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Ymateb gan Bevan Foundation

National Assembly for Wales  
Economy, Infrastructure and Skills  
Committee  
Procurement in the foundational  
economy  
Evidence from Bevan Foundation

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## **Economy, Infrastructure and Skills Committee inquiry into public procurement in the foundational economy**

### **Submission by the Bevan Foundation**

The Bevan Foundation is Wales' most influential and innovative think tank. We develop lasting solutions to poverty, inequality and injustice and we help to improve people's lives. We are an independent, non-aligned charity.

We are grateful for the opportunity to submit our views to the Committee on a topic that has garnered a great deal of interest and momentum.

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

- 1.1 Procurement is worth a significant amount to the Welsh economy and has the potential to deliver a range of secondary benefits that can help achieve better outcomes for public services and a more prosperous, resilient economy for all parts of Wales.
- 1.2 Procurement is increasingly viewed as a tool for economic development as well as a means to respectively promote sustainable development, combat blacklisting in construction and human slavery, promote fair work and the Living Wage, support small and medium size enterprises (SMEs), support social businesses, support disadvantaged groups furthest from the labour market, develop training and skills and promote fair trade.
- 1.3 It certainly has the capacity to deliver a range of social goods by helping develop norms in supply chains and using public purchasing power for the leverage of progressive practices. In so doing this must be balanced alongside its primary role to obtain quality, value for money goods, services and works purchased with

public funds for public service delivery. Its progressive leverage capacity appears to be increasingly viewed as a primary lever in economic development. While procurement can and does have a role to play, we question whether it should be viewed as a primary tool in economic development.

1.4 The key test of economic development, especially when it involves the spending of public money, is if it improves people's quality of life, which can be broken down into some key questions:

1.4.1 Does it create decent work – work which is fairly paid, has decent terms and conditions, and doesn't cause harm?

Does it create more work – does it increase the stock, range and choice of employment opportunities so that everyone who wants to work can do so?

Does it solve geographical inequalities and injustices – does it offer anything for people in the areas with social and economic challenges?

1.5 In considering these questions, the scale of the challenge is apparent. In turn, the expectations of what of public procurement can deliver must be viewed against the amount of procurement spend. Local authorities account for more than half of total procurement spending in Wales, with just over half of their expenditure being on construction, facilities management and utilities. In adult social care, procurement expenditure totals around £751 million<sup>1</sup>. While a market of this size is not insignificant, it is not large enough to transform local economies – the Welsh red meat market by comparison is worth £1 billion<sup>2</sup>, for example.

1.6 Many foundational economy sectors rely on public expenditure to provide or procure services such as health or social care, education and social security. However, public spending has been declining in Wales since 2010. The value of Welsh Government grants to local authorities has fallen by 18.9% since 2009/10, some £918.5 million. The shrinkage of public spending, and unlikelihood of a significant economic upturn sets a challenging context for the development of some foundational economy sectors, as does the debate over “insourcing”, or the taking in-house, of goods and works that would otherwise go out to tender.

1.7 The community wealth building movement is playing a vital role in generating and adding to an important debate about creating an economy that works for everyone. It provides a range of exemplar areas who have led the way on harnessing public procurement to create a more inclusive economy. Given the rich and varied character of communities across Wales, implementing aspects of community wealth building for the smaller towns and villages of Wales, that are not near universities, cities or administrative centres, deserves further exploration to tailor the approach to local circumstances.

**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)?**

2.1 Achieving an agreed definition of "local procurement" generates some questions about how that will be done. Is "made in Wales" deemed sufficiently "local" or would "local" be determined to a regional or even local authority basis? Given the varied nature of regional and local economies in different parts of Wales, the scope of a local economy in one part of Wales to provide goods, works and services locally will vary drastically from the local economy of another part.

2.2 As a case in point, some parts of Wales have a limited stock of SMEs. In Merthyr Tydfil and Blaenau Gwent, for example, there is a *combined* total of less than 400 small and medium-sized firms (i.e. those with 10-250 employees) in all sectors. Nearly five times as many small and medium-sized firms are located just 30 miles away in Cardiff. It is a moot point whether valleys communities could benefit from access to contracts when they have such a limited stock of SMEs, or whether the benefits would leak out to more prosperous places.

2.3 For public bodies in east Wales purchasing goods, services and works, this can and does involve purchasing from non-Welsh suppliers given the spatial make up of parts of east Wales. Cross border health care services are a significant proportion of health care arrangements in some of these places. For patients, provision of safe, quality health services is understandably the primary consideration that takes precedence over geographical provenance of such services.

2.4 In practice, an increase in local procurement is likely to mean an increase in the awarding of contracts to SMEs, given the makeup of the Welsh Economy. SMEs typically offer poorer terms and conditions than larger enterprises. In 2016, median gross weekly earnings for UK employees were £279 for businesses in the 0 to 9 employee size band compared with £465 for businesses in the 250+ employee size band<sup>3</sup>, a difference of £9,672 a year for the average employee.

2.5 Earnings in foundational sectors are also poorer than the rest of the economy, as a result of below-average hourly earnings and a relatively high proportions of part-time workers. Four sectors in particular – accommodation and food service, arts and recreation, retail and social care - stand out for their low weekly pay. Workers in these sectors in Wales have median weekly earnings of less than £323 a week, compared with the median for all workers of £414.70 a week. Above average earnings are found in public administration, water and sewerage industries, and gas and electricity industries.

2.6 Some foundational economy sectors are also associated with poor employment practices. A UK survey of Employment Tribunal cases concluded that cases were disproportionately found in construction, and human health and social work activities, and in workplaces with fewer than 25 employees<sup>4</sup>.

There are also concerns about health and safety practices: in general occupational safety and health is often poorly managed in micro- and small enterprises, with workers at greater risk of workplace accidents and work-related ill health<sup>5</sup>. A 2014 survey found that more than half of SMEs did not meet required standards.<sup>6</sup>

2.7 Public sector procurement often takes place in small communities where there are pre-existing relationships and connections. Just as with large corporations, the risk of corruption associated with local procurement cannot be overlooked, including the possibility of local suppliers collectively and deliberately driving up prices. Recent estimates suggest that the Welsh Public Sector could lose up to £1 billion per year through fraud and procurement fraud is one of the main types of fraud in the public sector<sup>7</sup> and therefore any shift in procurement policy must come with the appropriate safeguards and practices to “design out” procurement fraud.

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

3.1 Given the low wages and employment practices in some foundational sectors, increased procurement in these sectors presents an opportunity for it to be used as a catalyst for change. The Welsh Government’s increased emphasis on fair work, including through the Economic Contract, is therefore welcome for its emphasis on promotion of the living wage and good employment practices.

3.2 Promoting fair work through procurement also depends upon rigorous checks to ensure that suppliers are embedding fair work in practice and not just on paper, and that they are not “recouping” the cost of increased wages. This may be through improved supplier engagement throughout the process as well as rigorous checks and improved scrutiny of procurement contracts through their full life cycle. These practices can help ensure that procurement does not embed low pay and poor practice and is not at odds with public services values. Just as Carillion’s values were found to be seriously at odds with public service values<sup>8</sup> in the wake of their collapse, so too should the leadership, practices and values of all contractors of every size and shape be better understood by contract awarding bodies.

3.3 Using procurement to help disadvantaged people access employment and training is also be welcomed and should be scaled. The Welsh Government’s Better Jobs Closer to Home pilots offer a good example of procurement being harnessed to support jobs and businesses in an area of Wales facing some deep economic challenges and helping disadvantaged people furthest from the labour market access employment and training. This is a good example of the existing procurement

framework being used to deliver progressive outcomes that make tangible differences to people's lives and we look forward to learning more about the outcomes of these pilots and how any successes can be scaled.

3.4 Using procurement to support and grow social business and worker owned models is something merits further examination and would be in line with the Welsh Government's indicated procurement ambitions. There is evidence to suggest that co-operative based business models tend to be more financially resilient<sup>9</sup> than other forms of business ownership in terms of survival rates and staff turnover<sup>10</sup>. Their increased participation in procurement could be a credible tool help strengthen local economies. Social businesses are more likely to be locally rooted in a specific place, tend to be more values driven and more likely to be fair work employer. 76% of Welsh social businesses pay their staff the Living Wage<sup>11</sup> Therefore, an increased share of contracts could help support social business, and in turn build a more resilient economy by supporting business that is less likely to fold, less likely to leave, and more likely to pay their staff well. Provisions in the existing procurement frameworks and legislation also support this model of growing social business as a providers for some contracts<sup>12</sup>

3.5 The existing procurement framework derived from EU law and overseen by the Welsh Government offers considerable scope for progressive practices, but it has been under-utilised. There is good practice to draw on such as the Can-Do toolkits, Welsh Government's Procurement Route Planner and publications from organisations such as CLES and Locality. The Welsh Government's indicated intention to change the emphasis of procurement provides an opportunity to re-visit and make best use of the good practice that takes place in Wales and across the UK

3.6 Successful progressive procurement is also dependent on a number of other factors, including political leadership and buy in and appropriate resourcing and professional development and training for procurement professionals. These factors must also be given appropriate consideration to foster a conducive environment for progressive procurement to take place in successfully.

## **Summary**

4.1 Making better use of the existing procurement framework for social value is something there is significant scope to achieve, through use of tools such as reserved contracts, embedding fair work and considering the scope for social business to play more of a role in contracting.

4.2 How procurement interfaces with securing value for money in times of significantly reduced budgets and "doing more with less" is a pressure that must be factored into the expectations placed upon procurement practitioners, especially in an economic climate that continues to be challenging.

4.3 The Welsh Government's intention to increase public procurement in the foundational economy comes both challenges and opportunities. Increasing local

procurement alone is unlikely to bring more wealth to communities across Wales. To do so it must take place in a broader context of tackling the root causes of poverty and inequality in Wales and ensuring that any benefits from harnessing the power of procurement are equitably distributed. It must also design progressive practices into procurement by default with appropriate checks.

4.4 A broader understanding of “value” can help achieve progressive procurement alongside a more explicit embedding and awareness of expectations around public service values in procurement practice. A focus on the foundational economy or local procurement may be better delivered as part of a wider shift towards progressive procurement with the appropriate resourcing, professional development and political buy in at all levels.

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<sup>1</sup> [https://www.audit.wales/system/files/publications/Public-Procurement-in-Wales-2017-English\\_0.pdf](https://www.audit.wales/system/files/publications/Public-Procurement-in-Wales-2017-English_0.pdf)

<sup>2</sup> <https://businesswales.gov.wales/foodanddrink/food-sectors/meat>

<sup>3</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2017provisionaland2016revisedresults>

<sup>4</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/316704/bis-14-708-survey-of-employment-tribunal-applications-2013.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/316704/bis-14-708-survey-of-employment-tribunal-applications-2013.pdf)

<sup>5</sup> <https://osha.europa.eu/en/themes/safety-and-health-micro-and-small-enterprises>

<sup>6</sup> <https://www.shponline.co.uk/safety-management/smes-failing-health-safety/>

<sup>7</sup> <https://www.audit.wales/system/files/publications/Counter%20fraud%20arrangements%20-%20english.pdf>

<sup>8</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmpubadm/748/748.pdf>

<sup>9</sup> <https://gov.wales/sites/default/files/publications/2019-05/report-of-the-welsh-co-operative-and-mutuals-commission.pdf>

<sup>10</sup> [http://theownershipeffect.co.uk/wp-content/uploads/The\\_Ownership\\_Effect-Inquiry\\_Final\\_Evidence\\_Report.pdf](http://theownershipeffect.co.uk/wp-content/uploads/The_Ownership_Effect-Inquiry_Final_Evidence_Report.pdf)

<sup>11</sup> <https://wales.coop/wp-content/uploads/2019/06/SBW-Full-Mapping-Report-English.pdf>

<sup>12</sup> Section 16, Social Services and Well-being Act 2014, Regulation 77, Public Contracts Regulations 2015