



Arbenigwyr mewn Busnes
Experts in Business

Procurement in the Foundational Economy

Response to Economy, Infrastructure and Skills
Committee

September 2019

Ff/T 029 2074 7406
E wales.policy@fsb.org.uk
W fsb.wales

C/A 1 Cleeve House,
Lambourne Crescent,
Caerdydd, CF14 5GP

Swyddfa Gofrestredig | Registered Office:
National Federation of Self Employed and Small Businesses Limited,
Sir Frank Whittle Way, Blackpool Business Park, Blackpool, FY4 2FE
Cofrestrwyd yn Lloegr Rhif | Registered in England: 1263540



Arbenigwyr mewn Busnes
Experts in Business

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Introduction

FSB Wales welcomes the opportunity to give evidence to the Economy, Infrastructure and Skills Committee's inquiry into procurement in the foundational economy. Procurement is a core area of concern for many of our members and remains a lever that can have a significant impact on economic development in Wales. We are currently undertaking a project with Swansea University academic Dr Pedro Telles on the delivery of procurement policy and the use of dynamic purchasing systems. We will endeavour to share this research with the Committee once it is published.

As the Committee will be aware, FSB Wales has been very supportive of attempts by the Welsh Government to help increase the amount of spend from the public sector delivered through SMEs. In our view, procurement is a useful lever for economic development in Wales and properly used could help drive prosperity across many of Wales' communities.

We have worked previously with Centre for Local Economic Strategies (CLES) to explore these issues, including by undertaking a case study with Rhondda Cynon Taf council examining their processes.¹ Our research with CLES highlighted that when the effects of local spend are broken down and analysed, every £1 spent by a participating local authority with local SMEs generated an additional 63p of benefit for their local economy, compared to just 40p generated by large local firms. It is therefore clear that increasing spend with local SMEs can have a significant economic impact.

Whilst some progress has been made in this regard, FSB Wales feels that anchor institutions are yet to be brought in to the conversation and we therefore welcome the Welsh Government's intention to address this through its foundational economy approach.

General Principles on Procurement

Much like reforms to the planning system, procurement policy starts from a simple premise – that of buying goods and services – and becomes more complicated as other policy aspirations are added. This has meant that in many respects procurement policy is seen as the answer to very many problems when in reality it can be a positive contributor to broader economic development.

It is therefore important to begin with first principles on what procurement should do. For FSB Wales these are:

- Provide good value to the taxpayer
- Allow for competition in the market place
- Be fully transparent and accessible to all firms

¹ For more information see our report *Local Procurement: Making the Most of Small Businesses* available here: <https://cles.org.uk/wp-content/uploads/2016/10/FSB-procurement-2013.pdf>



Arbenigwyr mewn Busnes
Experts in Business

It is important to understand that good practice in this regard starts with ensuring the three principles above are present before moving towards further issues that can shape procurement policy in terms of the demand side, from the public sector and the supply side from the stock of businesses able to compete for contracts.

Once these principles are in place we can begin to develop what is meant properly by value. It is now well understood that cost and value are not the same and for FSB Wales we would see it as imperative that value in this regard includes the capacity to generate economic development opportunities.

Procurement as a process is at risk of becoming overcomplicated. It is vital that at its minimum procurement allows for good value for the taxpayer, is competitive and transparent.

Supply and Demand: two sides of the same coin

Another issue often misunderstood in public procurement terms is to focus entirely on the demand side of the process. That is, to focus entirely on how the public sector constructs and construes its opportunities without considering the capacity and capability of firms in the market. It is assumed that the benefits from economic development from a procurement perspective can only be achieved by increasing the retention of spend by some arbitrary figure within the local economy.

Whilst such an approach can have value and is an important element of the overall picture, the real gains from an economic development perspective come when the procurement process allows for the growth and development of more capable firms that are able to compete not just in their local market but in markets regionally, nationally and even globally.

Procurement is often perceived as an issue on the demand side only – in practice, the economic development benefits of procurement occur when we help create competitive and capable firms.

In practice this means two things for public policy. Firstly that procurement creates an opportunity to identify and fill market voids. Furthermore, procurement provides the ability to increase capacity in existing firms by allowing for their growth.

To take the first issue of market voids; one means by which the Preston Model seeks to address this is by creating co-operatively owned enterprises. Whilst there is nothing wrong in this approach, we would recommend a proper assessment by public sector bodies and anchor institutions of the state of the market before such an approach is taken. Too often, there are firms that do exist in these areas that are just not aware of public procurement opportunities or do not feel an opportunity is relevant to them because of the way it is presented.

On the second issue, there may be firms that have the ability to deliver a product or service to public purchasers but require some support in terms of their business capacity in order to attain such a contract. In this instance too, there is an economic development role to deliver firms that are competitive and capable of bidding for such work. Business Wales and the economic development teams of local authorities have a role to play in ensuring firms are well positioned to bid for any potential opportunities.



Arbenigwyr mewn Busnes
Experts in Business

We would recommend Business Wales work with purchasing authorities to map supplier voids and to provide support to firms who could potentially fill such voids.

It is crucial that local authority's procurement teams are well connected to their economic development counterparts, to maximise the potential benefit of any contracts.

Public Procurement Policy

The Welsh Government has been proactive in shaping procurement policy in Wales to respond to some of the concerns around cost vs value in the procurement process. Its Procurement Policy Statement from 2015 contained many goals and objectives that organisations of all kinds who want to see procurement have a socio-economic impact can support. Despite this, there remain several significant challenges in transforming the ambitions of policy into practice. These are:

- *An under-resourced procurement profession* – local authorities and the broader public sector is under significant financial pressure and this has led to a situation where the capacity to deliver best practice is severely curtailed. For instance, whilst FSB Wales would like to see contracts broken up into smaller portions to allow for SMEs to be involved in more opportunities, in practice practitioners are under pressure to deliver tenders in the fastest, cheapest way. This means the extra auditing and management cost of presenting SME friendly tenders goes by the wayside.
- *A lack of political imperative* – Whilst procurement is undoubtedly a political priority at the national level, its importance varies significantly with anchor institutions and public purchasing bodies. For instance, FSB Wales is aware of local authorities that are not able to account for their spend with SMEs or provide any serious analysis of its socio-economic benefit. At the other end of the spectrum some purchasers are implementing lots of best practice.
- *A lack of statutory underpinning* – Whilst Welsh Government policy is informative and well-placed, it is not statutory in the way that Planning Policy Wales is with regards to the planning system. This therefore means that while purchasing bodies are encouraged to conform to best practice they are not mandated to do so. This makes achieving improvements difficult when there are a significant number of public bodies involved in procurement. In this respect, we could learn from the process of legislation undertaken in Scotland through the Procurement Reform (Scotland) Act 2014. The Scottish public sector produces annual reports on how the guidance is implemented, including spend analysis.²
- *Poor data and spend analysis* – Too few purchasing authorities carry out proper spend analysis and present their data in such a way to allow for scrutiny. If we are to maximise the economic impact of spending we must understand better where spending currently goes and what size of firms are benefiting from that spend. FSB Wales would like to see spend analysis being included in some form of statutory guidance and included on a

² Scottish Government. 2019. *Annual Report on Procurement Activity in Scotland* [Online]. Available at: <https://www.gov.scot/publications/annual-report-procurement-activity-scotland-2019/pages/1/> (accessed 13th September 2019).



Arbenigwyr mewn Busnes
Experts in Business

publicly available dashboard. This is the approach recently taken by the Scottish Government following their procurement reform legislation.³

Whilst procurement policy is on the whole positive it falls down in implementation. To develop Wales' procurement approach further, the emphasis needs to be on implementation and delivery of procurement rather than the content of the policy.

Anchor Institutions

The comments made above relate to procurement policy as it pertains to the immediate public sector. In relation to anchor institutions, this element of the procurement discussion is poorly developed in Wales at present. We are therefore pleased to see the Deputy Minister for Economy develop this as a priority for government under the banner of the foundational economy. If we are able to take the principles above to anchor institutions in the public sector and ensure good practice in delivery then the number of opportunities for firms in Wales will increase.

By creating a conversation with anchor institutions on the issue of public value in procurement, we can begin to shift the dial on community wealth by ensuring competitive firms from Wales are able to sell their goods and services in to the broader public sector.

Furthermore, Welsh Government in its understanding of anchor institutions should also broaden its reach to large private sector anchors. FSB Wales has long argued that inward investment provides an opportunity to develop Wales' based supply chains through such a conversation. Indeed, this has begun to take place with nascent policies such as advertising opportunities at Aston Martin through Sell 2 Wales. This needs to be mainstreamed as part of the economic contract and calls to action under the Economic Renewal Programme to broaden the reach of procurement policy.

The agenda around anchor institutions is currently underdeveloped in Wales. We therefore welcome the Deputy Minister's ambitions in this area. FSB Wales would like to see larger private sector organisations also brought into scope of anchor institutions by including supply chain policies in the EAP's Economic Contract and Calls to Action.

Specific Inquiry Questions

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

Our understanding is that this is currently around 55 per cent of total value of spend. However, we would suggest some caution is exercised in assessing these figures. It is not entirely clear what the definition of a 'Welsh Supplier' is for the purpose of this assessment. If it is merely billing to a Welsh address then this could be problematic and not necessarily a useful tool for analysing the success or failure of public policy.

FSB Wales would instead argue for a more varied basket of metrics for procurement such as spend by locality, spend by size of firm and spend by category of activity. This would allow us to

³ Scottish Government. 2019. *Annual Report on Procurement Activity in Scotland* [Online]. Available at: <https://www.gov.scot/publications/annual-report-procurement-activity-scotland-2019/pages/1/> (accessed 13th September 2019).



Arbenigwyr mewn Busnes
Experts in Business

properly analyse the state of spending in Wales and where potential voids exist for economic development purpose.

As a general rule, data on procurement in Wales is very limited and not very transparent. FSB Wales would like to see data on procurement by size of business published routinely to allow for proper performance measures to be put in place.

Data on procurement in Wales is limited and not routinely published, particular on spend by size of business. Our performance indicators for procurement should go beyond spend with Welsh based suppliers.

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

Yes, increasing spend locally can and should achieve these aims. However it can only do so by focusing on the economic development of companies in the procurement process and by making procurement more accessible to existing competitive firms. In order to do this procurement strategy needs to move beyond policy statements alone and must focus on how those statements are delivered.

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)?

As stated above, our view is on the whole positive in relation to Welsh Government's ambitions in this agenda, particularly with reference to the new proposals emerging under the banner of the foundational economy. However, we are concerned that in practice this is poorly measured and patchy across the public sector and therefore not properly implemented.

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?

We are supportive of collaborative procurement however it is by no means a panacea to the challenges that public procurement presents. Welsh Government and Cardiff University have done a significant amount of work on the Joint Bidding Guide and this is a useful area for further exploration.

However, our concern is that for many joint bidding is becoming the answer to the problem of large contracts. Rather than breaking contracts down to make them accessible to SMEs, the onus of joint bidding is to push the agenda away from the tendering authority towards suppliers. This is essentially an attempt to build bigger entities that mirror large businesses that the public sector can contract with.

For FSB Wales, this is addressing the symptom not the cause of the problem. Instead, procurement should look to remove artificial barriers to accessing public contracts by introducing



Arbenigwyr mewn Busnes
Experts in Business

lots for contracts and reducing unnecessary requirements around insurance and track record that become barriers to SMEs in accessing contract opportunities.

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

The Preston model is well known and would be a good place to start in terms of experiences. We would be happy to explore an opportunity to give a perspective from our membership in Preston as to how the process has been from the supplier side of the conversation.

Of perhaps more interest is the work that CLES undertook in Manchester over a 10 year period. While less celebrated than the Preston example, it highlights a lot of the practical reforms that need to be undertaken to ensure procurement has a positive social and economic impact such as having clear intent, a detailed spend analysis and developing relationships with suppliers.⁴

Beyond that, FSB Wales would encourage Welsh Government to look at the progress made by the Scottish Government through its Procurement Reform (Scotland) Act 2014. FSB Scotland was heavily engaged in this process and again we would be more than happy to provide an account of the success or failure of this legislation and what we could learn from it in Wales. Indeed, their recent report *Broken Contracts: Smaller Businesses and Scottish Procurement* provides an up-to-date account of the implementation of the Scottish legislation and how potential Wales could learn from that process.⁵

⁴ CLES. 2017. *The Power of Procurement II: The policy & practice of Manchester City Council: 10 years on* [Online]. Available at: https://cles.org.uk/wp-content/uploads/2017/02/The-Power-of-Procurement-II-the-policy-and-practice-of-Manchester-City-Council-10-years-on_web-version.pdf (accessed 13th September 2019).

⁵ FSB Scotland. 2019. *Broken Contracts: Smaller Businesses and Scottish Procurement* [Online]. Available at: <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/final-version.pdf?sfvrsn=0>