

# Procurement in the Foundational Economy

February 2020



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**Economy, Infrastructure and Skills Committee**  
**National Assembly for Wales**  
**Cardiff Bay**  
**CF99 1NA**

Tel: **0300 200 6565**

Email: **[SeneddEIS@assembly.wales](mailto:SeneddEIS@assembly.wales)**

Twitter: **[@SeneddEIS](https://twitter.com/SeneddEIS)**

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# Procurement in the Foundational Economy

February 2020



# About the Committee

The Committee was established on 28 June 2016. Its remit can be found at: [www.assembly.wales/SeneddEIS](http://www.assembly.wales/SeneddEIS)

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## Committee Chair:



**Russell George AM**  
Welsh Conservatives

## Current Committee membership:



**Mohammad Asghar AM**  
Welsh Conservatives



**Hefin David AM**  
Welsh Labour



**Vikki Howells AM**  
Welsh Labour



**Bethan Sayed AM**  
Plaid Cymru



**Joyce Watson AM**  
Welsh Labour



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## Chair's foreword

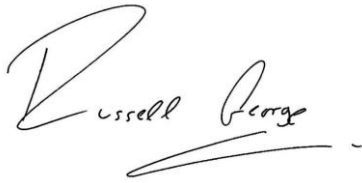
The social housing sector in Wales has seen some success in using public sector procurement to support the local economy and build community wealth, but replicating this success more widely appears difficult. The Welsh Government's approach to supporting the foundational economy aims to go beyond the much-publicised 'Preston Model' of community wealth-building, and experts told us that simply focusing on 'localism' will not work - something more sophisticated is needed. There are three elements to Welsh Government's plans: an experimental approach using the Foundational Economy Challenge Fund; spreading and scaling best practice, including by setting up 'communities of practice'; and growing the number of grounded firms: "the missing middle". The Deputy Minister for Economy and Transport also told us he wants to see Public Services Boards focused more on the 'doing' and less on the 'strategising'.

The barriers to driving social value through public procurement are well known - they include a lack of skills and capacity, difficulty in measuring outcomes and sharing best practice, and a lack of leadership to raise the status of procurement and mainstream the drive for social value within procuring bodies. Some of these problems appear intractable: a 2012 report on procurement policy from the Fourth Assembly's Enterprise and Business Committee highlighted these very same issues. Seven years later, the Deputy Minister told our Committee that the answers 'are not all there yet', and 'the learning is vital'.

A fully-formed strategy and action plan for public procurement is not expected from Welsh Government before Spring 2020, and so this report reflects the stage that work is at. Instead of a raft of recommendations for specific actions, we instead focus on areas where greater clarity is needed, to allow the Committee to properly scrutinise progress and outcomes at a later date. These four areas are: how Welsh Government defines, evaluates and monitors 'local procurement' and where it will focus its efforts; business support and engagement; procurement skills, capability and leadership; and sharing best practice.

I hope that this report serves to highlight the barriers to be addressed before we can be confident that public procurement is being used to maximum effect in Wales. We want to see a picture of public procurement that is no longer

characterised by “leaders and laggards”, and where the existing pockets of good practice have become the norm rather than the exception.

A handwritten signature in black ink, reading "Russell George". The signature is fluid and cursive, with a long horizontal stroke at the end.

Russell George AM

Chair, Economy, Infrastructure and Skills Committee.

## Recommendations

**Recommendation 1.** The Welsh Government should provide further clarity on:

- How it intends to define ‘local procurement’ in the Welsh context;
- What will success look like? Particularly in terms of increasing the level of local procurement;
- The specific sectors that will be the focus of action (including through all the Challenge Fund projects) and the data analysis and decision-making process behind that;
- How it will identify market supply voids and act on that information; and
- The methodology and mechanism(s) that Welsh Government plans to use to measure the outcomes and impact of work in these public procurement sectors, across the Welsh Public Services Boards, and the timeframe and milestones for publishing that information.

.....Page 24

**Recommendation 2.** Welsh Government to provide further clarity on:

- How it will evaluate and monitor the work of Public Services Boards to understand and work with their local supply chains;
- What work is being done (either via the Challenge Fund or within Welsh Government/Business Wales) to address ongoing concerns from smaller businesses that the bidding process is still overly complex?
- How Welsh Government is supporting efforts to deepen understanding of local suppliers and better pre-engagement, support and legacy planning with them - the staffing resources, funding and initiatives in place, and planned, to specifically support this work;
- What more can be done to provide incentives to small businesses working together and to reward collaboration;

- What plans Welsh Government has to engage with private sector anchors on procurement policy as part of its Economic Action Plan activities;
- Welsh Government's engagement with UK Government on long-term planning to transition support from European Regional Development Fund (ERDF) funding, i.e. how Business Wales' procurement-related activity will be funded in future;
- What specific further actions Welsh Government will be taking to support and develop the use of collaborative bids and how does it plan to share the learning from these actions; and
- Further detail on the Better Jobs Closer to Home projects - in order for the Committee to understand the scale, the number of jobs supported, as well as the other outputs and outcomes Welsh Government is seeking to achieve. ....Page 32

**Recommendation 3.** Welsh Government to provide further clarity on:

- How exactly will Welsh Government be promoting the status of procurement as a driver of social value through its work with the Public Services Boards and the Skills and Capability Plan? What criteria will it apply to Public Services Boards' performance in this area, and how will success be measured? Will the Public Services Boards be agreeing common social value principles and criteria and/or a 'statement of intent' for adoption by local anchor institutions, as is the case in Preston? Is the Ministerial Advisory Group giving consideration to these issues and if so how and when will the Committee be kept informed?
- How will Welsh Government address the problem of how risk is managed as part of the public procurement process, including through its Skills and Capability Plan?
- The development of Welsh Government's Skills and Capability Plan: Welsh Government to provide the Committee with more on the underlying data on the state of the procurement sector in different parts of the public sector, the qualification needs, the timescales and

funding for the plan, and what the Plan hopes to achieve (its key outcomes and measures of success). .....Page 38

**Recommendation 4.** For the Committee to scrutinise the effectiveness of the ‘communities of practice’ model in the future, the Welsh Government should provide more clarity on:

- The measures it will be using to evaluate the success of the ‘spreading best practice’ element of its plan for the foundational economy;
- The communications plan for promoting the outcomes from the communities of practice, outlining the key milestones; and
- What it will do differently in order to successfully spread good practice where others have failed to achieve this over the last 20 years of devolution. .... Page 47

## 1. Background

The Committee undertook a short inquiry to examine the role of public procurement in the foundational economy, and the extent to which ‘local procurement’ can create stronger supply chains and build wealth in Welsh communities.

1. The Committee took evidence from procurement professionals and other stakeholders before questioning Welsh Ministers on their approach to a new public procurement strategy for Wales, taking account of the Well-being of Future Generations (Wales) Act. The Committee’s written consultation received 22 written responses<sup>1</sup> and oral evidence was received from procurement specialists in the private and public sector, academics, the local government sector and from Welsh Ministers.

### Terms of Reference

2. The inquiry terms of reference were to:
- assess the current position regarding the proportion of public contracts in Wales that go to Welsh suppliers;
  - understand the extent to which increasing ‘local procurement’ by the public sector could create stronger local supply chains and build wealth in communities across Wales;
  - understand 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);

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<sup>1</sup> [www.senedd.assembly.wales/mgConsultationDisplay.aspx?id=366](http://www.senedd.assembly.wales/mgConsultationDisplay.aspx?id=366)

- understand the ways in which local spend can be increased while working within the EU procurement framework, and whatever arrangements may be in place following Brexit; and
- explore examples of similar initiatives elsewhere in the UK and EU.

## 2. The role of procurement in the foundational economy

**3.** The foundational economy is built from the activities which provide the essential goods and services for everyday life, regardless of the social status of consumers. These include, for example, health, education and welfare services; infrastructure; utilities; food processing; and retailing and distribution.

**4.** Unlike sectors such as manufacturing, for example, where production is concentrated in specific areas, the foundational economy is nationally distributed along with population. It is made up of the industries and firms that are there because people are there. Therefore it is seen as being vital not only in providing the goods and services that people need, but also employment (estimates suggest that, grounded small and medium-sized enterprises (SMEs) and large scale foundational employers account for at least 40 per cent of the Welsh workforce).

**5.** Wales Co-operative Centre also highlight the key role that social enterprises play in the foundational economy and community wealth-building, and that the voluntary sector makes up 8% of Wales' employment. But a recent survey of the social enterprise sector showed that less than half (46%) agreed that there are good opportunities for social businesses through public procurement, although 53% agreed that the opportunities had been increasing in recent years.<sup>2</sup>

**6.** Overall, around 50% of annual public procurement expenditure currently goes to Wales-based suppliers, but the Welsh Government calculates these figures based on postcode data from invoices rather than any more detailed analysis of whether the expenditure remains in the local area.. However,

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<sup>2</sup> Written evidence

according to Community Housing Cymru, in 2017-18 Welsh Housing Association spent an estimated £1.2 billion, 84% of which did remain in Wales.<sup>3</sup> FSB Wales research with the Manchester-based Centre for Local Economic Strategies (CLES) showed that 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.<sup>4</sup>

## Welsh Government actions to boost resilience of the foundational economy

**7.** In May 2019 the Deputy Minister for Economy and Transport, Lee Waters AM, told the Committee that “the commitments we had to an enabling plan for the different foundational sectors as set out in the economic action plan are now going to be an integrated plan for the whole of the foundational economy.”<sup>5</sup> However, when the Deputy Minister gave evidence for this inquiry in October 2019 he was not willing to confirm that this new integrated plan would be published before the end of this 5th Assembly, stating that he wanted to “get it right delivery-wise and work backwards from that”<sup>6</sup> to produce a plan.

**8.** The Welsh Government has set out its intention to:

- use a Challenge Fund<sup>7</sup> to trial different approaches across Wales;
- use public procurement to nurture local supply chains; and
- to increase the number of grounded firms in Wales (especially those that are ‘capable of selling outside Wales but have decision making rooted in our communities’).

**9.** The Challenge Fund offers applicants up to £100,000, with the aim “to reverse the deterioration of employment conditions, stop the leakage of money

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<sup>3</sup> Written evidence, Keith Edwards et al

<sup>4</sup> Written evidence

<sup>5</sup> Para 8, Economy, Infrastructure and Skills Committee, 9 May 2019

<sup>6</sup> Paragraph 241, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>7</sup> Initially announced in February 2019, the fund was doubled to £3m in May 2019, and on 7 October 2019 a further increase to over £4m was announced.

from Wales' communities and reduce the environmental cost of extended supply chains.”<sup>8</sup> On 25 October 2019 Welsh Government announced £2.2m funding of 27 Valleys-based projects to benefit from the Fund<sup>9</sup>, and a further 8 projects in Mid and South West Wales, including to improve local food procurement, were announced on 7 November 2019.<sup>10</sup>

## Going beyond the “Preston Model” of local procurement

**10.** The “Preston Model” refers to how Preston City Council, its anchor institutions and other partners are implementing the principles of community wealth building within Preston and the wider Lancashire area. The initiative is shared across a range of local anchor institutions, including the council, universities and colleges, housing associations and the police.<sup>11</sup>

**11.** This approach has its roots in the US, in particular Cleveland, Ohio,<sup>12</sup> and has gained a lot of traction in recent years. The Preston Model was developed in collaboration with CLES,<sup>13</sup> and Preston City Council is lead partner in the ‘Procure Network’, supported by EU funding through the URBACT III Programme and European Regional Development Programme (ERDF). The Procure Network focuses on supporting eleven cities to shift their procurement behaviours, processes and practices to enable greater benefits for their local economies and in social and environmental terms. Preston Council’s website explains:

“...between 2012/13 and 2016/17 across 6 Preston anchor institutions alone we increased the amount of procurement spend within Preston by £74 million and within the wider Lancashire area by £200 million.

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<sup>8</sup> <https://gov.wales/more-opportunities-more-people-foundational-economy-challenge-fund-almost-trebled>

<sup>9</sup> <https://gov.wales/2-2-million-boost-valleys-foundational-economy-projects>

<sup>10</sup> <https://gov.wales/first-minister-and-deputy-minister-economy-announce-foundational-economy-funding-boost>

<sup>11</sup> [www.preston.gov.uk/article/1335/What-is-Community-Wealth-Building](http://www.preston.gov.uk/article/1335/What-is-Community-Wealth-Building)

<sup>12</sup> <https://community-wealth.org/content/cleveland-model-how-evergreen-cooperatives-are-building-community-wealth>

<sup>13</sup> <https://cles.org.uk/>

That means that over a three year period an additional £539 million was spent by us within the Preston and Lancashire area, which helped to support local businesses and local jobs. All contracts let were on a fully competitive basis and we did not pay any additional premium for buying local.

Measured in terms of the top 300 contracts for each anchor institution, over that period total spend went up within Preston from 5% to 18.2% and within Lancashire from 39% to 79.2%. This was at a time when overall procurement spend reduced by 15% across participating anchor institutions. [..]"

**12.** A report from Preston City Council says the partnership approach taken by anchor institutions drives social value through procurement by developing an in-depth knowledge of the local supplier base, mapping local spend and seeking to influence it to reduce 'leakage' from the local economy. Anchor institutions agreed a 'statement of intent', with the overarching vision of "achieving a 'long term collaborative commitment to community wealth building in Lancashire for influencable spend," and actions including "overhauling procurement documentation and procedures to make opportunities accessible to a broader range of suppliers."<sup>14</sup>

**13.** The Leader of Preston City Council, Councillor Matt Brown, described the impact of the Preston Model to the Committee:

"We're now out of the bottom 20 per cent most deprived local authority areas by rank average, so that's an achievement... We're the most improved city out of 42 cities for increasing growth, so that's things like housing affordability, skills, jobs, equality— indicators like that— but also in terms of people receiving at least a real living wage of £9 an hour or more..."<sup>15</sup>

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<sup>14</sup> [www.preston.gov.uk/media/818/Community-Wealth-Building-through-Anchor-Institutions/pdf/Community-Wealth-Building-through-Anchor-Institutions-01-02-17.pdf?m=636934398536430000](http://www.preston.gov.uk/media/818/Community-Wealth-Building-through-Anchor-Institutions/pdf/Community-Wealth-Building-through-Anchor-Institutions-01-02-17.pdf?m=636934398536430000)

<sup>15</sup> Para 137, Economy, Infrastructure and Skills Committee, 19 June 2019

**14.** He also highlighted its importance for building local economic resilience:

“... if we bring [these ideas] to the scale that we need, they will protect us from a further economic crash, because the evidence base around the German banking system and also the Bank of North Dakota, which is an American publicly owned bank, is that they’re actually lending to local businesses while the taxpayer is bailing out the large banks....”<sup>16</sup>

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<sup>16</sup> Para 138, Economy, Infrastructure and Skills Committee, 19 June 2019

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### 3. Welsh Government's stated ambition for procurement

**15.** The Deputy Minister for Economy and Transport has set out his objective for the Welsh public sector to increase 'local procurement' as part of his drive to 'create stronger local supply chains and build wealth in communities across Wales':

"We want to build wealth within our communities by encouraging local procurement. This means learning from existing good practice such as in Preston, where procurement management and council led 'place based' economic regeneration have strengthened the local supply chain and resulted in key organisations keeping over 70% of spend within the locality.

"This is an absolutely key component of the Foundational Economy this Welsh Government is committed to growing, and it's an approach which must have public bodies at its heart."<sup>17</sup>

**16.** The Wales Centre for Public Policy told the Committee that "local procurement" is "not a panacea", but can be part of a range of measures to bolster the foundational economy.<sup>18</sup> Evidence from FSB Wales supports this view.<sup>19</sup>

**17.** The Deputy Minister has said that he hopes to go further than Preston in terms of increasing the amount of truly 'local' spend. In March 2019 he is quoted as saying:

"So, I would like us to work with the public services boards that have come out of the Future Generations Act, which are local authorities, health boards and local organisations, which already have a structure,

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<sup>17</sup> <https://gov.wales/public-service-boards-key-increasing-local-procurement-lee-waters>

<sup>18</sup> Written evidence

<sup>19</sup> Written evidence

to ask them to do what Preston did, which is to map their contracts and see how many of them they can bring back to the local area.

“However, we want to go beyond what Preston did. They have a postcode approach to procurement, so if £100 is spent in Kwik Fit in Preston, that would be counted as local spend, but that is clearly not the case.

“So I think there is a case for us to develop beyond Preston and regain the Welsh leadership on this. Wales can claim to be founding thinkers on the foundational economy, but we have not been great at the doing.”<sup>20</sup>

**18.** The social housing sector in Wales is seen as having embraced the drive for social value through procurement, in particular through implementing a “Can Do Toolkit”. Steve Cranston of United Welsh Housing Association, which operates across 11 local authorities in South Wales, said that “everything we do is foundational in nature”<sup>21</sup>, and that housing associations and their partners “have an obligation to work together to support well-being locally”.<sup>22</sup> Keith Edwards told the Committee that between 2009 and 2014 it was estimated that “something like 5,130 jobs and training opportunities had been created through applying the Can Do toolkits to contracts.”<sup>23</sup> He noted the benefits in particular in rural areas such as Ceredigion, where offering lots to smaller enterprises had helped to develop the local supply chain and allow smaller suppliers to take a much more active role in delivery.<sup>24</sup> He said the goal is now to extend the reach of that work right across the public sector, including through producing a ‘Can Do Declaration’ and adopting the ‘procurement flip’ of taking “a long-term view of value and challenging the lowest price default position”.<sup>25</sup>

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<sup>20</sup> [www.walesonline.co.uk/business/business-news/amman-valley-having-hands-tiller-15916650](http://www.walesonline.co.uk/business/business-news/amman-valley-having-hands-tiller-15916650)

<sup>21</sup> Paragraph 205, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>22</sup> Paragraph 206, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>23</sup> Paragraph 348, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>24</sup> Paragraph 348, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>25</sup> Written evidence

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## What is ‘local’ procurement and how do we measure the benefits?

**19.** The task of defining ‘local procurement’ and measuring impacts and ‘leakage’ of wealth from local economies is difficult. The Committee’s inquiry explored the scepticism about how increased ‘local procurement’ spend is measured and monitored.

**20.** Professor Karel Williams said that localising supply was a “dubious objective” when “much Welsh economic activity is located along two short corridors (Wrexham/Flint and M4), and capable Welsh firms in tradeable sectors should be capturing non-Welsh demand and exporting goods and services across Offa’s Dyke.”<sup>26</sup> Care and Repair Cymru also provided evidence that not everything must or can be procured locally, and that there were several benefits to its “commissioned nationally delivered locally” model that should not be overlooked when assessing more locally-orientated public procurement in the foundational economy.<sup>27</sup>

**21.** Academic experts and practitioners said that ‘local’ procurement spend is still being measured by counting invoices for business given to ‘local’ suppliers, and that this is inadequate. Professor Williams said it was important not to be “distracted by counting invoices and postcode localism”<sup>28</sup>:

“back in 2013-14, Welsh Government was announcing that they’d increased the percentage of procurement in Wales from 34 per cent to 52 per cent, and it was a huge achievement. When we asked the procurement people, ‘How are you measuring this?’, they said, ‘We are counting the invoices that are Welsh.’ As I understood it, that meant that Kwik Fit in Llanelli counts as local, whereas the share of the value added in the tyre that you capture in buying the tyre from Kwik Fit is fractional. That’s why localisation in itself doesn’t make sense.”

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<sup>26</sup> Written evidence

<sup>27</sup> Written evidence

<sup>28</sup> Paragraph 340, Economy, Infrastructure and Skills Committee, 3 October 2019

**22.** Professor Kevin Morgan explained that more than one approach is needed depending on what is being procured, giving food as one strong example of where a focus on ‘local’ procurement is better than aggregation:

“there’s a distinction...between the supplier and what is being supplied. For example, our work on food often tried to disaggregate the fact that it was a Welsh supplier but the food might not be Welsh. A simple point, but it helps you to get down to what’s really happening in terms of the Welsh economy. In terms of how things should be measured, it’s horses for courses. We have an idea of a spectrum of goods and services. It makes sense to aggregate and think about national procurement or regional procurement for some things— heavy-duty things, big-item issues, construction, transport. Information and communications technology, for example, lends itself to some aggregation, whereas, I would say, food, particularly fresh food, and vulnerable consumers— children, senior citizens, hospital patients— would benefit from having a more localised food system, high in nutritional value, and so on. And that doesn’t lend itself to aggregation in the same way as nuts and bolts and widgets. Food is unique.”<sup>29</sup>

**23.** Keith Edwards said smarter measures are needed, to demonstrate positive outcomes, and allow Welsh Government to understand the impact of its work on the foundational economy:

“in the area that I work in— community benefits— the standard model is the Value Wales community benefit measurement toolkit. I’m not a great fan of it. I think it’s over-complex and, certainly, my colleagues, Richard Macfarlane and Mark Cook, in their written submission pointed out that the Wales Audit Office, when it looked at procurement between 2014 and 2017, showed that it had only been applied, despite it being mandatory, to £310 million-worth of contracts out of a potential £12 billion. So, my view about measurement is, if we need to demonstrate outcomes, I would go back to the future

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<sup>29</sup> Paragraph 384, Economy, Infrastructure and Skills Committee, 3 October 2019

generations Act. There's a framework there where, if we get smart measures, you should be able to, across Government, across departments, clearly understand what the impact of the work we're doing in the foundational economy is."

**24.** The Committee received strong evidence on the importance of getting it right with procurement. The Builders Merchants Federation said "it would not be helpful to the Welsh economy if decisions, jobs and profits continued to be exported to England or elsewhere", and highlighted common criticisms of the procurement process as being "too cumbersome", adopting a 'tick box' approach to involving regional SMEs to participate, and the charge that, although Welsh Government has engaged with suppliers, there is still not a "level playing field".<sup>30</sup> The BMF said that suppliers were still being shut out of the process, and the Welsh Books Council also said that frameworks conducted over shorter periods (2-3 years) could allow new entrants to the market, but where they were subject to extension, of up to 5-6 years the number of bidders to benefit is low.

**25.** The Welsh Books Council pointed to the need for a co-operative system to help independent shops work together in an effort to secure major contracts, noting that many schools purchase books internationally, mainly for convenience rather than price, and that if aggregated this would represent a significant amount of public money: "Procurement has a definitive role in safeguarding the economy - particularly the rural economy - and in sustaining the high street."<sup>31</sup> The Welsh Books Council also noted that Welsh language was not considered in all tenders relating to public bodies, not just in the tender language but in the ability of providers to carry out work bilingually.

**26.** When the Committee asked the Deputy Minister for Economy and Transport about how it was defining local procurement and going beyond the 'postcode' approach, the Deputy Minister conceded that it was a known issue and that "we're figuring that out."<sup>32</sup> Jonathan Hopkins of Welsh Government said that it was using data to inform action and "to be in control of the narrative as to

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<sup>30</sup> Written evidence

<sup>31</sup> Written evidence

<sup>32</sup> Paragraph 174, Economy, Infrastructure and Skills Committee, 23 October 2019

what we're actually buying"<sup>33</sup>but Welsh Government had "not actually come to any conclusions in terms of more sophisticated definitions."<sup>34</sup> An example given to the Committee was using data to identify an opportunity to aggregate existing demand for personal protection equipment (PPE), e.g. for Transport for Wales and CADW, and supporting obtaining a Kevlar licence and establishing a social enterprise. This had created 50 manufacturing jobs in Ebbw Vale to meet an aggregated demand within Wales rather than procuring cheaply from outside Wales. The Committee understands that an experimental approach is being taken, but without a clearly articulated definition of the goal for public procurement, it would like to see some evidence of how a clear strategy and action plan will emerge.

## Evaluation and Monitoring

**27.** The benefits of a collaborative approach to 'local procurement' should not be measured only in terms of financial spend, as procurement practices can bring many different community benefits in addition to increased money spent within the local community, such as skills and capacity-building.

**28.** Applying strong social value criteria to the bidding process is widely recognised as good practice, but it is also important to have a good system for evaluating contractor delivery and performance, for example on whether contractors are actually hitting targets for apprenticeships and training that they have signed up to as part of the bidding and contracting process. John Paxton of Cardiff County Council said that some contractors found the Welsh Government's existing community benefits measurement tool "clunky" and difficult to use, and that it was looking at a more dynamic 'social value portal' being used quite widely in English councils:

"...match that into the future generations or whatever monitoring system you want, and it massively improves the ability not just to track what is delivered, but you've got a record of what was there in the contract to start with, so you're in a much better position to start challenging non-delivery. So, yes, quite an exciting proposition, and I

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<sup>33</sup> Paragraph 176, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>34</sup> Paragraph 172, Economy, Infrastructure and Skills Committee, 23 October 2019

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know Caerphilly are keen on that, and hopefully Welsh Government and future generations and others will be, so we can try and roll the project out across Wales.”<sup>35</sup>

**29.** Evidence from Keith Edwards, Richard Macfarlane and Mark Cook points to the Auditor General for Wales 2017 report on Public Procurement in Wales<sup>36</sup> which showed that delivering community benefits and the requirements of the Well-being of Future Generations (Wales) Act were the 8th and 10th priorities (out of 10) of procurement teams, indicating the scale of the challenge within the public sector as a whole.

### Focus on strategic sectors

**30.** The academics were clear that the key to boosting ‘local procurement’ in Wales was to focus on the opportunities in key strategic sectors, mainly in service areas. This is where it is easier to procure locally and support local suppliers to derive community benefits and build local wealth. Professor Williams’ written evidence identified a number of levers for change. He identified care, construction and potentially food as substantial sectors to achieve “significant change”<sup>37</sup> from the current low level, and also identified the need to review public sector outsourcing contracts in a few key sectors such as food and grounds maintenance.<sup>38</sup> He explained to the Committee that:

“simply localising supply, stopping leakage, makes sense if you have a large national economy, but it doesn’t make a lot of sense if you have a small economy and relatively long supply chains. For example, almost all the manufacturing supply chains in Wales are long distance. So, I

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<sup>35</sup> Paragraph 53, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>36</sup>

<http://senedd.assembly.wales/documents/s67471/Auditor%20General%20for%20Wales%20Report%20-%20October%202017.pdf>

<sup>37</sup> Paragraph 366, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>38</sup> Written evidence

think you've got to concentrate on the areas where there are strategic opportunities, which are mainly service areas."<sup>39</sup>

**31.** Professor Williams saw this as a way that procurement could be used strategically to achieve different, sector-specific social dividends:

"In one sector, it might be paying living wages. In many sectors, it would be building more capable SME firms. It might be reforming the diet that people eat, or whatever, and I think we've got to shift away from simple generics towards a more focused approach."<sup>40</sup>

**32.** Steve Cranston pointed out the "massive opportunity" to produce highly skilled local supply chains in Wales to deliver on decarbonisation targets in housing:

"...If we're looking at how we actually make improvements to our own homes, and the target is pretty tough— it's reducing carbon emissions by 95 per cent by 2050— that's potentially a 30-year pipeline of work on our homes and our communities. If we get that right, then I think we've got a massive opportunity...to really make the foundational economy model work."<sup>41</sup>

**Recommendation 1.** The Welsh Government should provide further clarity on:

- How it intends to define 'local procurement' in the Welsh context;
- What will success look like? Particularly in terms of increasing the level of local procurement;
- The specific sectors that will be the focus of action (including through all the Challenge Fund projects) and the data analysis and decision-making process behind that;

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<sup>39</sup> Paragraph 368, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>40</sup> Paragraph 386, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>41</sup> Paragraph 288, Economy, Infrastructure and Skills Committee, 3 October 2019

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- How it will identify market supply voids and act on that information; and
- The methodology and mechanism(s) that Welsh Government plans to use to measure the outcomes and impact of work in these public procurement sectors, across the Welsh Public Services Boards, and the timeframe and milestones for publishing that information.

## 4. Engagement with the supply chain

**33.** Several witnesses told the Committee that EU rules themselves are not a barrier to local firms engaging in the procurement process. Liz Lucas of Caerphilly County Borough Council (CBC) said the rules were “very, very flexible as they stand” and “the rules do not stop you looking after your local contractors”<sup>42</sup>. Steve Cranston also said current rules do not prevent innovation, but that there are other cultural and capacity barriers<sup>43</sup>. Wales Co-operative Centre said that “the existing legal framework provides scope to support social enterprises and the foundational economy.”<sup>44</sup>

**34.** Evidence from the social housing sector showed the benefits of strong engagement with the local supply chain. Adrian Johnson of Cartrefi Conwy said:

“by working closely with the supply chain, identifying the supply chain, what is out there, you really can make a difference.”<sup>45</sup>

**35.** However, the Civil Engineering Contractors Association (CECA) say that implementation in the public sector generally is “failing to meet the aspirations and expectations of Welsh Government policies and the business community” and “bidding processes are still too complex.”<sup>46</sup> CECA said that the “principle of proportionality”<sup>47</sup> should apply, so that wherever possible work is offered at a scale that can be delivered by local SMEs and the effort needed to bid is proportionate to the scale, value and complexity of work being offered.<sup>48</sup>

### Sustaining Collaboration

**36.** Breaking larger contracts down into smaller lots and encouraging collaborative bidding are seen as ways to help smaller businesses engage in the

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<sup>42</sup> Paragraph 45, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>43</sup> Paragraph 259, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>44</sup> Written evidence

<sup>45</sup> Paragraph 208, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>46</sup> Written evidence

<sup>47</sup> Written evidence

<sup>48</sup> Written evidence

bidding process. Much of the evidence pointed to the importance of collaboration, for example the higher education sector response identified opportunities for broader collaborative procurement.<sup>49</sup> But sustaining collaborative bidding over time is difficult, and this appears to be an intractable issue. Jonathan Hopkins of Welsh Government admitted to the committee “we haven’t cracked it”<sup>50</sup>, but that giving good advance notice to the market was important:

“for a lot of the good, strong public bodies in Wales are already giving notice of a year or 18 months and so forth. We’re looking at three, four or five years. Because for organisations to be able to get together to start working together to get their business plans in place to be able to put these bids together, they need that time to actually be working towards it.”<sup>51</sup>

**37.** The Deputy Minister acknowledged the difficulties for the private sector to work together. He described “knotty problems”<sup>52</sup>, and said it was resource-intensive to generate culture change, but was an area where Government had a role if it wanted to see local economies grow.

**38.** CECA pointed out that “a certain level of maturity is needed to form consortia”<sup>53</sup> and that they can be costly to develop and maintain. CECA said that they also require natural competitors to collaborate on a one-off basis and then return to a more competitive environment often having shared many of their “competitive advantages.” CECA’s view is that it would be better for the public sector procuring organisations to “use the procurement process in a more subtle way to support the growth of these SMEs so that they can progressively bid for higher value projects”<sup>54</sup>, but that this will involve a “cultural shift” by the public

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<sup>49</sup> Written evidence

<sup>50</sup> Paragraph 194, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>51</sup> Paragraph 194, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>52</sup> Paragraph 198, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>53</sup> Written evidence

<sup>54</sup> Written evidence

sector. CECA said it must accept its responsibility to develop local suppliers and increase local prosperity through direct employment and increased social value:

“They need to see the development of local companies as part of the “procurement deal” in the same way that Welsh Government’s “economic contract” is striving for a “deal” between public funders and private companies benefiting from support.”<sup>55</sup>

**39.** FSB Wales acknowledged the work done by Welsh Government to support joint bidding, but was concerned that “the onus of joint bidding is to push the agenda away from the tendering authorities towards suppliers. This is essentially an attempt to build bigger entities that mirror large businesses that the public sector can contract with.”<sup>56</sup> FSB said this addresses the symptoms not the cause of the problem, and the focus should instead be to remove “artificial barriers” to SME participation such as by introducing lots and removing unnecessary requirements around insurance or track record.<sup>57</sup>

**40.** CECA’s written evidence details a package of five measures to support construction SMEs and the foundational economy:

- Reduce reliance on lowest price tendering (which rarely produces good value for money, and tendering should focus instead on the Well-being of Future Generations (Wales) Act goals and five ways of working);
- Reduce the use of open tendering processes (which rather than increasing access becomes a “free for all” and increases bidding costs);
- Adopt a more mature approach to risk management rather than risk aversion (there are risks which suppliers are best placed to manage, risks that procurers can better manage, and some risks that are best shared - often small companies are being required to carry too much risk);

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<sup>55</sup> Written evidence

<sup>56</sup> Written evidence

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- Reduce bureaucracy and excessive bidding costs (the complexity and costs are shutting out smaller local suppliers who underpin the foundational economy); and
- Improve communication and engagement between procurers and suppliers (essential during the early stages of any procurement exercise, as essential for SMEs to understand the cost, risks and chances of success, and avoids the public sector missing an opportunity to help local businesses grow).

**41.** Ian McPherson of procurement consultants MCP2 was clear on the answer to the problem of how to sustain collaboration:

“Pre-market engagement. You’ve got to get out there. There is a perception that the private sector is sitting back waiting for you to come out to it— that ‘I’ve got nothing better to do’.”<sup>58</sup>

**42.** Ian McPherson said that the public sector is commercial with a lot of money to spend, and must have as deep a knowledge of its local supply chains as a private sector organisation does. The Committee questioned how public sector organisations could understand the capacity of suppliers to deliver when the local supply chain could be such a complex and fragmented web. Ian McPherson said this was not an excuse: “the more complex it is, and the more fragmented it is, the more work you have to put in to understand it.”<sup>59</sup> He said those procuring must “understand the market better”<sup>60</sup>, for example in the field of social care where it was a complex local supply chain. Age Cymru presented detailed evidence of its strong concerns about the sustainability of the social care sector in Wales and the ability to procure services required by the Social Services and Well-being Act (Wales) 2014. Age Cymru emphasised the need for procurement policy to take account of the needs of care home residents.<sup>61</sup>

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<sup>58</sup> Paragraph 242, Economy, Infrastructure and Skills Committee, 9 October 2019

<sup>59</sup> Paragraph 240, Economy, Infrastructure and Skills Committee, 9 October 2019

<sup>60</sup> Paragraph 242, Economy, Infrastructure and Skills Committee, 9 October 2019

<sup>61</sup> Written evidence

**43.** Professor Karel Williams also said there needed to be “a responsive supply side”, and there was a need to “connect procurement reform with business support and mentoring.”<sup>62</sup> Liz Lucas of Caerphilly CBC also pointed to cultural issues preventing smaller local firms sustaining their involvement in collaborative work, and told the Committee the answer was “independent business support.”<sup>63</sup> FSB Wales supported this focus on the supply side as much as demand, saying that supply voids must be mapped and firms supported to fill them, and that “the real gains from an economic 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.”<sup>64</sup>

**44.** Wales Co-operative Centre also told the Committee that recent mapping of the social enterprise sector had shown that only around half (51%) of respondents believed they have a good understanding of the public procurement process, and only 42% believe they possess good tendering expertise.<sup>65</sup>

**45.** Liz Lucas of Caerphilly CBC emphasised how important it was to have a forward plan of what would need to be procured, to help local small businesses be ready to bid:

“We don’t need to change the regulations. Then we need to get our supply chain ready. Once they’re ready and able to bid and win the work, we then need people to help and support them through that delivery mechanism, because they work together, but they are failing to develop their businesses. Business knowledge and business sense is limited in some of the small businesses.”

**46.** The WLGA also pointed to the importance of “financial focus and spend focus” to know what was coming down the track and avoid “ad hoc budgeting”

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<sup>62</sup> Paragraph 358, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>63</sup> Paragraph 114, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>64</sup> Written evidence

<sup>65</sup> Written evidence

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which led to large volumes of expenditure at the end of the financial year: “it’s no good and gives no security.”<sup>66</sup>

**47.** Wales Co-operative Centre said that to “help to ensure maximum value for money for public contracts by changing priorities and driving a shift towards embracing social value”, Welsh Government should consider a minimum social value weighting of 20% in public sector contracts.<sup>67</sup> It said that Bristol City Council has successfully adopted this in its Social Value Policy and toolkit. Wales Co-operative Centre also said that social enterprises, in addition to needing training to understand and engage with the procurement process, would welcome training and support about communicating and evidencing their impact, noting that some social entrepreneurs “may not yet have the means to evidence their social value quantitatively, and in any case qualitative evidence will help reveal the full picture.”<sup>68</sup>

**48.** The Committee also explored the danger of local firms becoming over-reliant on public sector clients. The Deputy Minister for Economy and Transport acknowledged it was right to highlight the dangers, and in relation to trying to grow local businesses it was important to not just be “pushing local spend around” rather than growing the economy. When questioned about the related strand of work on growing the ‘missing middle’ of medium-sized firms, the Deputy Minister talked about the tensions between getting firms growing fast to get productivity up, and supporting more slower-growing firms. It was important not to encourage ‘stagnant firms’, but there was a balance to be had:

“So, we improve fair work through the foundational economy and we get more innovation, we harness artificial intelligence within the foundational sectors, but also we then grow that, but we grow it in a sustainable and patient way. And that, I think, is the change in focus. And we need to do both of those things. It’s not either/or. The Welsh economy needs both of those things, but I think we have focused on one more than the other and this is, hopefully, trying to address that.”

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<sup>66</sup> Written evidence

<sup>67</sup> Written evidence

<sup>68</sup> Written evidence

**49.** The Committee also asked those involved with the work of the Public Services Boards about legacy planning by public bodies for when those contracts ended for small businesses. Liz Lucas of Caerphilly CBC said there wasn't the "wraparound care" that businesses needed<sup>69</sup>. The example of the closure of Triumph Furniture was discussed:

"where was the business-to-business intelligence and the working together in the communities of the public sector procurement teams to identify that that business was in trouble, and how could we have reshaped what we were doing to support it, going forward? That's real local procurement."<sup>70</sup>

**50.** FSB Wales also proposed that Welsh Government should broaden its approach to engaging with anchor institutions to include larger private sector anchors, by including supply chain policies in the Economic Action Plan Economic Contracts and Calls to Action.<sup>71</sup>

**51.** It is the Committee's view that Welsh Government should focus on how business support and mentoring activities (e.g. by Business Wales and any successor body) are tied in with the priority areas for public sector procurement. It should concentrate efforts on helping public sector procuring bodies to build and strengthen their pre-engagement activity, and their knowledge of and relationships with local suppliers. Public bodies must act on feedback from business, including the evidence provided to this Committee<sup>72</sup>, about how to simplify the bidding process itself and how best to support local businesses to succeed. The Committee would also like to see more attention given to incentivising small businesses working together and to reward collaboration.

**Recommendation 2.** Welsh Government to provide further clarity on:

- How it will evaluate and monitor the work of Public Services Boards to understand and work with their local supply chains;

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<sup>69</sup> Paragraph 71, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>70</sup> Paragraph 56, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>71</sup> Written evidence

<sup>72</sup> [senedd.assembly.wales/mgConsultationDisplay.aspx?id=366&RPID=1518482525&cp=yes](https://senedd.assembly.wales/mgConsultationDisplay.aspx?id=366&RPID=1518482525&cp=yes)

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- What work is being done (either via the Challenge Fund or within Welsh Government/Business Wales) to address ongoing concerns from smaller businesses that the bidding process is still overly complex?
- How Welsh Government is supporting efforts to deepen understanding of local suppliers and better pre-engagement, support and legacy planning with them - the staffing resources, funding and initiatives in place, and planned, to specifically support this work;
- What more can be done to provide incentives to small businesses working together and to reward collaboration;
- What plans Welsh Government has to engage with private sector anchors on procurement policy as part of its Economic Action Plan activities;
- Welsh Government's engagement with UK Government on long-term planning to transition support from European Regional Development Fund (ERDF) funding, i.e. how Business Wales' procurement-related activity will be funded in future;
- What specific further actions Welsh Government will be taking to support and develop the use of collaborative bids and how does it plan to share the learning from these actions; and
- Further detail on the Better Jobs Closer to Home projects - in order for the Committee to understand the scale, the number of jobs supported, as well as the other outputs and outcomes Welsh Government is seeking to achieve.

## 5. Procurement capability

**52.** A lack of procurement capability - both expertise and capacity - was identified by Kevin Morgan as “the biggest single issue.”<sup>73</sup> He said that Wales suffers from a “chronic skills deficit”.<sup>74</sup> This is not a newly-discovered problem - a report by the Fourth Assembly’s Enterprise and Business Committee in 2012 recommended that a review of Welsh Government procurement at that time should “evaluate the efficacy of existing measures to address the procurement skills gap, build capacity and share existing best practice, including examining the range of accredited professional qualifications available and the extent to which outside expertise and monitoring can help.”<sup>75</sup>

**53.** The Welsh Government’s response<sup>76</sup> to this 2012 recommendation was that it fell within the scope of the review of Welsh procurement being conducted by John McClelland at that time, and that the European Social Fund funded Home-grown Talent project provided a good foundation. ‘Transforming Procurement through Home Grown Talent’ was an £11 million programme which ran between 2010 and 2015, supported by £5.7 million from the European Social Fund Convergence Area Programme. Its purpose was to raise procurement skills and competences across the whole of the Welsh public sector and increase awareness of the value of these skills. The programme was managed by the Welsh Government and included five strands of activity: leadership; training; the Trainee Procurement Executive Programme; funding for e-procurement projects; and, funding for innovation projects.

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<sup>73</sup> Paragraph 355, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>74</sup> Paragraph 353, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>75</sup> [www.assembly.wales/Laid%20Documents/CR-LD8904%20-%20Report%20by%20the%20Enterprise%20and%20Business%20Committee%20on%20influencing%20the%20modernisation%20of%20European%20procurement%20in%20Wales-14.05.2012-233685/cr-ld8904-e-English.pdf](http://www.assembly.wales/Laid%20Documents/CR-LD8904%20-%20Report%20by%20the%20Enterprise%20and%20Business%20Committee%20on%20influencing%20the%20modernisation%20of%20European%20procurement%20in%20Wales-14.05.2012-233685/cr-ld8904-e-English.pdf)

<sup>76</sup> [www.assembly.wales/laid%20documents/cr-ld8984%20-%20welsh%20government%20response%20to%20the%20report%20of%20the%20enterprise%20and%20business%20committee%20influencing%20the%20modernisation%20of%20procurement%20in%20wales-11.07.2012-236355/cr-ld8984-e-english.pdf](http://www.assembly.wales/laid%20documents/cr-ld8984%20-%20welsh%20government%20response%20to%20the%20report%20of%20the%20enterprise%20and%20business%20committee%20influencing%20the%20modernisation%20of%20procurement%20in%20wales-11.07.2012-236355/cr-ld8984-e-english.pdf)

**54.** At that time Welsh Government had 24 trainees on 3 year placements across the public sector covering all aspects of procurement activity, and also said it had funded 57 public sector staff to gain Chartered Institute of Purchasing & Supply (CIPS) membership, of which 12 gained MSC qualifications. It also said that Value Wales officials were already working closely with the construction and social care sectors to better understand how procurement expertise and knowledge could be further developed within those areas. The then Minister for Finance and Leader of the House, Jane Hutt AM, said she had asked Value Wales officials to act on John McClelland's recommendation to "reinstate a full programme of Procurement Fitness Health Checks across Wales. This will provide a clear picture of the level and capability of procurement resource available."

**55.** The WLGA's response to the current inquiry notes that "the sustained period of austerity has seen an erosion in the capacity, knowledge and expertise within Local Government Procurement".<sup>77</sup> Professor Kevin Morgan highlighted the problems generated by the long-standing and persistent lack of skills and capacity in Wales:

"If you go back to the famous McClelland report on procurement in Wales...you'll remember only seven local authorities were deemed, quote, adequate. In other words, 15 local authorities were described as being either weak or very weak in terms of their procurement capability. And this is the frustrating thing for me personally, and for us as a group: we talk a great talk about policy aspiration, delivering the future generations goals, for example, but how can you do that through procurement, which is such an impoverished function, and under-skilled? And when you've got low skills, what you invariably find is that low cost will masquerade as best value. So, there's a disconnect in Wales, and we need to be honest about it."<sup>78</sup>

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<sup>77</sup> Written evidence

<sup>78</sup> Paragraph 462, Economy, Infrastructure and Skills Committee, 3 October 2019

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**56.** Ian McPherson of MCP2 said creating apprenticeships and investing in training to “grow talent” was vital, and there were advantages to developing category experts:

“not only do you need to be a professional in procurement and commercial, it is ideal that you are an expert in a category in which you are managing so that you understand that supply chain.”<sup>79</sup>

**57.** When asked what Welsh Government was doing now to address these entrenched problems of capacity and retention, the Trefnydd and Minister for Finance and Deputy Minister for Economy and Transport pointed to the ‘Better Jobs Closer to Home’ programme, and how it was embedding the procurement goals set out in the Future Generations (Wales) Act. The Minister for Finance and Trefnydd acknowledged that skills, capacity and capability was a “huge issue where we need to make some interventions”<sup>80</sup>, and would be addressed in Welsh Government’s new action plan.

## Approach to managing risk

**58.** Ian McPherson also identified another long-standing problem with how risk is managed in the public sector. He said that both better training, and “more commercially-minded individuals”, were needed to avoid the tendency to be more risk-averse than the private sector in complying with EU procurement rules:

“ The public sector, in its broadest possible sense, is scared of being called to account for failure to comply with legislation. That makes you less flexible and less commercial in your approach. So, what the public sector have a habit of doing is complying with legislation and ending up with the wrong result. But they won’t go to court; they will comply with the rules, but they’ll end up buying the wrong thing very, very smartly.”<sup>81</sup>

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<sup>79</sup> Paragraph 267, Economy, Infrastructure and Skills Committee, 9 October 2019

<sup>80</sup> Paragraph 149, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>81</sup> Paragraph 171, Economy, Infrastructure and Skills Committee, 9 October 2019

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**59.** Professor Karel Williams also alluded to this difference in risk perception as a cultural barrier:

“the smart capitalist firm considers legal advice on how far it can go, what opportunities it can find within a framework of regulation and law, whereas I think, in too many other sectors, people use the framework of regulation and law in procurement as an excuse for not getting involved. Although, of course, that’s also tied in with the under-resourcing of local procurement.”

**60.** Ian McPherson said that the public sector must see itself as a business and recognise that it has a commercial relationship with its suppliers. It must be “commercially astute and cute”,<sup>82</sup> to do things differently within the rules, and while training was important it was “everybody’s responsibility” in the public sector to act more commercially.

**61.** CECA also saw risk management as critical to sustaining collaborative procurement: “...there needs to be a significant cultural change with a focus on managing risks fairly across the public/private interface rather than a risk averse approach which tries to transfer all risks to the private sector and to SMEs who are least able to accept major risks.”<sup>83</sup>

## Status of procurement within contracting authorities

**62.** In addition to the need to build procurement capability, leadership within procuring bodies to raise the status of procurement is vital. Part of the success of the Preston Model lies in the commitment of anchor institutions to sign up to a Statement of Intent and give prominence to procurement as a driver for local economic growth. The Minister for Finance and Trefnydd told the Committee that leadership would be a key theme within its forthcoming action plan, and that there must be ‘buy-in’:

“...the only way that this is going to work and make a difference is if it has complete buy-in and is co-produced by those people who will be

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<sup>82</sup> Paragraph 173, Economy, Infrastructure and Skills Committee, 9 October 2019

<sup>83</sup> Written evidence

operating through that action plan, which is why we're doing that extensive piece of work with partners."<sup>84</sup>

**63.** Evidence from the Public Services Boards (PSBs) echoed the importance of having leadership capacity across the board, not to just be pointing at a small number of procurement officers to deliver, and to be realistic about capacity. Liz Lucas of Caerphilly CBC said:

“we have got a reduced resource, and there are not many organisations like Caerphilly and Cardiff, who sit before you today, that have got the senior people at the top table within those organisations who are able to make the difference and make a point to the budget holders of the differences we need to make. So, we need to be careful. It is patchy across Wales, there's no question about that. It would be patchy within our own organisations, and we need to be realistic. But what we need to be sure of is that this is for all of us to deal with, not just procurement professionals.”

**64.** Ian Evans of Caerphilly CBC noted that theirs was the only Public Services Board that had a specific procurement and commissioning group that worked with PSB members. FSB Wales also made the point that it was crucial for local authority procurement teams to be well connected to their economic development counterparts to maximise benefits from contracts.<sup>85</sup>

**65.** The Equality and Human Rights Commission also told the Committee that its recent monitoring of public bodies' performance against the public procurement specific duty showed that there is “a gap in knowledge and understanding of how and when to effectively build equality into procurement processes,” and the Commission would welcome any recommendations to include improving public authorities understanding of, and ability to comply with the public procurement specific duty, and to use procurement towards the aims of the general duty.<sup>86</sup> Chwarae Teg pointed to how shifts in procurement practice away from cost and towards measures of equality and wellbeing have

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<sup>84</sup> Paragraph 151, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>85</sup> Written evidence

<sup>86</sup> Written evidence

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the potential to accelerate gender equality. There is a gendered aspect to the foundational economy, with many female-dominated sectors, and Chwarae Teg notes the implications for the Welsh economy - “achieving full gender equality could add £13.6 billion.”<sup>87</sup> Chwarae Teg points to a lack of transparency in plans for the foundational economy to date, and wants to see action and effective monitoring. It will be important that the Welsh Government’s action plan demonstrates how it will take account of these equality issues.

**Recommendation 3.** Welsh Government to provide further clarity on:

- How exactly will Welsh Government be promoting the status of procurement as a driver of social value through its work with the Public Services Boards and the Skills and Capability Plan? What criteria will it apply to Public Services Boards’ performance in this area, and how will success be measured? Will the Public Services Boards be agreeing common social value principles and criteria and/or a ‘statement of intent’ for adoption by local anchor institutions, as is the case in Preston? Is the Ministerial Advisory Group giving consideration to these issues and if so how and when will the Committee be kept informed?
- How will Welsh Government address the problem of how risk is managed as part of the public procurement process, including through its Skills and Capability Plan?
- The development of Welsh Government’s Skills and Capability Plan: Welsh Government to provide the Committee with more on the underlying data on the state of the procurement sector in different parts of the public sector, the qualification needs, the timescales and funding for the plan, and what the Plan hopes to achieve (its key outcomes and measures of success).

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<sup>87</sup> Written evidence

## 6. Learning Lessons and (not) sharing best practice

**66.** The strong message from witnesses was that although there are examples of good practice in other parts of the UK, EU and further afield, there is no need to look elsewhere because plenty is happening in Wales. But it is patchy and not being shared. Steve Cranston of United Welsh Housing Association described “pockets of really rich experience”<sup>88</sup>, but Adrian Johnson of Cartrefi Conwy went on to say:

“there’s a lot more we can maybe do to get these pockets of best practice and share them...to make sure that everyone, really, is carrying out this best practice at all times.”<sup>89</sup>

**67.** Cartrefi Conwy’s award-winning ‘Creating Enterprise’ initiative in North Wales is an example of how to recycle profits and create work opportunities locally. Adrian Johnson explained:

“ So we’ve now created our own modular-build factory in north Wales in Holyhead, where we’re creating modular build now, not just for Cartrefi Conwy but for others. We’re on site at Anglesey at the moment, building homes for Anglesey council using local labour, directly employed labour, and also giving a lot of work experience to those furthest from the job market in the town that they’re building in, i.e. Holyhead.”<sup>90</sup>

**68.** Steve Cranston highlighted work going on in Barcelona on public sector support for community renewal and urban regeneration. He also pointed to work in Dundee, Scotland, and the important role that participatory budgeting could play to ensure that what is being delivered is what local people want:

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<sup>88</sup> Paragraph 247, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>89</sup> Paragraph 250, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>90</sup> Paragraph 327, Economy, Infrastructure and Skills Committee, 3 October 2019

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“... if we could get some more examples of participatory budgeting going in Wales, procurement that flows from that would be more effective. It’s what people want, it would be with the support of local residents and communities, and I think we can learn a lot from what’s happening in Scotland. I had a good look at Dundee: £1.5 million every year is now being spent on environmental improvements in Dundee by the local authority, and is directly related to what is important to those residents, and something like 10,000 citizens have voted for those initiatives. Once you’re on that, once you start with those kinds of foundations, I think the procurement is on a very, very firm base.”<sup>91</sup>

**69.** In addition to the Can Do Toolkit example, and the work that witnesses outlined to the Committee in oral evidence, Wales Co-operative Centre also pointed to Cardiff Council’s Socially Responsible Procurement Strategy, and Bristol City Council’s Social Value Policy and Toolkit.

**70.** The failure to share best practice across Wales was summed up by Professor Kevin Morgan:

“I would say you’ve identified another key problem, not just of procurement, but of public sector innovation more generally: the fact that leaders and laggards live cheek by jowl with each other in Wales and one of the key challenges for us, and which we’ve failed to meet in the first 20 years of devolution, is how to spread good practice. We’ve often said from our own work on food procurement, for example, that good practice is a bad traveller, and we need to understand why that is, because unwarranted variability in the public sector is a key challenge for us, and we’ve never really got to grips with it.”<sup>92</sup>

## Achieving the goals of the Future Generations (Wales) Act

**71.** Steve Cranston pointed out that there were already “some very good resources” available on procurement through the Office of the Future Generations Commissioner in Wales and its work on “The Art of the Possible.”

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<sup>91</sup> Paragraph 322, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>92</sup> Paragraph 361, Economy, Infrastructure and Skills Committee, 3 October 2019

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Professor Karel Williams saw the Act as “aspirational” but said that Wales was starting from “a very low level,” and a focus on strategic sectors was the best approach to achieve significant change in those strategic areas. Keith Edwards said

“ I think the Act and the commissioner’s office provide a framework and a means of measuring and making sure that we embed this approach across the whole of public sector procurement.”<sup>93</sup>

**72.** He said that it was important to “work at the issue from both ends at the same time.” Both he and Professor Williams said a “robust framework” was needed to support rollout across Government, but Keith Edwards also welcomed the role of the Challenge Fund to “support practice models.”<sup>94</sup>

**73.** The Future Generations Commissioner’s written evidence to the Committee had stated that “three years since the legislation came into force, the extent to which the Act is informing the procurement process and procurement decisions in Public Bodies is not clear.”<sup>95</sup> In giving oral evidence on the work of the PSBs and the WLGA on procurement, Richard Dooner of the WLGA said it was “ a little bit of a surprise”<sup>96</sup> that its proactive work was not more recognised, given the level of consultation and direct engagement between the Commissioner’s staff, Heads of Procurement and the WLGA. He pointed to the report of the Welsh Local Government Heads of Procurement Network, “The Future of Local Government Collaborative Procurement in Wales”. Liz Lucas of Caerphilly CBC expressed how “frustrating” it could be that good work on procurement was not always recognised, and John Paxton also pointed to what Cardiff Council was doing:

“I know we’ve obviously embedded the Well-being of Future Generations (Wales) Act 2015 into our procurement strategy, into our socially responsible procurement policy, it’s at the heart of what we do. We’re a strong advocate of the living wage, fair work practices. We’re

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<sup>93</sup> Paragraph 365, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>94</sup> Paragraph 343, Economy, Infrastructure and Skills Committee, 3 October 2019

<sup>95</sup> Written evidence

<sup>96</sup> Paragraph 14, Economy, Infrastructure and Skills Committee, 17 October 2019

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proud to be a living wage employer; we've played a key role in driving the increase in the number of living wage employers in Cardiff up to approaching 100. We've just put an application in to be recognised as a living wage city— the second in the UK, the first capital city. We've been quite ambitious; we've got modern slavery statements. So, our focus has largely been on the fair work agenda, and I think— you know, we've done a lot."

**74.** In discussing Professor Kevin Morgan's views about 'leaders and laggards' and patchiness across Wales, Richard Dooner emphasised the level of under-resourcing against the scale of the task. He said some authorities were more able to do it than others, and that the procurement community was "depleted":

"you need bodies on the ground - you need people not to write reports on how it should be done, although those are important in their own way, but what you actually need is people within those operational units able to carry out those functions of doing things a different way."<sup>97</sup>

**75.** When asked how the goals of the Act were being embedded, the Minister for Finance and Trefnydd pointed to a supply chain analytics and intervention programme, saying that it was giving a better insight into procurement activity and "to what extent and how it is helping to drive forward the Well-being of Future Generations Act."<sup>98</sup> The Minister for Finance and Trefnydd went on to describe benefits of the Better Jobs Closer to Home programme, which was:

"...driving sustainable growth in areas of market failure, delivering the circular economy principles in all pilots, reducing embedded carbon in products that are manufactured by manufacturing them closer to home and reusing materials that would otherwise be waste."

**76.** The Committee also received evidence on some of the sustainability measures that could be considered within 'local procurement'. The Welsh Books Council said that more sustainability marks should be awarded to indigenous

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<sup>97</sup> Paragraph 24, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>98</sup> Paragraph 112, Economy, Infrastructure and Skills Committee, 23 October 2019

Welsh companies because the cost of transport is lower and because the expenditure undertaken by these companies sustains the sector locally.<sup>99</sup> The Building Merchants Federation believes that ‘green miles’ and the distance materials have to travel to satisfy orders should be an important element of any contract, thus helping to reduce emissions and congestion.<sup>100</sup>

**77.** Evidence from PLANED highlighted the importance of a place-based procurement policy and a “supportive public procurement framework” that supports the needs of rural communities and actions they are taking to address the challenges they face, such as community land ownership and supporting local cooperatives and community-led service delivery. PLANED also said that food procurement by the public sector can support the strategic development of the food sector in Wales, and keeping supply chains short keeps economic benefits within communities.<sup>101</sup>

**78.** The Deputy Minister for Economy and Transport said that he wanted to see the Public Services Boards (PSBs) delivering on the principles of the Act, but when asked if they all understood what they needed to achieve from a strategic point of view, he admitted it was “a mixed picture”<sup>102</sup> and some were ahead of others. The Deputy Minister said Welsh Government was looking at how to implement the recommendation from CLES to work “intensively with around eight public services boards in the first year to take this work forward.”<sup>103</sup>

**79.** When pressed on how it would support the PSBs where performance was weaker the Deputy Minister noted that the need for delivery to be “bottom-up” driven by the PSBs themselves made this a difficult problem to tackle, with some PSBs more enthusiastic than others. But he noted that Welsh Government would look at the issues around skills and capacity in this regard. Wales Co-operative Centre told the Committee that public bodies should regard Welsh

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<sup>99</sup> Written evidence

<sup>100</sup> Written evidence

<sup>101</sup> Written evidence

<sup>102</sup> Paragraph 119, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>103</sup> Paragraph 119, Economy, Infrastructure and Skills Committee, 23 October 2019

Government's proposals as "a bare minimum" and explore more ambitious approaches to social value procurement.<sup>104</sup>

**80.** Although improvements are being driven through legislative provisions in Wales including Section 20 of the Well-being of Future Generations (Wales) Act, and Keith Edwards also identified opportunities through Section 16 of the Social Services and Well-being (Wales) Act 2014, FSB Wales did note "a lack of statutory underpinning" to mandate public bodies to conform to best practice. It said lessons could be learnt from Scotland's legislative approach through the Procurement Reform (Scotland) Act 2014, with which FSB Scotland was involved.<sup>105</sup>

**81.** FSB Wales also said that the work done by CLES in Manchester on practical procurement reforms, such as having a clear intent, a detailed spend analysis and developing relationships with suppliers, although less celebrated than the Preston example were actually of more interest.<sup>106</sup>

**82.** The Minister for Finance and Trefnydd said that, although Welsh Government is adopting a place-based approach, and there would be different outcomes in different areas, the 'deep-dive' data analysis would be something that would support a common approach across all PSBs but would help identify the gaps and opportunities.<sup>107</sup>

**83.** Wales Co-operative Centre specifically highlighted the place-based approach as supporting this agenda, particularly for Valleys communities. It suggested 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". It also said that the Bevan Foundation's recommendation to create 'Anchor Towns', as set out in its report on the Valleys Task Force: "Prosperous Valleys, Resilient Communities,"<sup>108</sup> should be considered.

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<sup>104</sup> Written evidence

<sup>105</sup> Written evidence

<sup>106</sup> Written evidence.

<sup>107</sup> Paragraph 122, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>108</sup> [www.bevanfoundation.org/publications/prosperous-valleys-resilient-communities/](http://www.bevanfoundation.org/publications/prosperous-valleys-resilient-communities/)

## Monitoring and Use of Data

**84.** There was a recognition that even where public sector bodies are collecting, reporting and monitoring data, there needs to be a more sophisticated approach and greater analysis. John Paxton of Cardiff Council said that Cardiff's data was broken down to SME and third sector but the evidence from Professors Morgan and Williams indicated the need to break it down further to identify how 'local' suppliers were, and also to look at "which sectors add most value to the local economy"<sup>109</sup> in order to develop strategies to address any potential weaknesses. In terms of sharing data and identifying gaps, Liz Lucas of Caerphilly CBC said:

"We don't need separate e-procurement systems; we can all feed into one portal so that we can use our data in a different way. We don't analyse and share our data across Wales. We've got a big issue with supply voids. We don't understand where the supply voids are within Wales. There was a lot of work done on it previously, and it never really achieved anything. We need to get back and revisit that."<sup>110</sup>

## Other procurement arrangements and impact of Brexit

**85.** The inquiry terms of reference invited views on ways to increase local procurement within the existing EU procurement framework, "and whatever arrangements may be in place following Brexit". The BMF noted the potential to allow a return to a 'Made in Wales' presumption because EU state aid rules would not apply after a 'No-Deal Brexit'.<sup>111</sup> PLANED also called for a "wholesale review of the current EU based procurement framework Post-Brexit, "to develop and implement a UK/Wales based bespoke framework" with new elements that "should better promote the local proximity principle, and a greater flexibility and autonomy at a local level..."<sup>112</sup> Evidence from academics did point out that the existing framework is likely to continue in UK law for some while and may be

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<sup>109</sup> Paragraph 74, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>110</sup> Paragraph 77, Economy, Infrastructure and Skills Committee, 17 October 2019

<sup>111</sup> Written evidence

<sup>112</sup> Written evidence

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part of any long-term trade agreement, not least because “if British firms will want access to EU markets then reciprocal arrangements will have to be provided.”<sup>113</sup>

**86.** The Specialist Engineering Contractors’ (SEC) Group Wales /Cymru suggested public sector procurers trial ‘alliancing’, where firms work closely together ‘as if they were one organisation’ to devise a cost plan, and points to ‘Insurance-Backed Alliancing’ being used in the West Midlands to achieve cost savings whilst using a majority of locally-based SMEs.<sup>114</sup>

## Communities of Practice

**87.** The Deputy Minister for Economy and Transport outlined some of the work that would be supported by the Foundational Economy Challenge Fund. Early examples included supporting Swansea council to help small construction firms bid for local authority contracts; a private sector gas and oil project to provide work experience placements for young people, targeting individuals at risk of falling out of the education system into unemployment; and supporting Circular Economy Wales for a system allowing businesses to trade with each other without using cash, to keep money within the local economy. At the time Ministers gave evidence, a further tranche of funding, including for a number of projects specific to the Valleys Task Force, was yet to be announced. The Deputy Minister noted the important aspect of the Fund was not to just support a series of 50 different pilots, but with the experimental approach “it’s the learning from this that is really important”:

“So, we’re setting up communities of practice to get the people doing these projects to work together, to share their experiences. And failure is okay, as long as we learn from failure, because we are trying things that haven’t been tried at scale before. So, we’re going to be seeing how that goes.”<sup>115</sup>

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<sup>113</sup> Written evidence - Richard MacFarlane et al

<sup>114</sup> Written evidence

<sup>115</sup> Paragraph 136, Economy, Infrastructure and Skills Committee, 23 October 2019

**88.** The Deputy Minister acknowledged the risk attached to the experimental approach, saying that both positive and negative learning was expected to come from it. He identified the challenge for the procurement aspect of the work as being how to scale up the good practice quickly: “we need to find a way to be able to scale them at pace so that they can be spread around Wales.”<sup>116</sup> The setting up of communities of practice at the start of the projects was seen as the mechanism to “inform future policy work and the scaling up as well.”<sup>117</sup>

**Recommendation 4.** For the Committee to scrutinise the effectiveness of the ‘communities of practice’ model in the future, the Welsh Government should provide more clarity on:

- the measures it will be using to evaluate the success of the ‘spreading best practice’ element of its plan for the foundational economy;
- The communications plan for promoting the outcomes from the communities of practice, outlining the key milestones; and
- What it will do differently in order to successfully spread good practice where others have failed to achieve this over the last 20 years of devolution.

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<sup>116</sup> Paragraph 137, Economy, Infrastructure and Skills Committee, 23 October 2019

<sup>117</sup> Paragraph 146, Economy, Infrastructure and Skills Committee, 23 October 2019

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## Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the Committee's website.

Date	Name and Organisation
19 June 2019	<b>Cllr Matt Brown,</b> Preston City Council
3 October 2019	<b>Steve Cranston,</b> United Welsh <b>Adrian Johnson,</b> Cartrefi Conwy <b>Professor Kevin Morgan</b> Cardiff University <b>Professor Karel Williams</b> Manchester Business School <b>Keith Edwards</b> Independent Consultant
9 October 2019	<b>Ian A McPherson,</b> MCP2
17 October 2019	<b>Liz Lucas,</b> Caerphilly County Borough Council <b>Ian Evans,</b> Caerphilly County Borough Council <b>John Paxton,</b> Cardiff Council <b>Richard Dooner,</b> Welsh Local Government Association
23 October 2019	<b>Rebecca Evans AM,</b> Minister for Finance and Trefnydd <b>Lee Waters AM,</b> Deputy Minister for Economy and Transport

	<p><b>Marcella Maxwell,</b> Welsh Government</p> <p><b>Jonathan Hopkins,</b> Welsh Government</p>
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## Annex B: List of written evidence

The following people and organisations provided written evidence to the Committee. All consultation responses and additional written information can be viewed on the Committee's website.

Reference	Organisation
<b>01</b>	Welsh Local Government Association
<b>01a</b>	Welsh Local Government Association
<b>02</b>	Care and Repair Cymru
<b>03</b>	PLANED
<b>04</b>	Builders Merchants Federation
<b>05</b>	Professor Karel Williams
<b>06</b>	SEC Group Wales
<b>07</b>	Wales Centre for Public Policy
<b>08</b>	LLIW Building Supplies
<b>09</b>	CECA
<b>09a</b>	CECA
<b>09b</b>	CECA
<b>10</b>	HE Sector
<b>11</b>	Equality and Human Rights Commission
<b>12</b>	Wales Co-operative Centre
<b>13</b>	FSB Wales
<b>14</b>	Age Cymru
<b>15</b>	Chwarae Teg
<b>16</b>	Keith Edwards
<b>16a</b>	Can Do Toolkits - Annex
<b>17</b>	Richard MacFarlane and Mark Cook
<b>18</b>	Welsh Books Council (Welsh only)

<b>19</b>	Bevan Foundation
<b>20</b>	TUC Wales
<b>21</b>	NHS Wales Shared Services Partnership
<b>22</b>	Natural Resources Wales