

# WLGA CONSULTATION RESPONSE on Public Procurement in the Foundational Economy



CLILC • WLGA

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## INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities and three fire and rescue authorities are associate members.
2. The WLGA is a politically led cross-party organisation, with the leaders from all local authorities determining policy through the Executive Board and the wider WLGA Council. The WLGA also appoints senior members as Spokespersons and Deputy Spokespersons to provide a national lead on policy matters on behalf of local government.
3. The WLGA works closely with and is often advised by professional advisors and professional associations from local government, however, the WLGA is the representative body for local government and provides the collective, political voice of local government in Wales.

To assist with the inquiry into public procurement in the foundational economy, the Committee requested views on any or all of the following points:

- What is the current position regarding the proportion of public contracts in Wales that go to Welsh suppliers?
- To what extent could increasing 'local procurement' by the public sector create stronger local supply chains and build wealth in communities across Wales?
- 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)?
- 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?
- Can you give examples of similar public procurement initiatives elsewhere in the UK and EU?

## RESPONSE

We will respond to each of the committee's questions in turn as follows:

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

The proportion of Local Authority contracts in Wales that go to Welsh suppliers is determined by three things:

- The availability of suitable suppliers in Wales.
- The ability of suppliers in Wales to tender successfully.
- The ability of Welsh Local Authorities to award to Welsh suppliers.

If this seems like an over simplification, we might consider that the myriad factors affecting each of these things are far from simple. The relative absence of either; reduces the incidence of contract award to Welsh suppliers.

We do have a mix of local, regional and national contracts which are awarded by Local Authorities, or organisations such as the National Procurement Service, operating on behalf of Local Authorities.

These are all presently under review by the Heads of Procurement Network in Local Government. The background to this and the key principles that have been established in taking local government procurement forward are outlined in the appended document "The Future of Local Government Collaborative Procurement in Wales - Investing in Local Government Procurement to deliver for Future Generations."

Among the ambitions in this document is that we use data to inform new procurement approaches and to innovate. There is however no single data base that captures contracts to Welsh suppliers. There is also a lack of data in some critical areas; about supply voids for example and about supply chains; including where the components or ingredients of the manufactured goods we buy originate from and what our strategic vulnerabilities are in the event of supply chain disruption. It is unlikely that we can buy everything we need from within Wales; but we might buy more. We should be able to know what's available and where the gaps in supply are. Much of our historic local knowledge has however been lost through depletion of experienced officers. Strategically, no one really knows. Contracting has been reliant on a process of advertisement, response and selection; though an open market extending across the European Union.

*"You can tender what you like; but you never really know what you'll get back and you are reliant on other people to respond."*

For comparison purposes, a simple measure has been adopted by Welsh Government through Value Wales and the National Procurement Service. The June 2015 Wales Procurement Policy Statement said:

*“We have seen expenditure won by Wales based suppliers rise from 35% in 2004 to 55% in recent years and I am sure that there is potential for this to increase even further in the future.”*

This figure was calculated using the proportion of payments historically made by Welsh Local Authorities to recipients with Welsh Postcodes; through the main creditor systems. This measure is maintained by Welsh Government and should be obtained from them.

We have seen several equivalent figures quoted by individual organisations, including Local Authorities; some of which have achieved up to 100% in individual categories. This information does not however actually tell us the proportion of public contracts in Wales that go to Welsh suppliers; it gives us an indication of where the payments go and whether those locations are in Wales.

Payments data is a good global indicator of spend patterns; but of limited use in improving the foundational economy in Wales. For this we need to know the forensics of supply chains and be able to predict future business needs; with knowledge of funding streams in order to anticipate where public money is going to be spent in advance. Markets in Wales are underdeveloped when it comes to growing business and innovation. Procurement in Wales is not sufficiently resourced or informed to support improvement in this area.

*“Because a Council spent an amount on playground equipment this year doesn’t mean they will spend it next year. The Welsh Housing Quality Standard programme is a key example whereby Welsh Government set a programme for upgrading homes over a period of time. That is coming to an end so what happens now to the local contractors who have been working with us for 10 years and we no longer have work for them? New build should replace the work, but have we supported them to get ready for a different environment of work? I think not. The resulting skills gap may result in money going outside of Wales.”*

Supplier Behaviours must also be considered if we are to understand what’s really going on within the aggregated figure of £3.3Bn Local Authority procurement. For example:

- Intermediaries or distributors might show as receiving large amounts of public service spend in Wales; but this is not ‘Welsh spend’ in relation to the foundation economy. Money spent here is invariably limited to local overheads; such as dealer margin and small-scale logistics. Manufactured or processed goods typically originate from multiple sources, including Wales; but we have no way to tell which or in what proportion. The likelihood is that most manufactured goods will be sourced internationally; with the value to foundational economies occurring in the places of manufacture.
- Product of Welsh material origin, where the added value (such as processing or manufacture) occurs outside Wales. We have little data; but know from experience that some Welsh dairy and meat products are supplied in this manner. It is possible that there is a negative leverage in terms of foundation economies (in this example rural economies); but research is needed to substantiate this.

- Services are defined as being consumed as they are produced; they account for a high proportion of spend and are generally local in provision. For example; in the major spend areas of agency workers, paid care workers and supply teachers; most of the invoice value is converted to pay and local costs; which recirculates naturally into local economies. The amount extracted from Wales by organisations billing from outside Wales is typically limited to operating profit and central support costs, which can be relatively small; perhaps as low as 4-5%.
- Exceptions to the local rule for services tend to highlight relative weaknesses in local supply, including gaps in skills and resourcing; being also indicative of historic Welsh reliance/deficiency or exploitative behaviour within supply chains. For example:
  - Remote profit extraction in financial services such as banking and care home financing.
  - Knowledge-based services such as high-value engineering, financial or legal expertise where volume-based specialism is located out of Wales.
  - Transient, outsourced or otherwise non-resident labour.
  - Outsourced digital or data-based service

Such weaknesses might be targeted for intervention and local supply chain development. Services which are inwardly portable can equally be ported outward; given competitive local production.

- Simple choice within the supply chain. There can be considerable latitude in what a supplier can source for onward supply to Local Authorities. Some would find it difficult to find products originating in Wales. Others might find it easy; but see little necessity to do so. Both instances can be influenced by simple interventions. Like signposting to Welsh suppliers and motivating supplier choice of Welsh based provision. These simple interventions might work just as well within our own organisations as they do within supply chains; because not all spend is controlled by procurement managers.

*“This is where the procurer can really influence via pre market engagement and being clear on outcomes. Richard, we need to be clear with everyone the key to success is the ability and attitude of the procurement officer. I am sorry to say this, but some people don’t get it. Communication and dialogue is key in much of what we are trying to achieve and we just don’t have the right people.”*

- Large Networks. Some high value spend occurs across networks; which include Wales; but are larger than Wales. Telecommunications and Energy being ready examples. Spend within Wales or otherwise might simply reflect the administrative arrangements in place and be unrelated to activities in Wales and the Welsh economy.

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

Local prosperity is best achieved where local suppliers of goods services and works are winning business; where they are thriving; where they adopt fair employment practices; where they re-invest locally and where they retain wealth locally. Research by Prof Karel Williams from Manchester University has articulated how this works.

Locality can include the territories of neighbouring authorities; including Wales as a whole; but need not be exclusively in Wales. Prosperous neighbours do us no harm if we fairly share in their prosperity and our economic relationships do sometimes extend widely. Supply markets are defined less by political boundaries than the economic and practical considerations of business, such as the proximity of large population centres. The nature of localism in procurement therefore needs to be determined locally, with commercial awareness; if a good and local match to business is to be made. We need people with the appropriate skills, remit and ability to do this; the work needs to be core business driven and effective in each place; but not necessarily exclusive, as there is further benefit from collaborating.

A proportion of this business can come from local public contracts and from the supply chains which support public contracts. The measure of success is however not whether a greater or lesser percentage of Welsh local government spend is retained in Wales; it is how well businesses in Wales do overall, how well public services are delivered and how this translates into functioning communities.

*“It is about balance. Some will stay small and rely on LG other will grow and expand into private sector or LG in England. One size will not fit all. A high-risk area is when a small business but all its eggs in one basket (one LA) and the business model or spend pattern of the LA changes then this business is in trouble. We have strong evidence of this.”*

We might develop stronger supply chains in Wales by improving the ability of Welsh suppliers to supply customers outside Wales. To do this they need good business management; which they may not currently have. The role of supplier development is therefore very important, and suppliers need trust and confidence that they will get the work. We need to develop a Culture of development and self-finance, as business cannot rely on Local Authorities alone. We might also support Welsh supply chains by ensuring a greater proportion of local expenditure remains here. The most likely prospect of success comes from maintaining a virtuous balance; or at least in acting in a manner which does not create negative behaviours in others which could negate business revenue.

*“We need to recognise that some suppliers will not grow or collaborate. Development mentality is a huge factor.”*

The point is to be more intelligent, in collaboration. Determination of the Most Economically Advantageous Tender can and should include aspects of social value. Supply chain resilience and local supply can be encouraged and supported through procurement behaviours that are managed, proportionate and appropriate to their subject matter. What this means, in a practical sense, is having the right people in place with the necessary skills and motivations to

use the right methods and make the right decisions. The Heads of Procurement network is very motivated to support this.

Local supply can also be encouraged by creating an environment which supports natural resilience and added value, such as one where future business is predictable and obtainable.

Local Government procurement officers are also working with Welsh Government officials to help identify and develop the strengths of localities in Wales and to encourage specialisation in key areas. An example of this is the pilot development of textiles manufacture in the South Wales Valleys through the Better Jobs Closer to Home project. This 'lost' strength is being encouraged through the simple expedient of alerting (already contracted) stockists/distributors of Personal Protective Equipment to a Social Enterprise in Merthyr Tydfil. This offers a better value alternative to importing stock from China; giving the distributors lower input costs, while developing the economy in a part of Wales that wants the work. There are currently ten pilot projects in Better jobs Closer to Home. The programme is new and yet to deliver its full potential.

Oversight is important. No part of the supply chain is completely independent. Hidden and non-supportive supply chain behaviours need to be identified and managed out. Positive behaviours can be encouraged to grow through flexible contracts and innovation partnerships.

*"We must try new things, we must move away from the risk factor of getting it wrong on both sides of the fence. What we need to remember is that small business could lose everything where as a LA officer may have questions asked but would they lose their livelihood? Sometimes the risk is too great for the small supplier or even the big one. Again I have evidence I could share."*

We can support this by embedding the principles of the Wellbeing of Future Generations Act into our procurement processes and by supporting the development of sustainable supply chains in Wales. This requires being alive to our future needs. To acknowledge that our world is changing at pace and that we need to use data to inform and change the delivery mechanism; instead of relying on repetitive process. Also to have the skills and the engagement to listen and read the signs; to distinguish the real issues within the noise and clutter and to know what is needed address the real issues. Then have the courage, the remit, to act, observe, learn and keep acting.

On 24<sup>th</sup> May 2019 the WLGA Executive Board received a preliminary report from the Heads of Procurement Officer Network which proposed core principles to support this thinking. The board broadly agreed the principles as given. Among these was the principle that "Where appropriate contract delivery would be allocated and delivered through Regional Category Focused Centres of Expertise with flexibility to provide All-Wales contracts where appropriate."

Under the previous Local Government arrangements contract delivery was allocated to Local Authorities on the basis of the willing volunteer. Under the new proposed delivery model, it was agreed that contracts should be delivered through Regional Category Focused Centres of Expertise as this would allow a Local Authority delivery team to develop an in-depth level of

expertise and knowledge of a particular category. The scope and allocation of these potential centres of expertise would be considered as part of the development of the Local Government Sourcing Plan.

It is intended that this will enable improved visibility and predictability for Local Government procurement; to help resource planning and collaboration; to give potential suppliers visibility of opportunity; and to improve the prospects for supply chain continuity.

This local depth of expertise need not be confined to the Local Authority. Ideally, specialisms would follow a place-based approach to capability. Some along established lines; because that's where the skills are; but more potentially on a developmental basis. Aligned to local strengths; whatever they may be.

One such strength; which every part of Wales possesses one way or another; is the attractiveness of Wales as a place to live. The growth of the remote workforce coupled with good technological infrastructure provides opportunities for Wales in attracting value adding remote workers. Whether all of Wales has good technological infrastructure might be questioned; but it needs only be good enough in enough of the right places to make a difference.

The 2007 Value Wales' investigation into Legal Services provision in Wales identified how small interventions can make a big difference to service based economies. The work of Professor Iwan Davies at Swansea University School of Law had for example identified specialism could create value for individual lawyers; yet location in Wales invariably meant diversification; a work/life balance sacrifice that some were willing to make; but which was resulting in an overall flow of expertise (therefore knowledge-based value) away from Wales. Enabling specialism within Wales might retain and attract small numbers of value adding knowledge-based workers in strategic roles. Public procurement might be targeted to support this; both through procurement activity and through the development of the procurement profession itself.

*We need financial focus and spend focus so we know what is coming down the track. We change so much and put people out of business due to the ad hoc budgeting Large volume of expenditure thrust upon the markets at the end of the year, it's not good and gives no security.*

**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 in Local Government consider 'Local' to be something multiplied twenty-two times; Welsh Government might see it as once for Wales. However; we have similar ambitions to increase the amount of local procurement undertaken by the public sector in Wales.



We do need to take care that localism is 'done by' and not 'done to' Local Government. In procurement and in parallel with other sectors such as digital and economic regeneration, planning and education.

Welsh Government can help this by working with us to maintain the environment where good things can happen. It can also help with central support, where central support is the right and proportionate thing. In these respects, the statutory goals set by the Well-Being of Future Generations (Wales) Act are complementary to those of Local Authorities. It is a journey; but given a continuing positive approach to implementation; we should continue to make the changes envisioned by the Act.

Local Government can help this by facilitating a mutually supportive, network approach; in collaboration with Welsh Government and other partners, including the WFG Commissioners officials. We have complementary roles. This requires being complementary and mutually supportive.

The WLGA, with Heads of Procurement in Local Government is undertaking a programme of reform which embeds support for the foundational economy at its core. We ask Welsh Government to continue to support this programme positively. Our positive approach to meeting the principles of sustainable and ethical procurement are being met by:

- Take of the guidance provided for our use by Welsh Government
  - Collaboration
  - Funding that supports the foundation economy and allows the sector to grow.
  - Looking at alternative procurement methods and contracts to stop the over reliance on frameworks.
- *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?*

### **Local Councils are foundational**

Continuing reduction to Local Government budgets has the greatest impact upon the foundational economy and upon Local Governments ability to sustain those suppliers who serve it. Wales' councils are the **foundations of our communities**. They provide vital everyday local services, from schools, to housing, to social care, to local transport. They provide a local democratic voice to Wales' diverse communities. In doing so, councils and the services:

- **protect and the support** the most vulnerable in our communities
  - **Tackle inequalities** within and across Wales' communities
  - Promote a **fairer Wales** through inclusive growth
- Councils are the economic bedrock of Wales:
- employing **over 10% of the Welsh workforce** and educating and training our future workforce
  - spending **£3.5bn on goods and services** in national and local economies



- promoting **ambitious economic growth and regional regeneration** across all corners of Wales.

Local services create opportunities for every citizen which help **sustain and strengthen our communities**. Local services have borne the brunt of austerity; core grant funding has reduced by 20% after adjusting for inflation by 2019-20. Core funding has fallen by 35%, if you don't include schools funding, as is the case in English local government.

Although schools and social care have been relatively protected, this has not been enough to keep up with demand.

Other local services, those services that are most visible and valued by our communities have been devastated. A decade of cuts has seen the loss of assets, facilities and services that have been a core part of communities for generations; the risk is that once such assets and services are lost, they are unlikely ever to be replaced.

Our services are preventative services, they have an impact on community safety and health and wellbeing. Our services are the local health service that can prevent costly burden on the National Health Service.

### **Legislative Framework**

We can do what we need to do within the present procurement framework. In many ways, the ground is already prepared. We know what to do and are in the process of developing a local authority sourcing plan. The main limiting factor is the availability of suitable people who can be assigned to the task.

### **Improvement Actions**

If we are to increase the incidence of local spend, we must understand the supply voids, action a programme of change in funding and ensure we engage with all and not just the special few (suppliers) who have influence.

The high-level actions are to:

- Improve the availability of suitable suppliers in Wales.
- Improve the ability of suppliers in Wales to do business with us.
- Improve the ability of Welsh Local Authorities to award to Welsh suppliers.

We can Improve availability of suitable suppliers in Wales by better use of data. By identification of supply voids. By articulating future needs to those best able to provide for those needs, in Wales. By creating the business and financial environment able to provide for these needs sustainably.

We can improve the ability of suppliers in Wales to do business with us by making tenders easier to do and easier to win; by providing viable alternatives to tendering; particularly within the low risk to procure categories such as social care. By minimising process wastes. By implementing electronic process and using digital tools. By telling suppliers what we need, what they're doing right' where they're going wrong. We might instigate a 'passport

to trade in wales' so that suppliers are assessed once a year for contract to a certain value. Looking after the small businesses; taking away red tape.

We can Improve the ability of Welsh Local Authorities to award to Welsh suppliers by ensuring our own procedure rules are up to date and supportive of this objective. By providing modern and effective means to measure value. By ensuring that we have people with the capacity and capability in place. Understanding what value is and being able to measure it effectively on the basis of the core business proposition, rather than notional 'savings.' Ensuring that audit operates as a force for good; supportive of good practice – it would be helpful if WAO could do provide something on the value associated with local supply – something along the lines of a view on the LGA's TOMS (more on this below) perhaps? All of this is much wider than procurement it is a culture change and thought process that people must believe in, including S151 officers and Public Service Leadership

Complaints about unreasonable rules or strange behaviours in procurement are more often about a shortage of knowledgeable practitioners; than by anything inherent in the rules. One of the perverse symptoms of austerity is the loss of our most experienced staff; many of whom have retired or moved on but not been replaced on a like for like basis. While junior staff can step up and fill some of the need; this needs to be supported by the few senior people remaining and their efforts are by necessity limited helping with to the more pressing local priorities. A lack of investment in skills is not helping. Where influence within an organisation has gone; strategic thinking and challenge needs to come back. For many people, procurement is still labelled 'process' and perhaps considered a necessary evil. It needs to be quite different - about strategy, outcomes and the Future.

Welsh Government's own Better Jobs Closer to Home project sets a good example for what can be done. We can do more of its Preston-like supply chain interventions. To do this we need better data, it needs to be more dynamic and proactive.

*"The trouble is, they give me exactly what I ask for and no more. What I really want is someone to look at the data, see what I need; then tell me what that is."*

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

**Preston** is the name associated with procurement which supports Foundational Economies. This local authority deserves due recognition. The present ambition in Wales is however unprecedented. We can refer to good practice in Preston; but little of it is entirely new. Much of the Preston Model reflects similar activities which have already been undertaken in Wales, for similar reasons, without wider recognition. The present development of a Local Government Sourcing Plan for Wales is for example being undertaken to support both the development of stronger foundational economies and better procurement in Local Government.

**The Local Government Association** supports similar public procurement initiatives in England. We are very interested in what they do and thanks to the LGA's kind

fellowship; actively participate where we can. Examples of this are the Local Government National Procurement Strategy (LGNPS) and the Themes Outcomes and Measures System (TOMS). The LGNPS measures Local Authorities procurement performance against agreed measures. There's nothing new in this, except that the LGNPS measures against the given priorities for each organisation; not a benchmark of 'best.' This better recognises that procurement is there to support the organisation; that what matters is to be very good in its core proposition; the rest only needs to be good enough. The Heads of Procurement network in Local Government is participating in this English initiative on a pilot basis. TOMS is helping English Authorities to measure their performance in relation to the Social Value Act and to improve the evaluation of value in individual tenders. It is true that the Wellbeing of Future Generations Act here is more ambitious; its provisions are broader; they tend to apply also to the pre-procurement and contract management processes which determine what provisions look like and what procurement seeks to do in the first place. There are nevertheless aspects of TOMS which are useful in the Welsh context. Among these is the provision of Social Value Proxies; which provide financial measures for social value. These can be used in tendering to provide a more rounded evaluation of value from the whole local authority perspective. TOMS are adapting all the time. One recent innovation is an enhanced proxy value where jobs are created in specific areas of deprivation; or among members of society for whom work is particularly hard to get.

**Public Banking** can support the development of local supply and the availability of suitable suppliers in Wales. In support of existing resources and as a locally motivated financial alternative. There is a wealth of evidence from Europe, Germany; where public banks support a thriving 'Mittelstand,' middle sized enterprises which form the mainstay of the German economy. WLGA officers have met with Dr Richard Werner of De Montford University; who makes a compelling case for similar initiative here. There is also evidence from the USA. The author and campaigner Ellen Brown visited the UK, including Wales. This led to initiatives from the RSA and the establishment of a Welsh volunteer group which helped form Banc Cambria. This new Banc essentially addresses some immediate concerns around high street bank flight. The wider economic ambitions of a public bank are however at risk of being forgotten in the scrabble for Welsh Government funding and the excitement of establishing the new organisation. There is a commendable tenacity among some of the individuals involved in Banc Cambria; but there is a risk that their voices could be marginalised, and the greater opportunity lost. The relevance to public procurement is in the availability of patient and affordable finance to suppliers in Wales; and the subsequent confidence to invest in the Welsh economy to create the 'missing middle' of medium sized enterprises which form the backbone of the economy in other countries.

**Academic Support** in Wales has been strong; thanks to an innovative academic sector which looks to Welsh Government and Welsh policies in its research. We can look to our own Welsh academic initiatives for answers to our questions around procurement and the economy. The Heads of Procurement Network in Local Government has been particularly interested in the recent procurement related work of the Wales Centre for Public Policy; led by Professors Steve Martin and Kevin Morgan. WLGA officers have also

been involved with the Foundational Economy Network Wales, facilitated by WISERD and led by Professor Karel Williams of Manchester University. Professor Pedro Telles has worked with Local Authorities on opening access to procurement for small businesses; with further initiative scheduled, supported by the Federation of Small Business. We also recognise the work Professor Dermott Cahill at Bangor University has done as lead for the Institute for Competition & Procurement Studies; in Westminster and internationally. Due attention is being paid to the wealth of experience we are able to draw upon; but there is more work to be done; specifically, in developing a Welsh Way and ensuring its effective implementation.

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