

National Assembly for Wales
Public Accounts Committee: Public Procurement
Evidence from Future Generations Commissioner for Wales

I am grateful for this opportunity to submit a response to your inquiry – my focus will be on how the Well-being of Future Generations Act should be the overarching framework for public procurement in Wales so that it can lead to sustainable decisions ensuring that the needs of both current and future generations are being met and the four elements of well-being are improved. It is about ensuring that procurement embeds and delivers the vision of the Wales we want as set out by the well-being goals, helping public bodies discharge their duty and take all reasonable steps to meet their well-being objectives.

As one of the areas for change listed in the statutory guidance procurement should be a key area of focus for public bodies in meeting their obligations under the Well-being of Future Generations Act. I've been in discussions with the Cabinet Secretary about how I can support Welsh Government to consider how procurement activity in Wales can deliver **wider value** and better contribute to social, economic, environmental and cultural well-being of Wales.

We have had very positive engagement with officials in Value Wales and the National Procurement Service (NPS) over the last 12 months and have worked with them on developing a range of pilots to embed the Well-being of Future Generations Act into procurement activity. Through our support we have made it clear that we expect them to **use the Act as a framework** to change their approach to procurement (using the five ways of working and contributing to all seven well-being goals) and as a tool for **challenging business as usual**.

Welsh Government is testing its approach in applying the Well-being of Future Generations Act to public procurement in Wales, through establishing pilots in three work streams:

1. Working with the National Procurement Service to apply the Act to commodities including food and ICT;
2. Assisting five local authorities (Caerphilly, Torfaen, Monmouthshire, Ceredigion and Pembrokeshire) to apply the Act to their procurement activity including a specific category of spend;

3. Work with Natural Resources Wales (NRW) on exploring the links between procurement and their well-being objectives.

Some examples of the work undertaken includes:

To apply the Act to the new **food contracts**, my team worked with the National Procurement Service to explore how the five Ways of Working can help them to maximise the contracts' contribution to the well-being goals. Food procurement objectives were developed which reflect the goals – including:

- Creating lotting and zoning strategies which support the local economy and SME bidding;
- Exploring innovative solutions to reduce carbon use, such as purchasing organic produce.
- Encouraging collaborative tendering to support SME participation.
- Take a holistic approach to sourcing to consider prevention and treatment. Purchase food which is healthy, nutritious and “Good for Health”;
- Targeting better provision for the most vulnerable groups, linking with partners in Health to improve standards in schools and hospitals.
- Reflecting cultural diversity within communities i.e. the need for ethnic foods such as halal and kosher;
- Using whole life costing methodology to mitigate environmental impact;
- Implement requirements of Ethical Employment Code of Conduct and Modern Slavery Act within tenders;
- Purchase products with ethical (environmental & social) certification including fairly traded products e.g. Fairtrade Tea & Coffee.

Many of these ideas could be incorporated into the contracts themselves, while others will be introduced as part of the contract management process.

In terms of outcome – the recent NPS food tenders for fresh and packaged products reflected many of these aspects including Community Benefits, fairly traded products including undertaking a cost-benefit analysis on fairtrade bananas, fuel-efficient transport systems and increasing opportunities for small

local firms/producers and third sector firms. The fresh food (including frozen meats contract) has been let with 80% of the suppliers being Welsh. Both fresh and packaged contracts incorporate a range of KPIs to support the Act and the results of these will be reported over coming months.

A recent NPS Supplier engagement event for the **ICT Framework contract** took a similar approach with support from my team. At an engagement event they asked buyers and suppliers what they could do to contribute to the seven well-being goals and a range of ideas were presented including greater opportunities for business to support activities within local communities, exploring the carbon footprint of their products etc. There are clearly advantages to this type of approach in terms of generating a flow of ideas from the private sector and potential bidders. Over the long term I would hope that this would support upskilling in the private sector in terms of understanding where the opportunities are for them to deliver against the requirements of the Act. Already Government funded organisations are supporting various sectors in this regard, a good example being Constructing Excellence Wales and the work that they are doing with the construction industry around embedding the Act.

With support from my team, Welsh Government are working with five Local Authorities to apply the Act in their procurement processes. The focus of this pilot is likely to be on support through capacity building / training, providing standard clauses for procurement, increasing local suppliers in the supply chain and a focus on packaging/plastics and transportation. Lessons will be shared and the work can be replicated across Wales. The Procurement leads of these authorities are enthusiastic and willing to challenge business as usual. Progress to date has been rather slow, but our next steps will be to explore specific contracts/commodities to focus on, what capacity building is needed to support the required culture change, how to engage the supply chain (through Business Wales, BITC and others) to ensure they are responsive, and explore Wales-wide public sector commitments eg reducing plastics.

From our work to date it is clear that some public sector bodies understand the need for procurement to maximise contribution to the seven well-being goals and are considering how this could be achieved. However applying the five ways of working is a greater challenge; Welsh Government need to demonstrate how they are doing this within procurement and lead by example for the public sector to follow. For example, for each of the above work streams crosscutting links with

other Welsh Government departments have been identified e.g. Business Wales, Waste Strategy, Decarbonisation, Tackling Poverty, to encourage alignment and integration. We have emphasised the need to integrate this work with other work ongoing around setting well-being objectives, assessments and plans (Public Bodies & PSBs) to demonstrate how procurement can support this. However I am unclear how are they considering future trends and long-term challenges/ opportunities in technology to inform decisions being made today? How can procurement support the preventative agenda?

There is an urgent need to clarify what **outcomes** procurement could deliver across the public sector in Wales; this needs to be looked at through the lens of the Well-being of Future Generations Act and I would expect these to be included in the five year Programme for Procurement. Further information on how procurement can follow the five ways of working and contribute to all seven well-being goals is provided in Appendix 1.

Wales Audit office reports

The two reports published recently by the Auditor General for Wales – “Public Procurement in Wales” and “The National Procurement Service” – provide a good foundation on which to build. Welsh Government’s response will be critical and needs to ensure a holistic approach to deliver improvements to procurement in a way that maximises the £6.1bn spend. The work now needs to evolve to look at **all aspects of procurement through a future generations lens** to ensure adequate consideration of the wider benefits and value that procurement could deliver, rather than a narrow focus on efficiencies and cost savings.

Some of the key concerns that the report has raised for me are as follows:

- a) The fact that the Wales Procurement Policy Statement does not adequately reflect the Well-being of Future Generations Act – the current policy refers to three not four elements of well-being and needs to be updated urgently;
- b) There is no clear picture of spend across public bodies and how this data is being used to inform procurement decisions – if there is such a focus on cost savings and value for money surely all public bodies should be focussing their efforts on areas of greatest spend?
- c) Ongoing tension between lowest cost and achieving wider outcomes with value for money (lowest price) still seen as the key driver;

- d) High levels of dissatisfaction with collaborative arrangements and in particular NPS – how effective are these arrangements including ongoing contract management?
- e) Procurement strategies are not up-to-date so do not reflecting the Act or even Wales Procurement Policy Statement – again how effective is the national policy if it isn't influencing local procurement approaches;
- f) The effectiveness of fitness checks to drive improvement;

Of particular concern is that only half of respondents ascribed high importance to meeting the requirements of the Act, whilst when asked about WFG as one of ten competing priorities the Act was given the lowest priority (of all 10). The Act should be seen as the overarching framework under which all other priorities can be considered and delivered.

We also need to learn from recommendations made by partners such as Constructing Excellence in Wales' "No Turning Back" report¹, published in 2010 and reviewed/updated in 2015, focussing on construction procurement which is another area of considerable spend. Whilst several positive developments have been made in this time progress has been patchy. One of the more interesting findings is that a "focus on procurement may have been counter-productive. Procurement is not just tendering. It should be about a holistic approach to planning, bringing partners on board and delivering to satisfy stakeholders' requirements. It does seem that the industry has become bogged down in prescriptive detail about processes and initiatives, when the real issue is delivery and delivery of best value (not lowest cost)".

Some of my key points are elaborated below:

Leadership – although progress has been made over the last ten years, Welsh Government need to show continued leadership, ensuring the procurement process supports, and does not get in the way of, delivering wider outcomes. On a more local level the WAO review of 18 procurement strategies highlights a number of issues including the fact that many have not reviewed for several years and so do not consider the Act despite the fact that procurement is listed as one of the core areas for change in the statutory guidance. There is also inconsistent reference to the Welsh Government's own Wales Procurement Policy Statement, and

¹ http://www.cewales.org.uk/files/5114/5458/1075/CEW_Noturningback_07_English.pdf

only one using spend analysis information to inform their strategic approach to procurement. The National policy statement, local strategies and frameworks to support improvement (such as the fitness checks) needs to be simple but robust, fully reflecting the aspirations of the Act, to drive the positive change we want to see. Although I agree the Community Benefits Toolkit has achieved some positive outcomes since its introduction, it needs to be updated to reflect the Act; I'm also not convinced that public bodies need a whole plethora of different toolkit so would encourage Welsh Government to review all toolkits and standardise or simplify.

Collaborative arrangements – a range of collaborative arrangements exist in Wales with varying levels of success and satisfaction. Collaboration to encourage sharing expertise, knowledge and resources should be encouraged but the focus should not solely be on saving money but achieving better outcomes for the public sector. There is a need for a flexible model that works for all public bodies in Wales – that may be national for some procurements, but regional arrangements have also been successful. An example of this is the Ceredigion Procurement Forum who were able to secure 34 of 43 companies on a recent contract based within the county. The Forum actively works with all members of the local Public Services Board to encourage wider collaboration; Welsh Government and NPS should support and not constrain these collaborative arrangements.

It is encouraging to see that NPS frameworks that account for a significant percentage of the total spend (Gas and Electricity and Agency workers accounting for 26% and 30% of spend respectively) are incorporating elements of the Act (e.g. 100% of electricity supplied to Public sector is from renewables), all existing frameworks and contracts need to ensure that they embed all seven goals. For instance, is the renewable electricity supplied from local schemes and how could local communities also benefit? Are agency workers eligible for the Living Wage, not on zero hours contracts, and given some security of work? It's positive that 53% of NPS suppliers are based in Wales, and 40% are SMEs – however I would like to see a target to increase this across all frameworks.

Welsh Government is reviewing NPS and as part of this it is critical that they consider all elements of the Act. The current categories of NPS savings are focussed on cost and efficiency – these need to be broadened to consider wider well-being outcomes and value that procurement can deliver to local economies and communities.

Cost saving vs delivering wider outcomes:

The WAO reports focus largely on cost savings and efficiencies, and although this is important we need to develop an approach to procurement that ensures that the Act and seven well-being goals are embedded in procurement without increasing cost for public bodies. For far too long procurement decisions have been made mainly on the basis of (today's) cost, and whilst it's important that public bodies are able to demonstrate responsible spending and value for money I feel that the focus on short-term financial cost without considering costs or benefits over the long-term, or other non-monetised costs (e.g. costs to people, communities or the environment) is not how decisions should be made. We need to be thinking about **wider value** and not just cost.

A key barrier to sustainable procurement has been that it can cost more at least in the short term, even if it offers long-term savings. However the UK Sustainable Procurement Task Force showed that sustainable procurement, seen as an organisational priority which questions the need to spend, cuts out waste, seeks innovative solutions and is delivered by well trained professionals will reduce rather than add to public spending in both the short and the long run. A resource efficient public sector will have lower impacts.

Research commissioned on behalf of the Task Force revealed the potential for net benefits to be delivered through sustainable procurement as is the case of video conferencing for court appearances, for example. The procurement project replaced the transportation of prisoners to court for remand and other non-sentencing hearings by video links and produced benefits which exceed the costs of the video conferencing. Discounting over 7 years, the life of the video conferencing contract, produces a net profit value of £645,776 at a 3.5% discount rate. As well as cost savings this had resulted in wider social benefits as well.

A specific issue for infrastructure programmes is the artificial division of Capital and Operation (Capex / Opex) budgets. This does not represent value for money and facilitates short term decision making through encouraging consideration of short-term cost at the expense of long term cost or value. These two strands need to be brought together into one budget to deliver an approach consistent with the Act.

Of course I recognise the significant financial issues that are faced by Public Bodies currently, but with between a quarter and half of their total spend on procurement, I'm sure that by considering whole-life costs there will be ways of spending £6bn

to maximise benefits across all four elements of well-being without costing too much more over the long-term.

Finally some additional points of feedback from discussions with public bodies that are a cause of concern, and should be addressed, include the view that procurement is seen as blocker rather than an enabler, and a transactional rather than a transformational process; the legislative framework is constraining and the procurement landscape is very complex, uncoordinated, difficult to navigate, with all these potentially acting as a barrier to change. There needs to be greater clarity and simplicity with a more holistic view of, and approach to, what procurement can achieve – for instance how can procurement help to protect people in our communities, which is different to the current approach which would focus on how we procure new flood defences.

Conclusion

I welcome the recent WAO report (Public Procurement in Wales); it is a good foundation on which to build, and I support all recommendations made in the report and specifically about improving governance arrangements and also capturing wider social, economic, environmental and cultural benefits as part of existing toolkits. The overall aim should be to ensure that the £6.1bn spent annually on goods and services in Wales is done in a way that follows the five ways of working and seeks to maximise contribution to all seven well-being goals.

Welsh Government is developing a Five Year Programme for Procurement for Welsh Government and the wider public sector in Wales to outline what they would like procurement to achieve over this time. The Cabinet Secretary's statement of 21 September 2017 referred to needing a clear plan of future years procurement spend to enable investments to support sustainable jobs and growth, ethical employment practices and social value and improve resilience of local businesses and communities. It is critical that this Programme has a clear long-term vision about the role procurement can play in delivering well-being in Wales.

Whilst I welcome the Government's commitment to issues such as ethical procurement it will be essential that any new strategy or programme encompasses all seven of the national well-being goals and avoids confusion over priorities. I would like to see the Well-being of Future Generations Act embedded into this Programme and ensure that outcomes being sought support social, economic, environmental and cultural well-being.

Finally, I am in discussion with the Auditor General about how we might work together to consider the possibility of a joint piece of work to further consider procurement through the lens of the Future Generations Act. Clearly, we will consider any recommendations made by the Public Accounts Committee before progressing this, and also how the Future Generations Act will be embedded into the new five year programme.

The Act provides us with an opportunity to transform the way procurement is delivered in Wales. Using the Act as the overarching framework for public procurement means that public bodies should make procurement decisions in a way that seeks to deliver the best outcomes across all four elements of well-being, for current and future generations.

Appendix 1

Considering procurement through the lens of the Well-being of Future Generations Act:

Five Ways of Working	
Long-term	<p>How are procurement decisions considering Future Trends and long-terms changes, challenges but also opportunities? There needs to be a long-term approach to contracts, with flexibility within to reflect political or technological changes. Focus on short-term issues and costs needs to change to consider whole-life approach and long-term costs, benefits and outcomes. How can Public Bodies work with suppliers to ensure they're able to respond to what the public sector needs in future?</p> <p>Example: 21st century schools programme building schools for the future, low carbon resilient buildings and environment, supporting development of skills for future, flexible spaces available for community use.</p>
Prevention	<p>Not buying is just as important to consider, along with whole life cost. Is there an opportunity to sell a service rather than a product (eg renting office furniture). Can Public Bodies re-use or refurbish items, rather than buying new, through using the Resource Distribution network? How can items be reused within the community eg in schools? How can we capture exxamples of where spending in one areas (eg gritting) can prevent pressure / spend in other areas (eg health)? Closure of facilities could be a short-term fix but leads to problems further down the line eg. isolation, loneliness.</p>
Collaboration	<p>Developing flexible, effective models for collaborative procurement that work for Public bodies. How can procuring with other bodies lead to better outcomes, whilst also supporting economic, social, cultural and environmental well-being in your area?</p>

Integration	How can procurement support delivery of the wider priorities and objectives of your organisation, as well as maximising contribution across the seven well-being goals? How can procurement deliver benefits to other services? The approach to procurement needs to consider the whole system, not just one area in isolation.
Involvement	How can contracts seek early commissioner, contractor and supplier involvement to help inform specifications through innovation and raise awareness of opportunities? How can you involve suppliers and end-users involved in the procurement process to deliver better outcomes? How can school children be involved in school meals provision eg planning meals which could deliver wider outcomes (eg health, reduce food waste)? Example: citizen involvement in Caerphilly council's work on the Quality Homes standard – tenants are trained and are part of process.

Seven well-being goals: How can your procurement spend encourage...

Prosperous Wales	<ul style="list-style-type: none"> - Low carbon and energy-efficient goods and services - A low carbon economy and decarbonisation, including for transportation - Skills/training for future jobs - Innovative solutions - Circular economy and efficient use of resources - Increased spend with SMEs, local business and third sector (Wales already at 48% compared to UK 12%) - Increased employment of local people <p><i>Example: Preston council used Social Value Act to increase spend from local companies from 14 to 28%.</i></p> <p><i>Example: Swansea Community Energy Scheme (SCEES) – explored innovative ways of delivering social value, and developed a new model for procuring community benefits through renewable energy</i></p>
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	<p><i>for council buildings. Example: M&S Plan A – Over the first 5 years this has even led to a net benefit of £185m</i></p> <p>http://annualreport.marksandspencer.com/M&S_PlanA_Report_2016.pdf</p>
<p>Resilient Wales</p>	<ul style="list-style-type: none"> - Support biodiversity, healthy and resilient ecosystems through sustainable management of natural resources - Zero Waste, promoting use of re-used recycled/ recyclable products - Circular economy & responsible resource use - Promote use of take-back schemes and move to full re-use of resources at end of life - Vulnerability of products and supply chains to external factors which are increasingly likely due to the impacts of climate change? - Environmental impact of raw materials for goods and services <p><i>Example: Thailand was a global centre of hard drive manufacture in 2012 however it was predicted that world output could fall by 30% in the final 3 months of that year because of the impact of flooding in the country.</i></p>
<p>Healthier Wales</p>	<ul style="list-style-type: none"> - Promote better physical and mental health and wellbeing for workforce and citizens - Health impacts of products? E.g. Food - Encourage uptake of green / low carbon fleet to improve air quality - Impacts of transporting goods on health & wellbeing?

Equal Wales	<ul style="list-style-type: none"> - Promote decent work with fair and equal pay and conditions available to all - Remove barriers to employment for disadvantaged and minority groups - Impacts along whole supply chain? Do contracts involve products that are made by children or other disadvantaged groups? - supporting better employment conditions for workers through the supply chain? - Ensuring services you are contracting (e.g. cleaning or homecare) paying a decent wage even if this is being outsourced? - Can you demonstrate a positive impact on local communities?
Viable, safe, Wellconnected, Cohesive Communities	<ul style="list-style-type: none"> - A local economy that supports thriving communities - Supporting social enterprises or building on community benefits? - Transport to encourage accessibility - Creating local employment, training and supply chain opportunities - Understanding rural vs urban issues (eg relationship with farmers / agricultural community)
Vibrant culture, heritage and welsh language	<ul style="list-style-type: none"> - Representing and reflecting the diversity and culture of communities? - Catering for diverse backgrounds - Encouraging and supporting local culture, heritage and welsh language

**Globally
Responsible
Wales**

- Fairtrade / ethical
- Reducing our carbon footprint
- Supporting local supply chains
- Encouraging responsible resource use
- Considering energy and food security issues
- Global citizenships

Example: pupils support for Fairtrade school uniforms