

# Agenda – Economy, Infrastructure and Skills Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 3 October 2019

Meeting time: 09.40

For further information contact:

Robert Donovan

Committee Clerk

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## Private pre-meeting

(09.40–09.45)

## 1 Introductions, apologies, substitutions and declarations of interest

## 2 Paper(s) to note

### 2.1 Letter from the Minister for Housing and Local Government re National Infrastructure Commissioner for Wales

(Pages 1 – 3)

Attached Documents:

EIS(5)–24–19(P1) Letter from the Minister for Housing and Local Government to the Chair

### 2.2 Letter from the Minister for Economy and Transport re new Chair of Cardiff International Airport Ltd (CIAL)

(Page 4)

Attached Documents:

EIS(5)–24–19(P2) Letter from the Minister for Economy & Transport



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

### **3 Annual report scrutiny with Development Bank of Wales**

(09.45–10.45)

(Pages 5 – 13)

Gareth Bullock, Chair of Development Bank of Wales Board

Giles Thorley, Chief Executive

David Staziker, Chief Financial Officer

Rhian Elston, Investment Director

Attached Documents:

EIS(5)–24–19(P3) Research Briefing

**Break**

(10.45–11.00)

### **4 Public Procurement in the Foundational Economy – Housing Associations**

(11.00–12.00)

(Pages 14 – 27)

Adrian Johnson – Cartrefi Conwy

Steve Cranston – United Welsh

Attached Documents:

EIS(5)–24–19(P4) Research Briefing

### **5 Public Procurement in the Foundational Economy – Academics**

(12.15–13.15)

(Pages 28 – 41)

Professor Kevin Morgan – Professor of Governance & Development

School of Geography & Planning, Cardiff University

Professor Karel Williams – Professor of Accounting and Political Economy

Alliance, Manchester Business School

Keith Edwards – Independent Consultant

**Attached Documents:**

EIS(5)–24–19(P5) Evidence from Keith Edwards

EIS(5)24–19(P6) Evidence Can do tool kits

EIS(5)–24–19(P7) Evidence from Professor Karel Williams and Professor Kevin Morgan

**Private de–brief**

(13.15–13.30)

Ein cyf/Our ref - MA - P/JJ/3219/19

Mr Russell George AM  
Chair, Economy, Infrastructure and Skills Committee

SeneddEIS@assembly.wales

16 September 2019

Dear Russell

Thank you for your letter of 14 August. I'm grateful for both your interest in the commission and your views. Of course, I am sorry to hear that you have concerns about the commission.

### **Strategic direction and progress**

I understand your frustration if you were expecting a scoping paper within 3 months and have been disappointed. I'm conscious that the Chair had not been appointed when he appeared before you in June 2018. I cannot speak for the Chair but I wonder how thoroughly he had been able to plan at that time.

From my discussions with the Chair, I have always expected the first output of the commission to be an Annual Report in November. I think a year is a reasonable period for a new commission with a wide remit to produce its first report. Like you, I eagerly await publication in November.

As for further outputs, I have been led to expect that the commission will produce papers on particular topics in advance of a state of the nation report around Nov 2021. That would be in keeping with your committee's recommendation. I will ask for confirmation of that date.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

## **Transparency and public accessibility**

I recognise, as does the Chair, that transparency and public accessibility are vital to the successful operation of the commission. The Chair and commissioners have been actively engaging stakeholders and will continue to do so. The Chair and I also recognise that a good website is an important source of information for the public. I understand the commission had begun to make plans to improve its web content even before your hearing with the Chair on 11 July. I fully accept that the commission should provide more information through its website. I will ensure that the documents you suggest are published as soon as possible.

It is Welsh Government policy for advisory panels, such as the commission, to use the Welsh Government website for their online communications. As an example, the Commission on Justice in Wales has taken the same approach. This brings a significant cost saving to the public purse and I do not believe it compromises the independence of the commission.

## **Resources**

It is Welsh Government policy for advisory panels, such as the commission, to be supported by Welsh Government officials. Again, the Commission on Justice in Wales is resourced in the same way. All Welsh Government civil servants are bound by the requirements of the Welsh Government Civil Service Code to carry out their duties with objectivity, honesty, integrity and impartiality and, particularly, political impartiality, in whatever role they undertake. As a result, I have no concerns about the independence of officials supporting the commission or their managers. Welsh Government HR policies and processes apply to all civil servants and provide a means for officials to raise concerns if the need arises.

I agree that the commission must be adequately resourced. There have been delays in recruiting staff for the commission as a result of Brexit preparations and internal Welsh Government reorganisation but progress has now been made.

I also agree that the commission will require greater research capability to undertake its work programme. The commission needed some time to reflect on the nature of its requirements before resources could be provided. Now that the commission has had that opportunity I expect to reach agreement with the Chair about an appropriate level of resources.

## **Next Steps**

Thank you for reminding me that the committee previously recommended expanding the commission's remit to include the supply of land for strategically significant housing developments. Since you made that recommendation we have decided to establish a Public Sector Land Division within Welsh Government. This will help deliver the First Minister's clear objective to prioritise land assembly for public purpose to help meet housing demand and deliver wider government priorities. We are looking to develop a new approach where we are seeking to utilise public assets to deliver a wider range of public benefits encompassing activities right across our programme for government.

I do think the commission can make a contribution to the housing sector and I intend to expand its remit to include the following:

- the provision of strategic infrastructure necessary to support housing delivery;
- new methods of housing construction; and
- new models of financing and delivering homes.

We will review the scope and remit of the commission before the National Assembly election in 2021. I think that will be the appropriate time to consider whether or not the commission should be instituted on a statutory basis.

I have no doubt that the commission is taking seriously its responsibilities with regard to the Well-being of Future Generations Act. Long-term thinking, integration, involvement, collaboration and prevention will be vital to successful infrastructure planning.

I shall soon be advertising the role of Chair and my officials will be in touch to arrange a pre-appointment hearing for my preferred candidate. I look forward to receiving your thoughts.

This is an important commission with a challenging remit. I'm disappointed that the commission does not yet have your confidence but I am grateful to you for raising your concerns. I accept there have been teething problems but I am confident these can be overcome if we work together.

Yours sincerely



**Julie James AC/AM**

Y Gweinidog Tai a Llywodraeth Leol  
Minister for Housing and Local Government

# Agenda Item 2.2

Ken Skates AC/AM  
Gweinidog yr Economi a Thrafnidiaeth  
Minister for Economy and Transport



Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref: MA-P-KS-3370-19

Russell George AM  
Chair  
Economy, Infrastructure and Skills Committee

20 September 2019

Dear Russell,

I would like to update you on the search to find a new Chair of Cardiff International Airport Ltd (CIAL).

Existing Chair, Roger Lewis, is due to step down in October when his 4 year tenure comes to an end. In preparation, earlier this year, CIAL undertook an open, competitive recruitment process to secure Roger's successor for the next 4 years.

I am delighted to confirm that CIAL's preferred candidate has accepted the post. However due to their existing contractual arrangements, the candidate is unable to take up the role until June 2020. We are therefore unable to confirm the name of Roger's replacement for the moment.

In light of these circumstances I am very grateful to Roger who has kindly agreed to remain in post until 31 May 2020 in order to maintain consistency at the airport during the interim period. I have no doubt that Roger will continue to bring his focus and leadership to this important role.

On behalf the Welsh Government I would like to record my gratitude for the great work Roger has done so far with the airport, and will now continue to do until June.

I will write again nearer the time to confirm the name of the new Chair for CIAL.

Kind regards,

**Ken Skates AC/AM**  
Gweinidog yr Economi a Thrafnidiaeth  
Minister for Economy and Transport

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# Agenda Item 3

Document is Restricted



# Agenda Item 4

Document is Restricted

# Agenda Item 5

EIS(5)-24-19(P5) Evidence from Keith Edwards

## The National Assembly Economy, Infrastructure & Skills Committee inquiry into public procurement in the foundational economy

### Introduction

Ten years ago the social housing sector radically changed the way it did procurement by developing the [Can Do Toolkits](#), delivering jobs and training in the community and helping support local supply chains. This meant successfully challenging the conservative procurement orthodoxy at the time that said you couldn't do this without falling foul of European and UK regulations.

Ten years on and Welsh Government is exploring this bolder, more radical approach as a means of addressing chronic problems within many local economies. Lee Waters, Deputy Minister for the Economy and Transport for example, recently made a clear link between the foundational economy and the toolkits stating that the former:

*'... builds on work pioneered in Wales a decade ago. The Can Do Toolkits were an early initiative in this area to help public sector officers build community benefits into procurement'.*

Professor Kevin Morgan of Cardiff University has emphasised the need to learn from the experience given the severity of economic challenges we face:

*'The Can Do Toolkits are a successful example of public sector innovation and we urgently need to learn the lessons of their success'*

This paper submitted by Keith Edwards is based on his and colleagues experiences in extracting social, economic and environmental value from public procurement. Contributors include **Professor Karel Williams**, Can Do Toolkit author **Richard Macfarlane**, Can Do Toolkit legal adviser **Mark Cook**, Chief Executive of Cartrefi Cymru **Adrian Roper**, **Dr Eurgain Powell** from the Office of the Future Generations Commissioner, **Vince Hanly** independent procurement consultant, **Rhian Edwards** of the Wales Co-operative Centre and **Elin Brock** independent community benefits consultant. The responses are based on the questions posed by the Committee.

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

Our understanding is that the around 50% of public contracts go to Welsh suppliers although this will vary. For example, public bodies in South Wales have access to more extensive supply chains when compared to rural authorities where choice is often more limited, and this will affect the overall proportions.

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

Working in some of our most disadvantaged communities, securing local jobs and developing the local economy are key drivers for housing organisations. According to Community Housing Cymru, in 2017/18 Welsh Housing Associations spent an estimated £1.2 billion, 84% of which remained in Wales.

As anchor organisations they are important local employers in their own right and have a strong track record of using investment to deliver social, economic and environmental outcomes for the people and communities they work with. In partnership with their supply chains (including many SMEs and social businesses) they are major contributors to the foundational economy.

If other public investment could be marshalled in the same way there would be huge potential to grow local supply chains, create job opportunities and enhance wealth in disadvantaged communities, as well as more generally. To maximise the potential however a radical approach to procurement is needed. We are currently working with a range of public, third and private sector organisations in developing a *Can Do Declaration* (latest iteration attached separately) that builds on housing's legacy in an up-to-date context. The aim is to extend the reach of this approach to include Public Service Boards, Regional Partnership Boards, local authorities and other public bodies and utilities by for example

- Adopting the 'procurement flip' – taking a long-term view of value and challenging the lowest price default position.
- Co-designing procurement involving the '3 Cs' - clients, contractors and communities – to set objectives, define value, specify community benefits and make processes easy and accessible.
- Moving from competitive procurement to a longer-term relationship based approach.
- Embedding a *Can Do* approach into Well-being plans and Public Service Boards.
- Introducing a consistent framework of incentives and penalties relating to delivering *Can Do* contracts.
- Developing a monitoring framework across Wales so that Welsh Government can record and monitor progress in delivering a *Can Do* approach.

**What is your view of the Welsh Government's intended approach to increasing the amount of 'local procurement' undertaken by the public sector in Wales?**

Based on the experience of the housing sector, the potential is huge and we welcome the new approach. We agree with the Future Generations Commissioner, speaking at the Can Do Toolkit 10<sup>th</sup> anniversary event in July, referring to £60bn the public sector will spend in procuring goods, services and works in the next decade:

*'If this money was being spent to buy things and improve the economic, social, environmental and cultural well-being of people and communities in Wales – imagine what would that mean? Wales has a great opportunity now to think about how and where to spend that money in the interests of future generations':*

There is some frustration at progress in integrating procurement practices within the seven well-being goals of the Future Generations Act and applying the five ways of working although the recently announce inquiry into procurement under section 20 of the Act will help focus attention on this. It follows that the Act should be used as the basis for monitoring impact and outcomes of a new approach to procurement.

Another opportunity to increase local procurement lies within section 16 of the Social Services and Well-being Act which encourages consideration of co-operatives and third sector providers, many of whom will be local and active in the foundational economy, as deliverers of services.

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

The public sector could be encouraged to treat low value spend (up to the value of OJEU thresholds) in a way that will encourage and develop local supply chains. However significant There are many gaps in capability and capacity and companies complain about the bureaucratic processes for tendering and quotations which are often a burden and these need to be simplified.

In terms of client and contractor skills there needs to be significant additional investment including in the procurement function (to embrace modern, more 'challenging' approaches) and to support SMEs and social businesses to join local supply chains and grow.

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

Others are better placed to provide detailed responses, but we are aware, for example, of the efforts and apparent successes of public procurement initiatives by Preston and Bristol city councils

The *Art of the Possible* resources produced by the Future Generations Commissioner are also useful sources of information about innovative approaches to procurement:

<https://futuregenerations.wales/the-art-of-the-possible/>,  
<https://futuregenerations.wales/a-globally-responsible-wales/>,  
<https://futuregenerations.wales/aotp/prosperity/>

# THE CAN DO TOOLKITS

Let's change the way we deliver public investment, forever!

## The time is right

***The [Can Do](#) Toolkits revolutionised the way the housing sector used investment to deliver jobs, training and other benefits for local communities. Ten years on the time is right to adopt this approach across Welsh Government***

Wales faces many economic challenges made worse by the uncertainty around Brexit and the lingering effects of austerity. How should we respond?

According to Lee Waters, Deputy Minister for the Economy, one thing we need to do is look much closer to home than in the past. One of the priorities of the government's new economic strategy is to nurture and grow the *foundational economy* - the industries and firms that are present in every community. When you add it all up this accounts for 40% of Welsh jobs and £1 in every three spent. What's more, as the minister points out *'in some parts of Wales this basic foundational economy is the economy'*.

Housing anticipated this new agenda a decade ago through the i2i [Can Do](#) Toolkits. The toolkits revolutionised the way we did procurement by delivering local jobs and training. This meant challenging the conservative procurement orthodoxy at the time that said you couldn't do this without falling foul of European and UK regulations. They were wrong.

Ten years on and government itself is embracing this bolder, more radical approach using all the levers available locally to address chronic problems. The potential is huge. Future Generations Commissioner Sophie Howe points out that over the next decade, Welsh public services will spend over £60bn in procuring goods, services and works. In her words:

*'If this money was being spent to buy things and improve the economic, social, environmental and cultural well-being of people and communities in Wales – imagine what would that mean? Wales has a great opportunity now to think about how and where to spend that money in the interests of future generations'*

Little surprise therefore that the Commissioner and the Minister are strong supporters of the [Can Do](#) Toolkits and see the potential to embed this approach far wider than housing. As Lee Waters said recently, the foundational economy:

*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 build community benefits into procurement'*

# THE CAN DO TOOLKITS

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Momentum around this agenda continues to build including:

- The National Assembly for Wales Economy, Infrastructure and Skills Committee inquiry into public procurement in the foundational economy announced in July 2019.
- The Future Generations Commissioner announcement of its first section 20 review into sustainable public procurement and how contracts and frameworks are applying the 5 Ways of working and considering the well-being goals announced in June 2019.

The time is right to set the [Can Do](#) approach in a modern context to address the economic challenges and opportunities we face now and will face in an uncertain future.

## A Can Do Declaration

This declaration has been drawn up by leaders and practitioners across Wales. We will engage widely across sectors to make sure we maximise the opportunities investment brings for sustainable economic, social and environmental benefits to communities across Wales. To do this we will:

### 1. Win hearts and minds at the highest level

We will build on the support we already have and get high level buy-in for a pan-Wales [Can Do](#) approach across the Health, Education, Care, Local Government and Housing sectors.

To do this we will:

- Work with Welsh Government and the '3 Cs' - clients, contractors and communities - to agree a definition of social value that can be easily understood and widely adopted.
- Target high level influencers including Public Service Boards (PSBs) and Regional Partnership Boards (RSBs).
- Lobby to make a [Can Do](#) approach mandatory in all public funding and grant programmes over £1 million in value.
- Seek to make it mandatory to identify 'pipeline' opportunities in the public sector at an early stage so that the [Can Do](#) approach can be hardwired in from the outset.
- Develop support and resources for senior influencers based on the i2i model.



# THE CAN DO TOOLKITS

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- Secure high-level support for building [Can Do](#) learning networks across Wales.
- Develop a [Can Do](#) mentoring programme.

## 2. Embrace radical thinking and actions

The original [Can Do](#) Toolkits challenged conservative approaches and revolutionised the way we delivered housing investment. We want to explore radical new ideas including:

- The 'procurement flip' – taking a long-term view of value and challenging the lowest price default position.
- Co-designing procurement involving the '3 Cs' - clients, contractors and communities – to set objectives, define value, specify community benefits and make processes easy and accessible.
- Moving from competitive procurement to a longer-term relationship-based approach.
- Embracing decarbonisation opportunity.
- Broadening the [Can Do](#) reach beyond housing and construction.
- Identifying and supporting networks of '3C' peer champions.
- Developing case studies and 'real stories' that highlight the impact of a [Can Do](#) approach on individuals and families
- Embedding a [Can Do](#) approach into Wellbeing plans and Public Service Boards.
- Working with Academi Wales to embed [Can Do](#) approach into public sector leadership programmes such as Summer Schools.
- Making the scoring of a [Can Do](#) approach a 'business as normal' practice in public procurement.
- Introducing a consistent framework of incentives and penalties relating to delivering [Can Do](#) contracts.
- Developing a monitoring framework across Wales so that Welsh Government can record and monitor progress in delivering a [Can Do](#) approach?

## 3. Develop new tools and resources

We will develop a new series of [Can Do](#) Toolkits:

# THE CAN DO TOOLKITS

Let's change the way we deliver public investment, forever!

**Toolkit 1:** Supporting the public sector to Develop and adopt *Can Do* strategies that delivers social / economic / environmental value and secures whole organisation buy-in including:

- Making a sustainable business case.
- Co-designing a strategy with the '3Cs' – clients, contractors and communities.
- Identifying desired outcomes and milestones.
- Aligning the strategy with lean thinking and asset based community development (ABCD).
- Upskilling professionals involved in commissioning, procurement, finance and internal audit on a *Can Do* approach.
- Building *Can Do* teams.
- Designing sector specific *Can Do* strategies for public spending departments.
- Supporting contractors to embrace and deliver a *Can Do* approach.

**Toolkit 2:** Embedding targeted recruitment and training (TR&T) into commissioning, procurement and delivery including:

- Developing a new range of *Can Do* model clauses and resources adaptable across all public spending departments.
- Setting TR&T objectives, measurement and evaluation.
- Identifying people who could benefit for TR&T and raising awareness of opportunities.
- Building confidence and supporting those returning to work or entering employment for the first time.
- Providing on-going support to people taking part in TR&T activities.
- Adapting collaborative approaches eg through a shared apprenticeships.



# THE CAN DO TOOLKITS

Let's change the way we deliver public investment, forever!

**Toolkit 3:** Building the foundational economy by working with SMEs, social businesses, mutuals and co-ops by:

- Co-designing commissioning and procurement policies and practices with the '3 Cs' - clients, contractors and communities to ensure they are SME, social business, mutual and co-op friendly.
- Setting SMEs, social businesses, mutuals and co-ops participation in supply chain objectives, measurement and evaluation.
- Identifying and planning the opportunities / pipeline for SMEs, social businesses, mutuals and co-ops.
- Identifying and engaging with SMEs, social businesses, mutuals and co-ops before specifications have been finalised.
- Exploring client and collaborative opportunities to support / set up social businesses to become part of supply chains.
- Disaggregating specifications to enable SMEs, social businesses, mutuals and co-ops to compete for work.
- Providing on-going support to SMEs, social businesses, mutuals and co-ops.

## EIS(5)-24-19(P7) Evidence from Professor Karel Williams and Professor Kevin Morgan

### Public procurement in the foundational economy: Submission to EIS Committee

*Q. "To what extent could increasing local procurement by the public sector create stronger supply chains and build wealth in communities across Wales"*

*A. The large potential here can be realised but only if we clearly set the objective of building capable supplier firms and then purposively work both demand and supply side policy levers.*

#### 1 Confusions about localism: how and why public procurement in Wales has promised more than it has delivered

1.1 Adding up totals of Welsh Government (WG) or NHS procurement in millions creates an Impression of unrealised opportunity. But the total is in silos in different organisations, budgets and activities, so large values are difficult to access. The procurement function in local authorities, health boards and housing associations is under-resourced with few trained staff. The public sector typically defaults onto least cost and big contract and only in Welsh housing have Can do Tool kits been widely adopted.

1.2 Post code localism, and measures based on counting supplier invoices, then compound confusion by producing a false sense of achievement. As in Wales 2012-14 when ministers celebrated a 34-52 % rise in public procurement spend within Wales since 2003; and all political parties, big and small business and Wales TUC then asked for more <sup>1</sup>The recurrent problem is that local invoice totals do not separate out procurement from local branches of national chains (eg kitchens from Howdens or vans from the local dealer) which generates little value added and employment or capability

1.3 Localising supply is in any case 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. Local preference by anchors institutions risks creating incapable client firms, where small scale employment depends on local preference within a small area.

1.4 If Wales was a large, relatively closed national economy we might be able to stop purchasing d leakage and get multiplier benefits from circulating demand internally. But stopping demand leakage from a small area (Keynesianism in one town like Swansea or a sub region like Swansea Bay) is a defensive game where first mover advantage could easily turn into a zero sum, competitive game

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<sup>1</sup> <http://hummedia.manchester.ac.uk/institutes/cresc/research/Final%20Cresc-FSB%20Report%20FOR%20RELEASE%20%281%29.pdf> pp 48-50

with adjacent regions; without any guarantee that local demand preference will create or strengthen more capable firms on either side of the local or regional boundary.

## 2 Adding analysis: clarifying objectives, engaging specifics and understanding leverage

2.1 The primary aim should be to use volume public procurement strategically in a few key sectors to build a stock of more capable, secure and grounded Welsh supplier firms; specifically to grow the stock of grounded SMEs and to support the often precarious micro firms who account for one third of Welsh employment. From this point of view, Increased output and employment are not an objective but a consequence of sound purchasing policy.

2.2 From the Blaenau Gwent experiment of three housing associations, building capable suppliers requires a less transactional and more relational approach to procurement through conversation about purchasing requirements, spending plans and supplier needs leading to more mutual understanding, predictability of workflow and building of contractor capabilities.

2.3 The benefit would be a changed ecology of Welsh business i.e. make the relations between firms inside Wales more mutually supportive, creating business networks of partners who remain financially independent (move away from Anglo American transactional relations and more towards Japanese style Keiretsu supplier networks albeit without financial cross holdings).

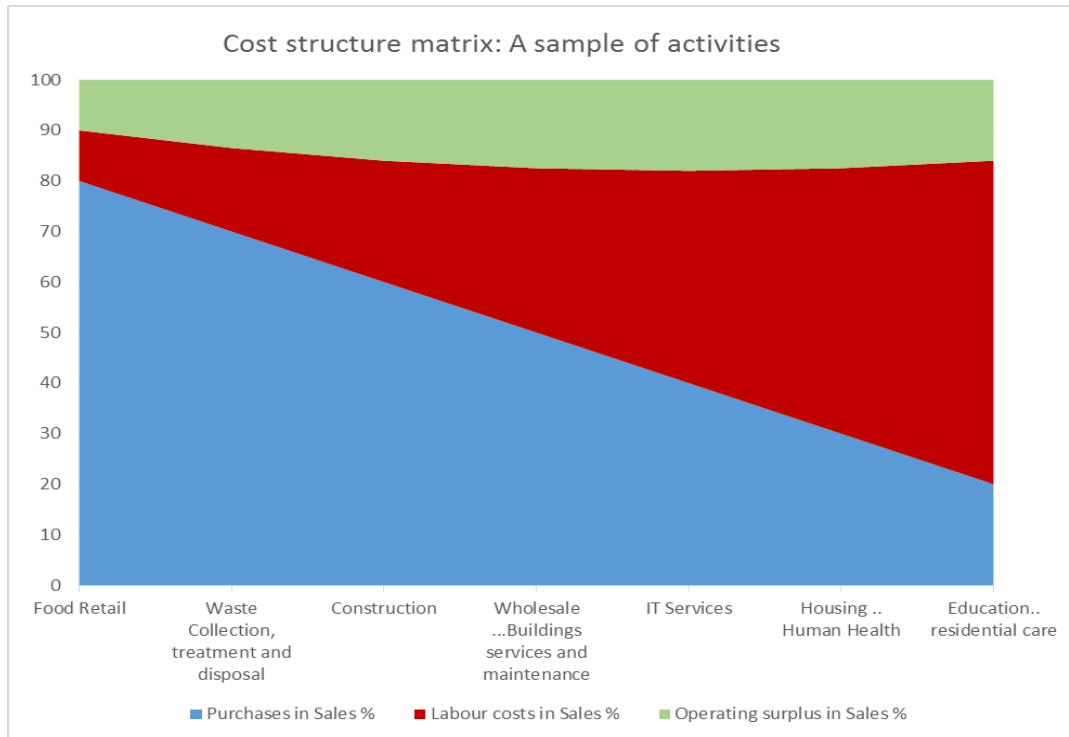
2.4 This is difficult because it involves playing chess in three dimensions:

- a) **Spatial:** purchasing is geography and area based which is especially important given Welsh topography and the differences between South, Mid and North Wales.
- b) **Categories:** purchasing engages with services and product which have very different characteristics e.g. economies of scale and scope in manufacturing vs economies of density in services where spatial proximity is important.
- c) **Organisations:** purchasing is an activity dispersed across different public and private sector organisations with different agendas and autonomy of action.

2.5 Business analysis of (public and private) activity specifics indicate the sectors in the foundational economy at which we could find leverage of different kinds and where we would be wasting effort:

- a) Labour intensive public services (health education + care) link mainly through wages to where their workforce lives and works + their material purchases are long distance e.g. Welsh Hospital and Community Care 2017-18 splits 73% labour costs vs 23% purchases (of which 60% is clinical supplies, generally deemed as non-influenceable). Anchor purchasing by eds and meds therefore offers very limited leverage.
- b) Distribution (retail and wholesale) has a high purchase to sales (P/S) ratio; food distribution has a consistently high P/S ratio of around 80% so that 83% of Castell Hywel Foods £100 million turnover is purchases. This looks like an opportunity but is not easily levered because limited local purchasing reflects the weakness of Welsh branded food and the volume requirements of UK super market chains.
- c) Tourism matters because major tourist attractions bring in visitors + spend (e.g. Zip World at Blaenau Ffestiniog brings in 250,000 visitors a year). Here the neglected issue is how do the tourist feet fall and does money stick for local benefit.

2.6 The chart below shows that as we move from retail towards housing and residential care activities, the leverage arising from purchasing out of total income drops but the leverage via wages and salaries paid to employees increases. Activities on the left hand side of the chart offer a greater prospect of procurement leverage but this all depends upon (a) how it is possible to influence different organisational types to reconsider their procurement /value chain calculations and (b) size of sector because, of course, 75% of a very small sector is not worth much.



**Notes:**

*Industry activities are located on the basis of their collective ratios: purchases in gross output, labour costs share of total gross output and operating surplus as a share of gross output. Gross output is total sales revenue earned by these activities. Purchases are after deducting value added (or value retained from gross income). Labour costs are total employee compensation.*

*Operating surplus is either cash (earnings before interest tax and depreciation) or in the case of public sector enterprises mostly depreciation.*

*Source: Supply and Use Tables, 1997 – 2016 National Income Blue Book, ONS.*

2.7 Sectoral demand and cross sectoral opportunity is then important:

- a) On current spend the priority should be strategic focus and/or demand aggregation in two or three key foundational sectors. Care, construction and potentially food are substantial sectors with care and construction each employing around 6% of the workforce; and here we have enough controllable public and/or not for profit spend to sustain one or more SMEs on a sub-regional basis ( e.g. in NE Wales ie Gwynedd and Mon) .
- b) Public sector outsourcing contracts also need to be reviewed in a few key sectors ( e.g. food, grounds maintenance,) so we identify possibilities of unlocking demand (e.g. Sodexo provides a catering service for more than 4,000 workers at DVLA, where purchases account for 40% of £550 million of turnover because of extensive contractualised outsourcing).

- c) Capital spend also needs scoping, starting here by obtaining 3-5 year spending plans for all the utilities active in Wales (gas, electricity, water, telecoms etc.) + then engaging utilities about contract size etc.
- d) Identifying cross sectoral service opportunities is important because in e.g. health as in blue chip manufacturing, material supply chains lead out of Wales but indirect service requirements can be met locally (e.g. electrical and IT).

### **(3) A strategic approach: how to lever change that builds capability**

3.1 The strategic approach here is to identify a series of actions which act as levers to procurement reform that builds supplier capability. Much (though not all) of this will be at the interface of public sector procurement and SMEs in a few foundational sectors. The levers are analytically distinct but practically must be pulled together so that, for example, reform of public sector demand pull is a necessary but not sufficient condition of reform.

**3.2 Lever: Reform demand pull i.e. work from the purchasing organisation side to raise the standard of average purchasing practice.** Purchasers will never reform practice unless and until it is supported as a strategic procurement function by leaders within their organisations. This is a task for the 20 Welsh PSBs<sup>2</sup> based on the 22 local authority areas, plus the housing associations and the utility bodies such as BT and Dwr Cymru. All these organisations should:

- a) resource the specialist procurement function at organisation level so that change has an internal champion – a strategic procurement officer. Embedded officers with a clear change agenda are likely to deliver more than consultants who support projects.
- b) ensure purchasing organisations have relevant information about their spend data e.g. as recently as 2015, an FSB Wales FOI request showed only 2 Welsh local authorities knew how much they spent with SMES<sup>3</sup>;
- c) ask purchasing organisations to publish 3-5 year pipelines for current and future capital programmes; e.g. housing association maintenance + utility company capital spending plans are important for the construction sector.
- remove obstacles to bidding by smaller firms and by SMEs without strong balance sheets; e.g. shared preferred supplier lists, divide contracts + on larger contracts recognise that financial penalty clauses narrow the field of bidders.

**3.3 Lever 2: Identify and mentor SME and micro firms with ambition i.e. do not take supply side push for granted:** Only a subset of supplier firms have ambition and that does not automatically translate into capability. Supply side improvement is culpably neglected in most of the purchasing reform literature:

- a) Find out what matters to supplier firms. Identify a subset of 6-10 interesting £10-20 million turnover SMES and interview 2 senior managers in each to see why they do not do more business with public sector and feed back to purchasing organisations.
- b) Provide capability support with SME contracts. Add free checks of productive, market and financial capability followed by mentoring for SMEs likely to hold a stream of contracts as preferred suppliers.

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<sup>2</sup> PSB's create a new base for action in 19 local authorities where they bring together LA, Health Board, Fire and Rescue + Natural Resources Wales. 8 are scheduled to be involved in CLES experiment

<sup>3</sup><https://www.walesonline.co.uk/business/business-opinion/local-councils-should-act-now-9074525>

- c) Pay micro firm principals (and e.g. their partners who do the books at home) to spend a day on practical running a small business training e.g. dealing with customers, charging overhead, digital book-keeping etc. Ask FE colleges across Wales to develop a national course which can be given at many different sites like the Pop Up Business School operation
- d) Anticipate the problem of succession in family owned firms like Castell Howell foods, with £100 million turnover and highly attractive as a bolt on acquisition. So it does not go the way of the Gwynedd laundry firm Afon Wen which went to the Johnson Group in 2016<sup>4</sup>.

**3.4 Lever: Tap regional (North, South and Mid Wales ) opportunities for aggregating public and not for profit demand to build capable SMEs (for profit and not for profit) with up to £20 million in target sectors.** Put simply, Wales has a few firms like Pendine Park in the Care Sector (£20 million turnover) who have found a way through obstacles; how can we use purchasing to make it easier for the next generation of regional suppliers?

- a) Scope 2 or 3 key sectors like care, construction and maybe public sector Food for existing size of demand across region, typical contract size + criteria, stability of demand, amount locked up in outsourcing contracts etc. Report and set SME friendly targets to build a few regional champions with even handed support of for profit and not for profit firms
- b) Engage purchasers with suppliers in conversation about each side's current requirements, upcoming innovation and future demand for eg care, retro refit, catering supply

**3.5 Lever: At area level tap the cross sectoral opportunities for meeting indirect service requirements locally + creating opportunities for micro firms:** Services (electrical work, grounds maintenance, cafes) are generated and consumed at point of use making them difficult to ship long distances, therefore retained value added can be higher. This is the opportunity for micro/ small business who are more likely to support the process rather than contribute to the finished good (e.g. fitting & maintenance, professional services etc.)

- a) Get public + not for profit + private large employers together (in something like the Swansea large employers group) with brief to see how they can collectively make their services more micro friendly e.g. via shared preferred supplier lists and small labour mainly contracts
- b) Get (a) large employers (e.g. DVLA and Morriston Hospital each employing 3k plus) and (b) major tourist attractions (e.g. Zip World at Blaenau Ffestiniog bringing in 250,000 visitors) to see their role in sustaining micro firms (a) especially on the local high street by taking responsibility for where their employees live and work or (b) through tourist footfall.

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<sup>4</sup> <https://www.bbc.co.uk/news/uk-wales-36169341>

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