



Centre for Local
Economic Strategies

briefing

Making the most of public sector spend: Procurement as local economic activism

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Why procurement matters

UK government spends some £220 billion each year¹ procuring goods and services from external organisations in the public, private and third sectors. Some £42 billion of this² is spent by local authorities. In an era of public sector spending constraints this is clearly a significant sum of money and a sum of money which contributes to delivering the services that communities need and want.

Procurement is, however, not just about providing the goods required to deliver services at national, regional and local levels. It is much more of an enabling tool to promoting business and employment sustainability. Procuring an organisation to provide goods to deliver a service can provide much needed income for the organisation, it can promote employment creation, and it can lead to the multiplication of monies within an economy thus enabling economic and social regeneration.

It is this local economic value of procurement spending and the enablement of community benefits through the process of procurement which have driven a number of CLES research activities over the last two years. This briefing, drawing upon the findings of these research activities, seeks to:

- outline how local authorities and partners, can measure and understand the local economic, social and environmental impacts of sustainable procurement spending;
- assess what more economic development departments can do within legal constraints to enable community benefit.

Procurement can address many of the key economic questions

The national, regional and local governance architecture have responded to recession in a number of ways including: staving off the collapse of financial institutions; providing support to the unemployed to broker a return to work; intensifying advice and support provision; and promoting the value of enterprise and business formulation. Few public sector bodies and authorities have however

¹ Source of data: HM Government (2009) *Building Britain's Recovery: Achieving Full Employment*. London: HMSO.

² Source of data: Department for Communities and Local Government (2009) *Review of arrangements for efficiencies from smarter procurement in local government*. London: HMSO.

recognised the potential role of the procurement process and its spending patterns in stabilising and developing local economies in the forthcoming period of economic recovery.

As already outlined local government, spends some £42 billion each year upon procuring goods and services. It is expected that this spending should have wider benefit beyond delivery. Supporting locally based organisations whether they are national organisations, Small to Medium Sized Enterprises (SMEs), or Voluntary and Community Sector (VCS) organisations, to bid for procurement opportunities can potentially lead to a string of economic, social and environmental impacts.

Indeed, harnessing the added value of procurement processes and spending is a key driver of Government's policy objectives around economic recovery. Both the *'New Industry, New Jobs'*³ document and the new employment white paper⁴ make extensive reference to procurement being a key element in the recovery of national and local economies.

'New Industry, New Jobs' is focused upon creating the correct conditions through which UK businesses can compete for major Government procurement contracts, both directly and through the supply chain. It particularly talks about "*Government actively working with UK-based businesses to overcome their potential skills and technology deficits to enhance their ability to compete*" (p.24).

'Building Britain's Recovery: Achieving Full Employment' advocates using smarter procurement to enable the achievement of wider societal and policy objectives. It has a particular focus upon using procurement spending to create employment and for up-skilling. It states that *'where possible, Government will use procurement to contribute to growth and to create jobs for young people who are out of work, particularly in areas of high unemployment'* (p.44).

Government is correct to use public procurement as part of its recovery plan. More efficient and effective procurement processes and spending patterns can address many of the questions which recession is posing for public service delivery and our local economies and communities. These questions include:

- How can local business sustainability/development and local employment be supported?
- How can we do more with less?
- How can service effectiveness be matched with efficiency savings?
- How can our economies become more resilient to change?
- How can procurement be used to tackle the 'wicked issues' facing communities?

Where can procurement spending make a difference?

Government have recognised through the publication of the above two documents and a host of others that recession has exacerbated many of the 'wicked issues' that deprived communities across the UK face. These 'wicked issues' include: high levels of worklessness; growing unemployment; existing low skills bases; poor connectivity; and poor industrial diversity. There are a number of ways in which procurement spending at the locality level can potentially tackle these 'wicked issues'. The important word to remember here is potentially, but it will require active policies for this potential to be realised.

Tackling worklessness and unemployment

Procurement spending at the local authority level, particularly in metropolitan cities can often be over the £500 million mark, when both revenue and capital expenditure is taken into account. Clearly, organisations delivering those procurement contracts are going to require a workforce. Where a supplier, successful in winning a contract, is based in a deprived community or one with higher than average levels of unemployment, there is employment created which is potentially open to that community's workforce.

³ HM Government (2009) *New Industry, New Jobs*. London: HMSO.

⁴ HM Government (2009) *Building Britain's Recovery: Achieving Full Employment*. London: HMSO.

Developing skills bases

The nature of local authority procurement means that service delivery is often within service areas which can be described as 'front-line' or in associated industries such as construction. These sectors are often attractive to young people in particular who leave school with few formal qualifications. Procurement contracts can be twinned with commitments to support apprenticeships and other training development opportunities for the workforce of suppliers, thus fostering upskilling.

Creating industrial diversity and growth

The industrial restructuring following the recessions of the 1980s and 1990s had a significant impact upon the nature of our economies, particularly in cities. Gone were primary and manufacturing industries to be replaced by service and financial industries. This has had an impact upon the types and numbers of organisations that can potentially provide goods. Procurement however, has the potential to create the demand for specific industries in localities particularly in relation to construction.

Supporting the sustainability of business and economies

Procurement spending is not just about the first round i.e. spend by the public authority upon suppliers. Instead, impact can be measured as it passes along the chain. Suppliers will need employees to develop goods; and suppliers of their own to provide them with goods and services. Employees of suppliers will spend money in shops and upon services. This chain of spending leads to multiplication of income within economies and potentially sustains businesses, economies and communities.

Alleviating environmental concerns

The UK and the world are facing an unheralded environmental challenge. As global temperatures rise, governments at central and local levels are facing increasing challenges in reducing carbon emissions. The decisions made through procurement potentially have a key role to play here, in that suppliers' choices can reduce delivery distances and that the process can influence the environmental nature of products and goods being provided.

The move towards sustainable procurement policy and practice

An increasing number of local authorities across the United Kingdom are using the tackling of these identified 'wicked issues' as the basis of their Sustainable Procurement Strategy and Policy Statements which in turn are driving procurement processes and spending decisions.

For Manchester City Council tackling worklessness and deprivation is an overarching corporate priority which flows through the strategic and delivery activities of each department, including the spending decisions made in relation to procurement. Glasgow City Council is using the procurement process to ensure economic and social regeneration is fostered through the hosting of the 2014 Commonwealth Games. For Staffordshire County Council, the decisions made in procurement are integral to enabling the capacity of the local business base to be developed, through capacity building and either prime or sub-contracting.

Each of these strategic policy decisions in relation to procurement and the tackling of the 'wicked issues' identified above through the procurement process are effectively the translation of the term community benefit into reality. Community benefit is a catch all term used to describe the economic, social and environmental benefits accrued through procurement processes and spending. Community benefit can apply to:

- the use of 'local' suppliers to provide goods and services;
- the provision within contracts for a certain number of jobs for the unemployed;
- the capacity building of SMEs and VCS organisations to enable bidding for and potential winning of contracts;
- the provision within contracts of apprenticeship and training opportunities;
- the use of environmentally friendly materials within delivery.

European procurement law: enabler or barrier?

The challenge with community benefit, and particularly benefit which is directed as being 'locally' specific, is European procurement law. The EC Treaty of 1957 (also known as the Treaty of Rome)⁵ first introduced the principle of a 'single market' and a unified Europe when it came to the movement of goods, services, workforces and finance. The Treaty effectively sought to ensure a Europe wide commitment to enabling the movement of such commodities freely between countries and a commitment to supporting the economic development of all member countries through trade between countries.

Under this principle of a 'single market', the EC Treaty effectively outlawed anti-competitiveness in the process of procurement that favoured national or local suppliers. Instead, the process of acquiring goods and services had to be freely marketed, advertised and opened up to organisations to tender for contracts from across Europe. The general principles of the 'single market' are further supplemented in regulations around higher value contracts which must be advertised Europe wide through the Official Journal of the European Union (OJEU). The definition of higher value contracts is⁶:

- central government contracts and supplies over £101,323;
- local government services and supplies over £156,442;
- utility services and supplies over £313,694;
- construction and works related contracts over £3,927,260.

Whilst the UK Government adheres to European procurement law in legislative terms, they have increasingly signed up to the principles of sustainable procurement practice for local government particularly over the last seven years. Through the National Procurement Strategy⁷ and the associated strategic policy and research activities of the Office of Government Commerce, the Government has sought to ensure that local procurement policy, decision making and tendering, is entwined in providing goods and services that: achieve true value for money; are efficient in cost terms; offer service quality; and demonstrate evidence of community benefit in the form of positive economic, social and environmental outcomes.

The general commitment to social, economic and environmental well-being came to fruition in England in the Local Government Act (2000)⁸ in the legislative requirement for local authorities and partners to develop Local Strategic Partnerships and produce Community Strategies, and also through the 'Powers to Promote Well-Being'. This landmark power sought to increase the capability of local authorities to act on behalf of their areas by allowing them to do anything they consider likely to promote the economic, social and environmental well-being of their area, unless it is explicitly prohibited elsewhere in legislation.

Understanding the economic, social and environmental impact of procurement

EU procurement law is not the only barrier to the achievement of community benefits through procurement and the enablement of sustainable procurement strategy, processes and spending. Other key barriers include:

- difficulties with the local supply chain in terms of capability, skills and product;
- a non-enabling local authority culture;
- a lack of procurement training amongst both local authority staff and suppliers;
- budget pressures and efficiencies.

⁵ Official Journal of the European Union (2002) *Consolidated version of the Treaty establishing the European Community*.

⁶ Source of figures:

http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_eu_procurement_thresholds_.asp

⁷ Office of the Deputy Prime Minister (2003) *National Procurement for Local Government*. London: HMSO.

⁸ HM Government (2000) *Local Government Act*.

It is clear that practitioners across the local authority need to have a better understanding of the current procurement process and its local, economic, social and environmental impact to ensure more effective procurement strategy and processes and for greater enablement of community benefits through procurement. This better understanding can foster changes to both policy and practice.

Over the last two years CLES has, through the use of the Local Multiplier 3 (LM3) methodology as originally developed by the new economics foundation (nef), sought to quantify and qualify the local economic, social and environmental impact of procurement. In partnership with the Association for Public Service Excellence (APSE), using Swindon Commercial Services and West Lothian Operational Services as case studies, a quantitative⁹ study outlined the impact of spending in terms of:

- the proportion and amounts of spending which was with suppliers based within the local authority's boundary;
- the proportion and amounts of spending which was with direct employees who lived within the local authority's boundary;
- the extent to which suppliers re-spent monies upon their own local suppliers and employees;
- the extent to which direct employees re-spent incomes within the local economy in shops and upon services.

Whilst these studies were useful in outlining the multiplier effect of public spending in quantitative terms, the extent to which sustainability and impact filtered into the supply chain remained open to debate, certainly in qualitative terms. CLES therefore, working with the Corporate Procurement Department at Manchester City Council in recent months, has sought to develop a way of understanding not only the local economic, social and environmental impact of procurement spending in quantitative terms but also the extent to which the wider supply chain 'signed up' to notions of sustainability in their own practices.

Manchester City Council through its Sustainable Procurement Policy Statement has a strong commitment to sustainable procurement: utilising local suppliers where cost effective and legally possible; upskilling SMEs and VCS organisations to bid for and potentially deliver contracts; seeking to ensure procurement spending impacts upon issues of worklessness and deprivation; and ensuring procurement spending is framed in environmental considerations. To undertake the research, three stages of methodology were used to understand the wider local economic, social and environmental impact of procurement:

- **Stage 1 mapping spend** - this stage sought to identify the extent to which suppliers to Manchester City Council were based within the Manchester local authority boundary and the proportion of spending on procurement which went to these organisations. To do this, CLES cross referenced spending totals by Manchester City Council upon the top 300 suppliers and their postcodes against a full list of Manchester local authority boundary postcodes. Analysis was additionally undertaken to assess spending within: each of Manchester's 32 wards; areas within the 1% and 10% most deprived nationally; and specific industrial sectors.
- **Stage 2 calculating re-spend** – this stage sought to assess quantitatively what happened to procurement spending once it reached the suppliers and contractors, particularly the extent to which it was re-spent within the local economy. To do this, CLES conducted an email and postal survey with the top 300 suppliers to Manchester City Council which sought to ascertain specifically the amount supply organisations re-spent within the Manchester City Council boundary upon their own suppliers and employees.
- **Stage 3 understanding local impact** – this stage looked to examine qualitatively the economic, social and environmental ethos of suppliers to Manchester City Council. To do this, CLES undertook strategic interviews with a selection of the top 300 suppliers to Manchester City Council. The strategic interviews particularly sought views from each supplier around organisational ethos in relation to local employment, deprivation and sustainability considerations.

⁹ Association for Public Service Excellence, Centre for Local Economic Strategies and Institute for Local Government Studies (2008) *Creating resilient local economies: exploring the economic footprint of public services*. Manchester: APSE.

The above research activities provide, not only a useful way of understanding the wider local economic, social and environmental impact of procurement, but also a key baseline in terms of what more authorities can do to embed sustainability considerations into procurement practice. As such, the research identified a number of key challenges in relation to the procurement process which have been taken forward into recommendations and actions by Manchester City Council.

What more can Economic Development Departments do to enable sustainable procurement?

One of the key challenges of the procurement process and particularly the enablement of sustainability has been the fact that historically procurement departments have tended to work in 'silos'. This has meant that rather than making contract awards on the basis of a range of considerations including quality, community benefit and link to corporate priorities, the decision has been made on a narrow value for money basis.

Linking procurement process to corporate priorities around tackling worklessness, for example, can be a key way of overcoming this 'silo culture' and ensuring that other departments within the local authority are embedded into the procurement process and the enablement of community benefit. Economic Development is one such department which should be well linked to the process of procurement as economic development activity has a number of roles in enabling local economic, social and environmental impact and understanding in the procurement process. These roles are as follows:

Build supply chain analysis into the Local Economic Assessment

From April 2010 all top-tier local authorities in England will have a legislative duty to produce a Local Economic Assessment (LEA). The LEA is designed to enable local authorities and partners to more effectively understand the shape and functioning of their local economies. A key element in this should be providing an understanding of the impact procurement spending has upon the local business base. CLES would therefore suggest that the LEA process contains a degree of supply chain analysis, similar to that undertaken in stage 1 of the Manchester City Council work.

Identify the localities key economic and social issues

Economic Development Departments, alongside those of Chief Executive's and Corporate Policy, often have the strongest understanding of the key challenges facing a locality's economies and communities. If procurement policy and spending is to have significant impact, and if community benefits are to be realised, Corporate Procurement Departments need to be aware of what these key challenges are. An effective dialogue needs to be created over the economic, social and corporate issues which procurement spending could have an influence over.

Identify the capabilities and capacity of the local business base

Using local suppliers in the provision of goods and delivery of services is dependant upon two factors. First that local suppliers can actually provide the goods and services required by the local authority. Second, that local suppliers have the capabilities to bid for contract opportunities, the capacity to deliver, and the ability to demonstrate, in the face of competition, that they are the most cost-effective deliverer. Prior to any of this however, there has to be knowledge of who in the locality can deliver what. There is therefore a role for Economic Development Departments in the procurement process in developing and maintaining a database of potential suppliers and their capabilities.

Provide effective training opportunities for SMEs and VCS

One of the core objectives of sustainable procurement practice and indeed wider Government policy is ensuring that procurement opportunities are accessible to SMEs and VCS organisations. Whilst there is existing practice of these types of organisations delivering contracts, there remains the ongoing challenge of capacity to bid and deliver and knowledge of the tender process. Economic Development Departments, in collaboration with partners such as the Chamber of Commerce therefore, have a role in providing procurement training and bespoke support for SMEs and VCS organisations.

Offer guidance and support to existing suppliers

Where a local supplier is contracted to provide goods and services for the local authority it is more than likely that they will have a commitment to the local area or community in which they are based. Sustainable procurement is not just about the decisions of the procurement department but also the decisions of the supplier in relation to their employment, supplier, and environmental choices. Suppliers may have a commitment to employing locally or utilising local suppliers but not necessarily know where to go for knowledge or advice. This is a business support service which an Economic Development Department could offer providing; signposting to employment brokers; advice about training and upskilling their workforce; and knowledge of the local supply chain.

Identify the neighbourhood level impacts of procurement

The impact of procurement spending in local economic, social and environmental terms goes beyond the 3 stage methodology outlined earlier. Beyond the spending upon suppliers and by suppliers upon their own employees and suppliers, procurement spending can have an impact upon neighbourhood and local economies in terms of the spending power of employees. The circulation of wages can be vital for the sustainability of local shops and local services. Economic Development Departments can measure the neighbourhood level impact of procurement by undertaking surveys of the employees of key suppliers to ascertain levels of re-spend in the local economy.

Engage in cross-cutting strategic work around procurement

The role of Corporate Procurement has become increasingly cross-cutting. Different departments within the local authority have different capabilities in delivering the objectives of Sustainable Procurement Strategy and particularly in enabling community benefit. Economic Development is one such department and should be involved in cross-departmental strategic dialogue which: discusses best practice; identifies key issues which procurement policy should be addressing; and identifies the roles of specific departments in supporting suppliers.

Arrange business networking meetings

Whilst 'Meet the Buyer' events are well established mechanisms of making potential suppliers aware of contracting opportunities and engaging with local business, less work is done upon keeping suppliers engaged once they have been awarded a contract. Sustainable procurement can only be achieved if the cycle follows forward into delivery and the achievements and best practices of suppliers are effectively monitored. Economic Development Departments working with Corporate Procurement should be looking to set up networking meetings whereby suppliers can meet to discuss what they are doing to support local economies and communities, beyond the delivery of a contract.

Conclusion

Spending decisions made in relation to procurement will always be governed by EU procurement law requiring a significant degree of competition over every local authority goods and services contract opportunity. Clearly, the legislative barrier makes the use of 'local' suppliers upon the basis of them being local businesses illegal. There are however, a range of mechanisms which Corporate Procurement Departments can utilise to present local businesses, particularly those in the SME and VCS sector, with the best possible opportunity to bid for and win contracts.

The starting point should always be a legally sound and realistic sustainable procurement strategy, but of equal importance is understanding the current local economic, social and environmental impact of procurement and the cross-departmental engagement required to shape improvement. 'Meet the Buyer' events, supplier networking events, training for SMEs and VCS organisations, advice for suppliers in relation to employees and suppliers choices, and identifying neighbourhood level impacts are all ways in which Economic Development Departments can engage in the delivery of community benefits.

Understanding the local economic, social and environmental impact of procurement is a key element of CLES research activities for the coming year. If you are interested in the work we undertook with Manchester City Council and the methodology employed please contact Matthew Jackson on 0161 236

7036 or matthewjackson@cles.org.uk. CLES also runs a training event on '*Using Local Multiplier 3 (LM3) to understand how money circulates in your economy*', with the next course being held on Thursday 18th February 2010 in Manchester. For further details, contact Lyn Stacey on 0161 236 7036 or lynstacey@cles.org.uk or visit www.cles.org.uk/events

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