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Ymateb gan Wales Co-operative Centre

National Assembly for Wales
Economy, Infrastructure and Skills
Committee
Procurement in the foundational
economy

Evidence from Wales Co-operative
Centre

National Assembly for Wales' Economy, Infrastructure and Skills Committee inquiry into Public Procurement in the Foundational Economy

Response from social enterprise support organisations, September 2019

Summary of key points

- Social enterprises play a key role in the foundational economy in Wales with many operating within the foundational economy services sector. Social businesses also play a key role in building wealth in communities across Wales. They are anchored in their communities; investment in them stays in the community and is recycled for wider economic and social benefits.
- Less than half (46%) of social enterprises in Wales agreed that there are good opportunities for social businesses through public procurement, although 53% did agree that these opportunities have been increasing in recent years.
- Increasing local procurement will help support local enterprises in the foundational economy and build wealth in communities but needs to be considered alongside other actions to maximise potential benefits. This includes supporting social enterprises to access procurement opportunities, supporting collaboration and the formation of consortia bids and wider ranging changes to procurement.
- Procurement must be seen as one method of building foundational businesses alongside other interventions. Increasing procurement

opportunities alone will not lead to the change envisaged by Welsh Government.

- We believe that the approach would benefit from a clear definition and guidance from Welsh Government of local procurement and social value. In our experience, this is currently being interpreted differently by public bodies across Wales.
- Monitoring of local procurement should be conducted through the lens of the Well-being of Future Generations Act. Public bodies should consider the delivery of social, environmental and cultural outcomes and their impact through contract monitoring.
- The existing legal framework provides scope to support social enterprises and the foundational economy. We agree with the Welsh Centre for Public Policy's conclusion that public bodies need to be more confident in applying these approaches. We outline some of the Public Contracts Regulations that would support this agenda.
- Examples of good practice include In this response are Cardiff Council's Socially Responsible Procurement Strategy and Bristol City Council's Social Value Policy and Toolkit.

About us

Social enterprises are business with primarily social objectives whose surpluses are principally reinvested in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Our organisations are support bodies working with social enterprises across Wales. As the Social Enterprise Task and Finish Group, we are working with the sector to develop a vision and action plan to help the sector grow and develop over the next ten years. We are:

- The Wales Co-operative Centre. The Wales Co-operative Centre is a not-for-profit co-operative organisation that supports people in Wales to improve their lives and livelihoods. We help to create and retain wealth within our communities through the growth of co-operatives and social businesses and by providing people with the skills to take more control of their own lives and strengthen their communities. Our projects include Social Business Wales which provides intensive, one-to-one support to social businesses which have ambitions to grow and a viable business proposal.
- Social Firms Wales is the National Support Agency for Social Firm/enterprise development. A Social Firm is one type of social enterprise committed to creating employment and training opportunities for people who are furthest from the labour market. It is committed to the creation of employment opportunities for disadvantaged people through the development and support

of Social Firms in Wales. It provides bespoke business support to: 1) people and organisations developing businesses that employ those who experience significant barriers to jobs in the general labour market and 2) Local authorities developing alternative delivery models and bespoke public services.

- Wales Council for Voluntary Action: WCVA exists to enable voluntary organisations to make a bigger difference, together. We offer the voluntary sector support and guidance to find and secure sustainable funding. Our initiatives include Social Investment Cymru, which has for ten years financially supported social enterprises in Wales with a range of financial products, including the Communities Investment Fund and the Social Business Growth Fund.
- The Coalfields Regeneration Trust is a national charity and social enterprise that is solely dedicated to the social and economic regeneration of former mining communities across the UK. In Wales this includes most of the Valleys and parts of North Wales. Since inception CRT has prioritised the protection and development of vital community assets and services and the creation of community owned businesses in the most deprived areas of Wales, working in long term partnerships to develop resilient communities and local economies for the future.
- The Development Trusts Association Wales (DTA Wales) is an independent practitioner based membership organisation promoting the work of and supporting the growing network of development trusts in Wales. We are part of a larger movement of community based regeneration and enterprise network across the UK, including Locality in England, DTAS in Scotland and DTNI in Northern Ireland, dating back to the formation of the original Development Trust Association in 1992. Our mission is to strengthen and grow our Member development trusts and their activities, and to assist communities and organisations that wish to establish new development trusts and community enterprises by promoting good practice and a practitioner based learning network in Wales.
- UnLtd finds, funds and supports social entrepreneurs - enterprising people with solutions that change our society for the better. UnLtd campaigns to break down the barriers social entrepreneurs face: such as finding customers, making a living, and getting access to finance.

Introduction: the role of social enterprises and voluntary organisations in the foundational economy and building wealth in communities across Wales

Social enterprises play a key role in the foundational economy in Wales with many operating within the foundational economy services sector.¹ This includes arts and recreation, health and care, education, and Community Centre, Social Space and Youth Club services.² Different types of social enterprises include Cooperatives, Social Firms, Development Trusts, Community Businesses, Credit Unions, Trading Arms of charities.

Social enterprises also play an important role in building wealth in communities across Wales. They are anchored in their communities; investment in them stays in the community and is recycled for wider economic and social benefits. The vast majority reinvest their profits into their business, with around a quarter investing in their community or social and environmental objectives.³ Social enterprises can create jobs and tackle poverty in difficult economic conditions, particularly in rural, post-industrial, inner city and coastal communities.

Social enterprises can be key employers in their local area. The most recent survey of the sector found that 57% of respondents' workforce live within 10 miles of the business.⁴ Creating economic opportunity in local neighbourhoods means that economically active individuals will remain within the community full time to spend money and contribute to community cohesion. Social enterprises also play a particular role in creating jobs for, and developing the skills of, people who are outside the labour market. For many this is their social purpose.

Consequently, social enterprises are not only a significant part of the foundational economy but deliver additional local value and benefits, building wealth in communities across Wales. Our response is based on our collective experience of supporting these businesses across Wales.

Voluntary organisations are local, flexible and able to provide different models for delivery, such as social enterprises, that are able to deliver the ambitions of the foundational economy. Statistics from the [Third Sector Data Hub](https://thirdsector.gov.uk/) show that there are over 30000 voluntary sector organisations in Wales. 90% of them describe themselves as working locally or regionally. The voluntary sector makes up 8% of Wales' employment, and most sector employees are likely to be employed in a role that can benefit the foundational economy in some way. Welsh Government's own data shows that four in ten jobs are rooted in the Foundational Economy – many of these jobs are likely to be within the voluntary sector.

¹ A Collaborative Economy for the Common Good, <https://wales.coop/a-collaborative-economy-for-the-common-good/>

² Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

³ Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

⁴ Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

1. What is the current position regarding the proportion of public contracts in Wales that go to Welsh suppliers?

The most recent survey of the social enterprise sector in Wales indicated that public procurement is not seen as a major barrier by social businesses with only 5% selecting it as one of their main barriers to growth.⁵ However, further questions revealed that less than half (46%) agreed that there are good opportunities for social businesses through public procurement, although 53% did agree that these opportunities have been increasing in recent years. These findings point to a mixed picture for social enterprises accessing public procurement in Wales.

Several public sector bodies are part of framework agreements that are run by local authorities in England. This often means that Welsh organisations are not considered as suppliers. We would like Welsh Government to provide information on the scale of contract values that go to England through these arrangements. We would welcome support and assistance for Wales based businesses and suppliers to be competitive in this context.

2. To what extent could increasing 'local procurement' by the public sector create stronger local supply chains and build wealth in communities across Wales?

Benefits of increasing local procurement

Increasing local procurement will help support local businesses in the foundational economy and build wealth in communities but needs to be considered alongside other actions to prepare local businesses, including social enterprises, to access procurement opportunities. Wider ranging changes to the procurement system will also support this agenda. Procurement must also be seen as one method of building foundational businesses alongside other interventions. Increasing procurement opportunities alone will not lead to the change envisaged by Welsh Government.

There is evidence that local procurement can strengthen local supply chains and build wealth in communities across Wales. A joint Federation of Small Businesses and Centre for Local Economic Studies study estimated that small local firms re-spend 63p locally out of every £1 they receive, compared to 40p in every £1 for large firms. In Preston, community wealth building initiatives have explored how anchor institutions could focus more of their spending locally. As a result, in 2016/17 procurement spend retained within Preston was £112.3m, a rise of £74m from

⁵ Mapping the Social Business Sector in Wales 2019, <https://wales.coop/sbw-mapping-report-2019/>

2012/13. Within the wider Lancashire economy (including Preston) £488.7m of spend had been retained, a rise of £200million from the baseline analysis.⁶

Jobs in the foundational economy help retain more wealth locally as many are undertaken by local people and the management of these staff also tends to be local. However, not everything that is needed can be purchased locally and not all local suppliers would have sourced their products locally. Furthermore, not all businesses will be interested in selling to the public sector. There are also risks that buying from local suppliers could lead to inter-area battles. There is also a risk that local suppliers may not stay local, particularly if they are not looked after by local buyers or if they become attractive to larger chains or suppliers.

Supporting social enterprises to access procurement

Welsh Government should consider a minimum social value weighting of 20% in public sector contracts. This will help to ensure maximum value for money for public contracts by changing priorities and driving a shift towards embracing social value. By including and evaluating social value public bodies will be able to choose a supplier under a tendering process that not only provides the most economically advantageous service, but secures wider benefits for the local community. This has been successfully adopted by Bristol City Council, outlined in more detail in Question 5 below.

To maximise potential benefits, social enterprises will need support to be ready to respond to these procurement opportunities. Recent mapping of the sector showed that only around half (51%) of respondents believe they have a good understanding of the procurement process and only 42% believe they possess good tendering expertise (45% disagreed with this statement). Some social entrepreneurs may not yet have the means to evidence their social value quantitatively, and in any case, qualitative evidence will help to reveal the full picture. Social entrepreneurs have told us that they would welcome training and support about communicating and evidencing their impact.

Evidence from the voluntary sector to Welsh Government also shows that the sector believes current processes give advantage to larger organisations, squeezing out smaller, more local suppliers. Social enterprises have also told us that large contract structures, delayed payments and burdensome bid requirements deter them from exploring collaborative bids. Public bodies can increase capacity for local businesses and social enterprises to bid for contracts through actions such as holding supplier surgeries and 'meet the buyer' events; providing training, advice and feedback; and breaking contracts into small lots to make it easier for small businesses to bid for

⁶ CLES, How we built community wealth in Preston: achievements and lessons, https://cles.org.uk/wp-content/uploads/2019/07/CLES_Preston-Documents_WEB-AW.pdf

them and build capacity. Giving the market time to mobilise for opportunities is also critical. Time and resource pressures are also a barrier to social enterprise and voluntary sector organisations bidding for contracts. It is often a lengthy process with a short time frame, and organisations have been known to not bid for contracts because of lack of resources.

Other changes would also help social enterprises to better engage with the procurement process. Evidence suggests that feedback and debriefing is generally poorly executed in the UK.⁷ Social enterprises and other SMEs would benefit from transparent feedback following tender decisions to help improve their future bids. Voluntary organisations also raised the issue of contracts not being awarded promptly after being won. This impacts negatively on services and organisations' ability to plan. This issue must be resolved to make the foundational economy a success.

Need for increased collaboration and co-production

Procurement practices can also cause unhelpful competition between bodies that could be better placed to work collaboratively on the delivery of services. There is an increased need for collaboration and consortia development so that small businesses have the scale to take on bigger work packages and share resources so that they are able to resist being taken over by large businesses with no stake in the local area. Procurement processes aimed at supporting the foundational economy should begin with a requirement of collaboration between service providers across all sectors, considering what works best for communities, not themselves or their service. There should be a requirement of coproduction and social responsibility between local service deliverers and service users, enhancing both the relationship between communities and service providers and the services themselves. The benefits of co-production include:

- For users – improved outcomes and quality of life, higher quality, more realistic and sustainable service provision as a result of including service users.
- For citizens – increasing social capital and social cohesion, offering reassurance about availability of services for the future.
- Frontline personnel – more responsibility, and job satisfaction from working with satisfied service users.
- For managers – Limiting demand on services and making services more efficient.
- For Politicians – satisfied citizens and less demand on public funding

Wider changes to procurement practices in Wales

⁷ Welsh Centre for Public Policy, Sustainable Public Procurement, https://www.wcpp.org.uk/wp-content/uploads/2019/03/190301-SPP-final_Eng-1.pdf

Wider changes to the procurement system will also support this agenda and help foundational businesses to better navigate public procurement. These include more investment in the procurement function, nationally, regionally, and locally, so each purchasing organisation has the numbers, skills, data, systems and mind-set to buy wisely.

This should include investment in professional development for procurement teams. Procurement teams should receive support to use social, community and environmental clauses in contracts and how to score these. Procurement officers need clear leadership and mandate from politicians to procure differently in ways that benefit the foundational economy and social business. This should start with a clear vision on using procurement to support local foundational businesses and a clear definition of social value in Welsh Government's procurement statement.

The advertising of procurement tenders should also be considered. Contracts under procurement regulations thresholds are not advertised on Sell2Wales. Yet such small contracts are valuable to small businesses as they allow them to build a track record and experience of procurement. Procurement teams should consider information sources such as the [Social Business Directory](#) to invite businesses to bid for smaller contracts. The use of e-tendering portals can sometimes be confusing for small businesses. Due to the number of these portals, information relevant to the tender can be in different places. They also tend to adopt a one size fits all approach, with set questions that require yes or no answers. This does not give foundational economy businesses the opportunity to state that they would work towards something if they win the tender (such as level of insurance cover, policies and procedures). Doing this would help to create a level playing field.

Supply chains

There is also an opportunity to ensure that public sector procurement rules require that (where reasonable) social and local suppliers are used throughout the supply chain. This should be integrated into procurement processes rather than an add on. Such an approach has been adopted in Cardiff. Cardiff's Socially Responsible Procurement Policy includes a requirement to 'Think Cardiff First to take account of the social and economic impacts of buying locally when commissioning and contracting, and asking suppliers and contractors to do the same. This is also reflected in the SEWSCAP 3 (South East & Mid Wales Collaborative Construction) framework with a requirement to 'think Wales first'.

Growing the foundational economy in Wales

Increasing procurement opportunities alone will not lead to the change envisaged by Welsh Government. Ideas for developing the foundational economy in Wales have been proposed by organisations such as the foundational economy network, the Bevan Foundation and the Wales Co-operative Centre.⁸ Actions include:

- Foster local mentoring to deliver person-centered community and economic development.
- Provide education and training to staff, especially those in economic development and procurement on the foundational economy and social business
- Consider how you can support people to develop skills in line with local business needs, growth sectors and foundational sectors
- Refocusing business support to build on the strengths and enhance the capabilities of firms rather than emphasising growth and to support new businesses, including community and social businesses, to come forward
- Providing physical and soft infrastructure such as co-working space for makers and place-based branding and marketing.

Place based approaches

Place based approaches will also support this agenda. For example, collaborative investment especially in deprived Valley communities, given many are characterised by low levels of social capital, poor health and social exclusion. Without investment to address these issues in the first instance, schemes, interventions, legislation to increase economic activity will have limited effect. Welsh Government may consider a High Street Task Force to prioritise and get a more joined up approach to social and economic development in specific areas. The Bevan Foundation's proposal for Anchor Towns could also be considered. Anchor towns have a substantial population within 15-20 minutes travel, are home to public bodies and offer range of services such as banks, post offices and shops. Put together, the buying power of public services and the spending power of the local population could transform valleys towns.⁹

Finally, the Welsh Government should encourage the public sector to innovate even more ambitious approaches to procurement. Public bodies should regard Welsh Government's proposals as the bare minimum and explore more ambitious approaches to social value procurement.

⁸ For example see: What Wales Can Do, <https://foundationaleconomycom.files.wordpress.com/2017/02/what-wales-can-do-22-june-2017-final-v2.pdf>; Creating an Inclusive Economy in Wales, <https://wales.coop/inclusive-economy/>

⁹ <https://www.bevanfoundation.org/publications/prosperous-valleys-resilient-communities/>

Combined, these actions will help to create stronger local supply chains and build wealth in communities across Wales.

3. What is your view of the Welsh Government's intended approach to increasing the amount of 'local procurement' undertaken by the public sector in Wales (including how 'local procurement' will be defined and monitored; how the principles of sustainable and ethical procurement are being applied; and how the statutory goals set by the Well-Being of Future Generations (Wales) Act are being met)?

We welcome the Deputy Economy Minister's intention to increase local procurement and maximise the social value of procurement through placed based approaches that encourage anchor institutions to spend more locally.

We believe that the approach would benefit from a clear definition and guidance from Welsh Government about what constitutes local procurement and social value. In our experience, this is currently being interpreted differently by public bodies across Wales. Public bodies are developing their own definitions of social and local procurement, such as Cardiff's Socially Responsible Procurement strategy. Some public bodies are not engaging with the agenda. There is an opportunity for Welsh Government to set a clear definition of local procurement and social value in its forthcoming update to the procurement statement. This should clearly set out what the approach will help to achieve in Wales.

Currently, social and community benefits to public contracts are not well monitored. For example, contracts ask for community benefits plans but these are not scored or audited. There is a danger this will be replicated in Welsh Government's intended approach to local procurement. Monitoring of local procurement should be conducted through the lens of the Well-being of Future Generations Act. Public bodies should consider the delivery of social, environmental and cultural outcomes and their impact through contract monitoring. Social, environmental and cultural commitments should be detailed as conditions in contracts and this should include procuring locally.

The voluntary and social enterprise sectors would also welcome the publication of the national plan for future years' procurement spend in Wales, as pledged in the Economic Action Plan.

4. In what ways can local spend, and collaborative procurement amongst SMEs, be increased and sustained while working within the EU procurement framework, whatever arrangements may be in place following Brexit?

There is scope within the existing EU procurement framework to support social business and the foundational economy. We agree with the Welsh Centre for Public Policy's conclusion that public bodies need to be more confident in applying these approaches.

The following Public Contracts Regulations are particularly relevant to the topic of fair and local procurement:

- Light Touch Regime (regulations 74 to 77): offers commissioners who want to maximise the local benefit of procurement to tailor how they implement the procurement process for certain services, in order to accommodate the needs of local providers.
- Reserved contracts (Regulation 77): designed to help social sector organisations (such as social enterprises and third sector organisations) to establish themselves and compete to deliver services that have a health, social, educational or cultural dimension.
- Reserved contracts Regulation 20.—(1) Contracting authorities may— (a) reserve the right to participate in public procurement procedures to sheltered workshops and economic operators whose main aim is the social and professional integration of disabled or disadvantaged persons, or (b) provide for such contracts to be performed in the context of sheltered employment programmes, provided that at least 30% of the employees of those workshops, economic operators or programmes are disabled or disadvantaged workers.
- Regulation 40 (1): Before commencing a procurement procedure, contracting authorities may conduct market consultations with a view to preparing the procurement and informing economic operators of their procurement plans and requirements.
- Regulation 40 (3): 'Such advice may be used in the planning and conduct of the procurement procedure...'
- Involving service users: Regulation 76 (8): '...contracting authorities may take into account any relevant considerations, including... the specific needs of different categories of users; [and] the involvement and empowerment of users.'
- Regulation 70 Contract performance, supports strategic commissioning. Could support local authorities to purchase services that fit and deliver according to local needs and support sustained service provision. Potential performance conditions could include economic, social, employment related and environmental considerations. This has potential to strengthen service provision so local authorities can select services that best suit their needs.
- Regulation 71 enables local authorities to ask what percentage of a contract will be sub-contracted; can make direct payments to sub-contractors and may

ask for information on sub-contractors and the supply chain. This regulation could make it easier for small and voluntary sector enterprises/businesses to bid for work and the direct payment of sub-contractors.

- Regulation 6(14/15) – Small Lot Exemption. Under Regulation 6, contracting authorities may award contracts for individual lots without applying the open procedures, but only if the estimated value, net of VAT, of the lot concerned is less than: a) 80,000 euro for supplies or services, or b) 1 million euro for works.

While there is therefore scope within existing procurement policy frameworks it is not our experience that these are extensively or consistently used. Training for procurement officers to increase their confidence in using these regulations would be beneficial. There should also be a clear strategic lead from Welsh Government on using these regulations.

Consideration also needs to be given to the way in which public sector bodies encourage the use of SMEs by their Tier 1 contractors. Many SMEs and social businesses are only able to access public procurement opportunities through the supply chain. Public sector bodies need to use clauses in Tier 1 contracts to ensure they use SMEs in their supply chain and that these opportunities are advertised through Sell2Wales to make the opportunities transparent.

5. Can you give examples of similar public procurement initiatives elsewhere in the UK and EU?

Examples of good practice include Bristol City Council's Social Value Policy and toolkit helps businesses to measure their impact on the City. It clearly sets out their definition of social value. It also has a standard social value weighting in procurement to 20% that can only be varied by business case and approval. They have also adopted a quantitative (based on notional proxy values) and qualitative approach to assessing and evaluating additional social value added. This standardised but flexible approach is applied to all contracts to be evaluated above £15k – as appropriate and proportionately. Most recently, they have launched a toolkit that helps organisations measure impact in the city. The Social Value Toolkit will support local voluntary and private organisations to take small and achievable steps to measure and report on the social good that comes from their services or activities. Businesses can [access the toolkit online](#) along with the [Social Value Policy](#), which outlines how the council will review social value when awarding contracts and grants. The Social Value Toolkit will be included in all of the council's future commissioning activity – and is designed to benefit local businesses by ensuring they can demonstrate, and be rewarded for, the contribution that they make to Bristol.