

ECONOMY, INFRASTRUCTURE & SKILLS COMMITTEE

WRITTEN EVIDENCE

Public procurement in the foundational economy

Foundational Economy

As set out in the Welsh Government's paper to the Committee meeting of 9 May, the services and products within the foundational economy provide those basic goods and services on which every citizen relies and which keep us safe, sound and civilized. Care and health services, food, housing, energy, construction, tourism and retailers on the high street are all examples of the foundational economy. The industries and firms that are there because people are there. Estimates suggest they account for four in ten jobs and £1 in every three that we spend. In some parts of Wales this basic 'foundational economy' is the economy.

The Economic Action Plan (EAP) has set the direction for a broader and more balanced approach to economic development with a shift towards a focus on place and making communities stronger and more resilient. The EAP places a greater emphasis on tackling inequality and signals a shift to a 'something for something' relationship with business.

Promoting inclusive growth through a new focus on the foundational economy sits alongside the other three pillars of our Economic Contract; supporting business investment that future-proofs the economy through Calls to Action; a regional approach to investing in the skills people need to enter, remain and progress in work; and the infrastructure communities need to be connected and vibrant.

The foundational economy approach offers the chance to reverse the deterioration of employment conditions, reduce the leakage of money from communities and address the environmental cost of extended supply chains.

With join-up across portfolio responsibilities we are driving a greater synergy between the Valleys Taskforce, Better Jobs Closer to Home programmes and maximising the social value of procurement with what may be described as mainstream Government economic interventions.

A Ministerial Advisory Board Task and Finish Group on the Foundational Economy has been established to provide advice to Welsh Ministers on current and future interventions and best practice; support wider engagement with stakeholders in the foundational economy; and promote join-up of relevant government and non-governmental initiatives. The group is comprised of individuals with considerable knowledge, expertise and experience in this area.

We are working across government to develop an integrated enabling plan for the foundational economy sectors identified in the EAP - coalescing government action around common opportunities and challenges.

We want to re-establish Wales at the forefront of realising social value in procurement by nurturing strong local supply chains through the work of the Public Service Boards. The structures created through the Wellbeing of Future Generations Act, provide an unparalleled opportunity to make rapid and significant progress.

Social value procurement

Furthermore, the Fair Work Commission published its Report, *Fair Work Wales* on 3 May. It made 48 recommendations across eight areas for action.

The recommendations included how the Welsh Government might promote fair work through economic incentives – the aforementioned ‘something for something’ approach in respect of public funding; an approach that requires recipients of public money to demonstrate and promote particular characteristics and to deliver on desired social objectives.

The Commission concluded that procurement can be a powerful tool for promoting fair work, but it requires objectives to be well-defined, measurable and reasonable within specific market conditions.

The Commission’s specific recommendations were that:

- Public money should be provided only to organisations fulfilling, or working towards fulfilling its definition and characteristics of fair work (organisations meeting the Fair Work Wales standard);
- Inward investors should be fair work organisations;
- Infrastructure projects and large capital investment projects should be Fair Work Wales projects; and
- The focus and priorities of public sector contracting should shift towards social value, including fair work.

The Welsh Government accepted these recommendations and is actively considering in collaboration with its social partners how they can be adopted and embedded across the public sector.

Furthermore, the First Minister set out his ambitions for social partnership in an oral statement to the Assembly on 9 July 2019. We propose to place a duty on public sector bodies to promote fair work and introduce new requirements around procurement.

We are keen that the legislation should be meaningful and allow us to move this agenda forward. It also needs to be within competence. Ultimately this legislation is part of our goal to deliver a more equal society, with twin goals of supporting a flourishing economy and making sure that against that backdrop we reduce inequality.

Our intention is to publish a consultation paper later this autumn. This will set out our legislative proposals. However, it is clear that delivering this agenda goes much wider than that and we will capture other ways that we plan to drive this agenda forward that do not rely on legislation.

Through the summer we worked with trade unions, business representatives, public bodies and other employers (collectively our social partners) to develop a shared case for change. This, and discussions on legislation will form the foundations for the consultation paper.

New approach

Experimenting

The shift to a foundational approach will be experimental and will require a profound shift in our thinking and doing. There is no exact template we can lift and shift to Welsh communities, though undoubtedly there are lessons we can learn from others.

Our Foundational Economy Challenge Fund is supporting a series of experimental projects that will enable us, with the help of our partners, to test how we can best support the foundational economy and which Government interventions work best. The fund's budget is now over £4m. This includes £1.5m from the Valleys Taskforce budget, specifically ring-fenced for projects in the Valleys Taskforce area.

We have pulled together a group of experts from a range of sectors to drive the agenda forward, and we are marshalling capacity within the Welsh Government by aligning the different programmes already carrying out work in this area, albeit not self-consciously branded as foundational economy activity.

Growing grounded firms

Our aim must be to increase the number of grounded firms (both micro firms, SMEs and co-ops, community interest companies) which are capable of selling outside Wales, but have decision making rooted in our communities. Too often growing Welsh firms are lost to us in a succession of ownership changes. To tackle the phenomenon of entrepreneurs 'cashing out' of their business when they become successful we will use the Development Bank for Wales to incentivise owner-managers to keep ownership within Wales, offering "patient capital" to build sustainable firms in Wales.

Earlier this year the Development Bank of Wales secured funding from the Clwyd Pension Fund for its succession fund, which backs existing management teams of SMEs in Wales to acquire businesses from their owners.

The Welsh Government's support for the foundational sector will emphasise keeping successful firms locally rooted, and building a firm base of medium sized Welsh firms.

Business support has often concentrated on firms that are able to grow quickly and provide relatively large numbers of jobs, but also firms that are relatively volatile and can be quick to fail. We need to move our focus to the harder task of creating sustainable firms that might grow more slowly, but act responsibly within their supply chains and are able to withstand economic shocks.

Spreading and scaling of good practice

The Legislation and structures of the Well-being of Future Generations Act provide the conditions to enable anchor institutions, through Public Service Boards, to collaborate in an area and make an impact at scale.

In his route map for 21st century socialism the First Minister made a commitment to ask each Welsh local authority to identify their local "anchor institutions" and work with them to audit their contracts to increase the value and volume of procurement from regionally-based SMEs.

This approach builds on work pioneered in Wales a decade ago. The Can Do Toolkit was an early initiative in this area to help public sector officers to build community benefits into procurement contracts for social housing. Llanelli-born economist Professor Karel Williams has continued to develop this thinking at the Manchester Business School and has led a

team working with Welsh practitioners on an experimental approach to put these ideas into practice.

In Blaenau Gwent housing associations are collaborating with the local council, third sector and Cardiff University to maximise the impact of £4 million worth of contracts on the local economy. In Bethesda in Gwynedd the focus is on developing a new approach to social care. The early results are promising and suggest a better model of delivery that can be up-scaled and rolled out, enabling more people to be supported for less money.

Progressive Policies

Wales also already has a foundation of progressive public procurement policies which recognise the power of procurement to deliver across the well-being agenda. The Wales Procurement Policy Statement (WPPS) sets out how the Welsh Government expects procurement in Wales to be undertaken and is very much predicated on achieving 'value for money', not just lowest cost.

It contains a number of principles which seek to open up opportunities for smaller suppliers, increase spend with Wales-based firms and ensure maximum socio-economic, environmental and cultural outcomes are achieved through procurement.

We recognise that procurement capability needs addressing in some quarters and this is a priority for us. We have a new Skills and Capability Plan in place to build capability and resilience across the procurement profession in Wales and to address the skills deficit, empower staff and encourage innovation. As well as upskilling existing procurement practitioners (with a focus on ethical procurement), we will also be ensuring non-procurement staff have the necessary commercial skills, future-proofing the procurement profession and raising its status across Wales.

The WPPS is delivering positive impacts for our economy and communities; Wales-based suppliers now win 52% of the annual £6.467bn procurement expenditure (where spend location has been analysed), up from a 2004 baseline of 35%.

We are also pleased to see our drive to increase opportunities for Welsh firms is having a positive effect. Sell2Wales figures show that the number of contract awards through the site that went to Welsh suppliers in 2018-19 has more than tripled since 2014-15, now standing at 84% compared to a baseline of 25%.

Community Benefits is one of our key policy areas for creating jobs and training through procurement - as of end of September 2019, 596 projects worth £2.2bn have retained 83% of contract value in Wales as a combination of revenue to businesses and salaries, while also creating 2,532 job opportunities, 1,241 apprenticeships and 109,603 weeks of training.

We also encourage the wide advertising of all contracts over £25k on Sell2Wales and this is having positive impacts on Wales-based suppliers, who now win 52% of the annual £6.4bn procurement expenditure (where spend location has been analysed) up from 35% in 2004.

It is pleasing, for example, to see positive impacts are being felt in the construction sector where 76% of contracts or frameworks over £750,000 advertised via Sell2Wales have been awarded to Welsh contractors during 2018/19.

Our new procurement approach has also seen a greater focus on delivering collaborative procurement agreements aligned to regional and local priorities. We are delivering a smaller number of national contracts where Wales-wide solutions provide the greatest value for a large proportion of the Welsh public sector.

The National Procurement Service has transitioned to a smaller national contracting operation to manage a reduced portfolio of national contracts, where such agreements can demonstrate delivery of value across a significant majority of Welsh public sector organisations.

Building wealth in communities across Wales

We are committed to increasing local procurement and currently oversee three work-streams dedicated to making this happen.

Our Better Jobs Closer to Home, referred to earlier, has four test pilots underway. The aim of the programme is to use the profile of public procurement expenditure to create meaningful employment, in areas of high deprivation across Wales, starting in the South Wales Valleys.

In undertaking this work, thus far a total 60 new jobs have been created for people who were previously unemployed. Their work ranges from data processing to paper sorting to manufacturing of garments for the public sector. These people are being prepared to obtain skills that will assist them to sustain long term sustainable employment, in various industries.

We are looking to introduce a new commercial concept based on relational procurement. It looks at strengthening supply chains of goods and services that citizens of Wales are dependent on, to remain healthy, and to prosper in Wales. The work is supported heavily by established academics who are experts in this field, namely the aforementioned Professor Karel Williams, and Professor Kevin Morgan and we understand a separate paper has been submitted to the committee on this work.

In addition to this, our Community Wealth Building approach targets Welsh Public Service Boards to increase local spend by anchor institutions, thereby creating local wealth, by appointing local companies to provide goods and services to those anchor institutions.

A local anchor institution is a public sector organisation based within a community, such as a local authority, a hospital, or a college.

The methodology starts with a robust data analysis, which identifies potential interventions which can improve supply chain management and supplier relationship management to deliver the outcomes and benefits:

- improving procurement policies for public sector partners
- assisting with specification writing, and criteria setting to improve local supply in tendering opportunities
- Identifying a supply chain void (where supply come solely from outside of Wales), and creating a new supply, and jobs.
- Improving the way strategically important companies pay their staff, i.e. by paying the living wage (in certain sectors)

- Improving visibility of tendering opportunities to Welsh micro and small to medium companies in Wales
- switching existing supply opportunities lower in the supply chain, closer to the buying organization (from outside of into Wales, or into the buying organisations boundary)
- jobs created by leveraging Welsh Governments influence on procurement spend in Wales
- supply chains being re-structured to include more local suppliers that will benefit the economy
- more robust, uninterrupted supply chains that will offer long term sustainable benefits to the economy, and surety of critical supplies in sectors such as social care and food

We are working very closely with the Welsh Local Government Association (WLGA) and the Welsh NHS. These agreements while let nationally will provide a focus on delivering regional and local well-being through either direct contracting opportunities or supply chain intervention.

The Welsh Government are also providing insights and lessons learnt to help shape the delivery of local and regional approaches with our local authority partners. We have been working closely to help establish a new regional food buying approach across the Local Authority sector.

Our research tells us similar initiatives on community wealth building are taking place elsewhere. A few notable examples are Preston and Manchester in the UK and Barcelona in Spain. However, we in Wales will be the first to adopt such an approach nationwide.

EU procurement framework

We intend to use whatever new flexibilities are derived from leaving the European Union to help Welsh-based companies to compete successfully for contracts.

We must develop resilience in our supply chains where they are negatively affected through leaving the European Union. Where local supply exist but are not winning public sector contracts, the reasons why will be investigated. Our Commercial Innovation Team are specifically looking at this work. They have already delivered a number of contracts and frameworks that support this agenda, such as the Nest - fuel poverty scheme and the Transport for Wales contract – specifically Schedule 13, which measures the uptake and performance of ‘Local Supply’.

They are engaging with public sector buyers to show how their tenders can be written in such a way as to encourage local suppliers to bid. They are liaising with colleagues in the Regional Teams who work with local suppliers to set out what is required to win public sector contracts. Where there is no local supply, we will look into the plausibility of creating supply.

Summary

The foundational economy is the backbone of communities in Wales. It is very early days in implementing this coordinated focus through an economic lens on the products, services and workforce which make up the basic needs of citizens.

The approach the Welsh Government has adopted is experimental and not without risk. However, it offers the potential to inform what works and to scale up good practice. There are intractable economic issues in many parts of Wales where adding a focus on the foundational economy alongside what could be referred to as traditional economic development approach as set out here has the potential to make people's lives better.

We need to make better use of the money that we have to spend and we ally that with being cutting-edge in terms of digital and automation and trying to create new industries.

Rebecca Evans AM
Minister for Finance & Trefnydd

Lee Waters AM
Deputy Minister for Economy & Transport

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