAGMhiCMiPa_x5Np3VQGuD2a_nI72_CM7igrAy2EmHrUUtlUhvzyNDaFIDlqDZF4yTKtJQt7x95Vsgkw_pIUhUzhqXCEPm5H7BPhucV9uVWh

like that of the Aboriginal Procurement Policy (APP) and the Victorian Government's Social Procurement Framework (SPF), to support social enterprise procurement.

Within the APP first consideration is recommended to go to Aboriginal businesses for procurements up to \$250,000 even if there are prequalified schemes or panels in place while contracts \$7.5million or above are required to give at least 1.5% of the contract value to Aboriginal businesses. While the SPF outlays this across four value threshold bands that are intertwined into their social procurement objectives.

Additionally, it is recommended that the NSW Government mandates its buyers to provide justification as to why they have not invited or engaged social benefit suppliers including social enterprises, in procurement activities under these thresholds. This required 'if not, why not' process would shift the responsibility and ensure accountability and compliance onto buyers to articulate why they didn't prioritise engaging with a social benefit supplier before opting for a mainstream counterpart.

We support these approaches for social enterprise procurement and recommend including social value as a weighting³³ when assessing tenders at different value contracts. This system should guide procurement teams in defining and measuring social value and ensuring consistent assessment across diverse projects.

This social value procurement approach is reflected in the UK Social Value Act 2013, requiring commissioners (contracting authorities) to consider how they can secure wider social, economic, and environmental benefits at the pre-procurement stage for contracts above the OJEU (European Union) threshold³⁴. Similarly, the Australian Commonwealth Sustainable Procurement Guide³⁵ specifies that "when assessing value for money, an official must consider the environmental sustainability of the proposed good and services." The use of directive language to drive behaviour is recommended.

It's important to consider the Victorian SPF buyers' guidance³⁶ approach in recognising that not every procurement activity can achieve all social and sustainable outcomes. It emphasises a flexible approach tailored to each activity's circumstances, allowing government buyers to determine and prioritise relevant SPF objectives. Their decisions are based on the specific circumstances, maximising social value by identifying and pursuing feasible social and sustainable outcomes. This selection process considers factors like the organisation's Social Procurement Strategy, opportunity analysis, and the scale, complexity, value, and location of each procurement activity.

Recommendation 6: Introduce mandatory set-aside

We see across the Commonwealth Indigenous Procurement Policy (IPP)³⁷ and the NSW APP that mandatory set-aside arrangements play a vital role in ensuring Indigenous businesses are granted dedicated opportunities within government procurement.

We recommend that the NSW Government considers a similar approach to that of the APP's 1.5% set-aside on all contracts valued at \$7.5million, where a percentage is set aside on certain threshold-valued contracts for social enterprise procurement as well as the opportunity to demonstrate value for money on certain valued contracts before procuring officers make a general approach to the market as demonstrated in the IPP.

As discussed in the final report from the Australian Social Impact Taskforce³⁸, by incorporating social enterprises into mandatory set-aside arrangements, whether as part of a broader procurement framework or specifically within a social procurement strategy, these strategies not only create a larger social impact with Government spending but also foster the maturity and expansion of the social enterprise supplier market.

³³ Social Traders recommends weighting of <10% to support the desired change in supplier behaviour but have seen social value weighting as high as 30% in other Australian states.

³⁴ The Official Journal of the European Union, OJEU Thresholds. Available at: <https://ojeu.com/thresholds.html>

³⁵ Sustainable Procurement Guide: A practical guide for Commonwealth entities (2021). Available at: <https://www.dcceew.gov.au/sites/default/files/documents/sustainable-procurement-guide.pdf>

³⁶ Victoria's Social Procurement Framework-Buyers Guidance. Available at: https://www.buyingfor.vic.gov.au/sites/default/files/2022-05/Social-Procurement-Framework-Buyer-guidance-Guide-to-individual-procurement-activity-requirements-April-2019-update_0.pdf

³⁷ Indigenous Procurement Policy, Australian Government (2020). Available at: https://www.niaa.gov.au/sites/default/files/publications/ipp-guide_0.pdf

³⁸ Final Report of the Australian Social Impact Investing Taskforce. Available at: <https://treasury.gov.au/sites/default/files/2023-12/p2023-391009-taskforce-final-report-2020.pdf> -p115

Recommendation 7: Consider impact costs in contract valuation

Work Integrated Social Enterprises (WISEs) exist “to provide employment, or pathways to employment, for people who are highly disadvantaged in the labour market”³⁹. They often focus on systemic disadvantage and discrimination, providing work and support to specific groups such as refugees and asylum seekers, First Nations Australians, and people with a disability.

However, WISEs incur costs that standard employers do not; costs to deliver impact including wraparound support such as wages of staff providing training, property cost and additional support to beneficiaries, expenses associated with training, accessibility equipment and transport as discussed in the Centre for Social Impacts report⁴⁰. These are called impact costs. We recommend the consideration of these additional costs incurred when assessing contracts overall valuation and that of tenders.

Transparency and Accountability (Terms of Reference F):

Recommendation 8: Implement compliance monitoring

Introducing social impact objectives within procurement is a significant step and requires systems, processes, and monitoring strategies to effectively implement. Reporting mechanisms that track the allocation of contracts to impact suppliers during tender processes is crucial. These mechanisms offer deeper insights beyond numerical data, uncovering the reasons, challenges, and opportunities behind contract outcomes. For instance, if a social enterprise doesn't secure a contract, detailed reporting can pinpoint whether it's due to capacity limitations, pricing issues, or other factors.

Such insights are invaluable for identifying patterns, trends, strengths, and weaknesses within procurement and the social enterprise sector. This comprehensive information becomes pivotal in crafting improvements and innovative procurement strategies that bolster the engagement and growth of social enterprises. It helps pave the way for more effective ways of collaborating with social enterprises, enhancing their capabilities and capacities within the procurement landscape.

We recommend the NSW Government introduce reporting mechanisms to track the allocation of contracts to impact suppliers such as social enterprises, during tender processes. Additionally, the NSW Government should consider utilising existing procurement and sector organisations to provide monitoring support and spot auditing.

Recommendation 9: Utilise and develop reporting mechanisms

Data collection is essential in understanding the impact and outcomes that social procurement can create as well as enabling learning and innovation. Within procurement, reporting mechanisms serve as essential tools for transparency, accountability, and highlighting the tangible social impact achieved through procurement activities. Both data collection and reporting mechanisms can involve comprehensive tracking, standardised reporting templates, and detailed analyses of contract outcomes. They aim to transparently document supplier engagements, spotlight successful initiatives, pinpoint areas for improvement, and offer invaluable insights for future strategies.

Social Traders holds Australia's largest dataset of verified social enterprises, growing year on year. It is the only dataset in Australia that:

- Includes economic and impact data, across 37 data points.
- Includes five years of longitudinal data (and is growing continuously).
- Includes individual data on verified social enterprises.
- Is inclusive of all social enterprise models, stages, and legal structures.
- Is a live dataset that is continually updated.

From the above we have built an outcomes measurement system that uses certification data to track social enterprise outcomes that are comparable and aggregated. Used by Social Traders 160+ business and government members to track the impact of social procurement spend and is ready to be scaled and used more broadly.

³⁹ Barraket, J., Douglas, H., Eversole, R., Mason, C., McNeill, J., & Morgan, B. (2017). *Classifying social enterprise models in Australia*. *Social Enterprise Journal*, 13(4), 345–361.

⁴⁰ *Understanding the Impact Costs of Work Intergration Social Enterprises (2023)*. Available at: <https://www.socialenterpriseaustralia.org.au/wise-impact-costs-report>

The impact data collected through certification captures the impact of social enterprises and is aggregated into six common and comparable impact areas:

- Jobs for marginalised people
- Employment-focused training for marginalised people
- Employment (and study) pathway outcomes for marginalised people
- Waste diverted from landfill.
- Value of products and services meeting community need
- Value of donations and partnerships with charity/impact partners

Social Traders has an established methodology to translate procurement spend with social enterprises into impact outcomes. This is a service for business and government members through customised social impact reports in an aggregated and anonymised format.

We recommend NSW Government utilise and consult on existing impact measurement tools when considering how measuring and tracking impact across procurement. We recommend engaging with sector experts like Social Traders with well-established data collection capabilities to support the development and reporting of the uptake of social enterprise procurement across departments and agencies as well as providing detailed outcomes reporting on the areas of impact including beneficiary groups supported⁴¹ and impact generated from government spending.

Procurement Practices (Terms of Reference G):

Recommendation 10: Map supply-demand gap

Incorporating social impact into NSW procurement involves a holistic understanding of the landscape of social impact suppliers across regions and industries to align strategies with their capabilities. This provides alignment in setting achievable targets, assessing performance, and ensuring accountability.

Understanding the supply-demand gap for social impact suppliers is important in enhancing NSW's procurement practices. Within sectors like construction and infrastructure, Social Traders NSW buyer members confront challenges in finding social enterprises who can deliver more complex, technical, and larger packages of work on major projects as well as across multiple different industries. While successes exist in areas like cleaning, landscaping, and catering, there is continued appetite to grow capacity and capability of the sector.

We recommend the NSW Government leverage the extensive and comprehensive dataset of Australian certified social enterprises by partnering with Social Traders to map the state's social enterprise sector capacity and capability. This allows the government comprehensive insights into areas of high NSW Government spending, pinpoints the strongest certified social enterprise capabilities, identifies gaps and buyer demand including in key areas such as infrastructure or transport, and explores opportunities to enhance social enterprise involvement in procurement initiatives.

With this comprehensive understanding and strategic mapping of social enterprise suppliers, the NSW Government is empowered to reshape its procurement approach for greater social benefit and targeted value generation.

Recommendation 11: Grow the number and maturity of certified social enterprise suppliers to provide market depth and capability

We know that across the sector many social enterprises need to scale their businesses to respond to social procurement opportunities. Tailored support and a deep understanding of business and impact models are required to do this.

We recommend that the NSW Government engage expert bodies like Social Traders and state/territory social enterprise networks such as Social Enterprise Council NSW and ACT (SECNA)⁴², to back them to offer tailored support, resources, and valuable feedback to build social procurement readiness and capabilities.

⁴¹ Profile Of Australia's Certified Social Enterprises (2023). Available at: <https://www.socialtraders.com.au/news/pace23>

⁴² Social Enterprise Council of NSW and ACT. Available at: <https://www.secna.org.au/about-secna>

Peak bodies like SECNA, unify, represent, and support the interests of social enterprises. SECNA plays a crucial role by advocating for favourable policies, fostering collaboration and knowledge-sharing among social enterprises, and providing essential resources and guidance.

This collaborative approach empowers social enterprises, ensuring they are well-equipped to identify and capitalise on procurement opportunities while fostering a culture of continuous improvement.

Social Traders Grow program⁴³ actively collaborates with social enterprises, offering specialised advisory services to bolster their growth and capabilities through procurement opportunities. Strategic governmental support for this program would allow for a larger pipeline of social enterprises capable of diversifying goods, services, and impact outcomes within supply chains as well as across industries contributing to increased market depth and capability.

In support of growing the social enterprise sector the Workforce Australia Employment Services report recommends “the Australian Government work with State and Territory Governments and key stakeholders such as Social Traders to develop and implement a Commonwealth social enterprise strategy”⁴⁴.

The NSW Government is currently in the fourth year of its agreement with Social Traders. This partnership remains pivotal in providing ongoing education, awareness, and support to increase social procurement spending practices within NSW departments and agencies. Social Traders addresses barriers and introduces change management strategies whilst continually working to boost NSW departments social impact. However, with increase in demand requires an increase in support from the supply side.

Through our data collections it’s revealed that only 22% of Social Traders \$607 million marketplace spend occurred in NSW between FY2018-2022. Moreover, there are currently only 106 certified social enterprises in NSW, significantly fewer than the 276 in VIC and 110 in QLD. Considering that NSW contributes the largest share to the national GDP⁴⁵, accounting for 30.3% in FY21-22 and FY22-23⁴⁶, there exists a substantial opportunity for increased social enterprise spend and growth within the state. Therefore, we advocate for the government to contemplate not only increasing its social impact through procurement practices but also concurrently developing the social enterprise supplier market. This dual approach is vital to ensuring that the supply can effectively meet the potential surge in demand.

Summary

Social enterprise procurement is a force for positive change in New South Wales, offering to be a vital component to uplift community well-being. With the potential to generate 14,000 jobs for marginalised job seekers and yield savings of \$1.4 billion by 2030, social enterprises prove to be invaluable resources for the NSW Government.

The recommendations provided underscore the potential of purposeful procurement strategies to drive positive societal impact.

By embracing social procurement and implementing recommended strategies, there exists a significant opportunity for the growth of the social enterprise and social impact supplier market.

Social Traders expresses its readiness to provide support and assistance throughout the inquiry, offering collaboration in various capacities to contribute to the advancement of these impactful initiatives.

⁴³ Social Traders Grow Membership. Available at: <https://assets.socialtraders.com.au/images/Grow-Membership.pdf>

⁴⁴ Recommendation 50, Section 13.157 of the final report on Workforce Australia Employment Services published by the House of Representatives Select Committee on Workforce Australia Employment Services in November 2023.

⁴⁵ Composition of the Australian Economy Snapshot (2023). Available at: <https://www.rba.gov.au/education/resources/snapshots/economy-composition-snapshot/>

⁴⁶ New South Wales Proportion of Australian GDP(%), Department of Foreign Affairs and Trade. Available at: <https://www.dfat.gov.au/sites/default/files/nsw-cef.pdf>

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