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CREATING A GOOD LOCAL ECONOMY THROUGH PROCUREMENT

Final Baseline Study prepared by

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1 INTRODUCTION

This baseline study report provides further information about the 'creating a good local economy through procurement' (Procure) network. The Procure network is one of 21¹ networks commissioned through the European Union's URBACT III programme,² which seeks to enable transnational exchange and learning between cities around a particular theme. The Procure network seeks to connect cities and build success around the theme of procurement, which is the process used by public authorities and commercial business to purchase goods and services.

1.1 The purpose of Procure

The purpose of the Procure network is to support cities to enhance procurement processes so that they bring greater benefits for their city economy and in social and environmental terms. The focus of Procure is not just upon city authorities (municipalities), but the range of 'anchor institutions' which have a significant stake in that city. Anchor institutions will generally employ hundreds of people, have multi-million Euro levels of procurement spend, and are unlikely to leave that city. They will include municipalities, health institutions, police and other emergency services, universities, social housing providers, and private sector businesses. These institutions should be delivering more benefit for the city in which they are based, and procurement is a way of enabling that to happen.

Utilising procurement more progressively and innovatively has become possible since the introduction of the new European Procurement regulations in February 2014³. These regulations seek amongst other things: 'to facilitate the participation of small to medium sized enterprises (SMEs) in public procurement in support of common societal goals'. Procure seeks to ensure that through engagement with partner cities behaviour is shifted so that procurement derives greater benefit.

1.2 The Procure cities

The Procure network is being led by Preston City Council⁴ from the United Kingdom. Preston has undertaken work over the last three years to develop an evidence base as to how anchor institutions impact Preston and Lancashire's local economies; as well as identifying ways through which that impact can be maximised⁵. This network is shaped by that work and other innovative procurement work across Europe. Preston was joined initially in the Procure network by four further cities each with a desire to utilise procurement innovatively, address any barriers currently facing them in the process of procurement, respond to the new European directives, and learn from others. The four cities are: Lublin (Poland); Koszalin (Poland); Albacete (Spain); and Almelo (The Netherlands).

In addition the Satu Mare County Intercommunity Development Association (Romania); Metropolitan City (Cimet) of Bologna (Italy); District 9 Prague (Czech

¹ <http://urbact.eu/new-action-planning-networks-more-information-available>

² <http://urbact.eu/>

³ The European Parliament and the Council of the European Union (2014) *Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC*. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0024&from=EN>

⁴ <http://www.preston.gov.uk/>

⁵ Centre for Local Economic Strategies (2015) *Creating a good local economy: the role of anchor institutions*. <http://www.cles.org.uk/wp-content/uploads/2015/04/Anchor-institutions.pdf>

Republic); Koprivnica (Croatia); Candelaria (Spain); and Nagykallo (Hungary) have subsequently joined the network, as part of the network expansion process.

1.3 The Procure lead expert

The Procure network is being led and supported by expertise from Matthew Jackson⁶. Matthew is the Deputy Chief Executive of the Centre for Local Economic Strategies (CLES)⁷. CLES is a think-tank and research organisation based in Manchester, the United Kingdom. Matthew has spent much of the last eight years working with municipalities and anchor institutions, to understand the impact their procurement spend has on their city economies and to enhance their practice so benefit is maximised. Matthew has also undertaken work in the United States⁸ around procurement and anchor institutions which is relevant to the Procure network.

1.4 About the baseline study

The baseline study is designed to assist the development of the phase 2 application for the Procure network which is due to be presented to URBACT on 15th March 2016. The baseline study consists of three key sections. **Section 2** details the '**state of the art**' which is designed to provide the context around the theme of procurement and local economies. It is broken down into the following sub-elements

- ❑ It provides commentary upon why procurement is important in addressing economic, social and environmental challenges across Europe, and its link to wider European policy;
- ❑ It provides commentary upon the European level procurement regulations; alongside additional national regulations for the cities within the Procure network (more detail is provided in Appendix 1);
- ❑ It explores some of the key barriers and challenges which cities across Europe generally face in implementing more innovative and progressive procurement processes and practices;
- ❑ It introduces some of the ways in which cities can innovate in procurement;
- ❑ It details case studies of innovative and progressive procurement practice from across Europe and internationally.

Section 3 details the **city profile** for each partner city which forms part of the Procure network. Information has been gathered through visits by the Lead Partner Co-ordinator and Lead Expert to each city and compiled from the baseline study template (full versions of notes from each city are detailed in a supplementary document). Each city profile details the following:

- ❑ Information about the city including around size, population and economic profile;
- ❑ Information about the city and its processes and practices around procurement;

⁶ <http://urbact.eu/jackson-0>

⁷ <http://www.cles.org.uk>

⁸ Jackson, M. (2015) *Building a new local economy: lessons from the United States*. <http://www.cles.org.uk/wp-content/uploads/2015/09/Lessons-from-the-United-States.pdf>

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- ❑ Information about the city and the barriers and challenges it faces around procurement;
 - ❑ Information about the city and its involvement in the Procure network in terms of proposed activities;
 - ❑ A summary and linkages to Operational Programmes.

Section 4 details the synthesis for the Procure network. This reflects upon the outcomes of the 'state of the art' and city profile and particularly details the focus of activities to be undertaken at Phase 2 of the Procure network. It consists of the following:

- ❑ A summary of the key emerging themes from the city profiles in terms of: existing activities around procurement; challenges around procurement; and proposed activities for the Procure network;
- ❑ A summary of the position of the cities in the Procure network in relation to the key URBACT III Programme indicators;
- ❑ Outlines of themes and content for transnational activities in Phase 2 of the Procure network.

2 'STATE OF THE ART'

2.1 Why is procurement important?

This element of the '**state of the art**' outlines why the process of procurement is important for city economies both socially, economically and environmentally across Europe.

2.1.1 The challenges and opportunities facing cities

Cities across Europe are facing a number of economic, social and environmental challenges⁹. These include:

- ❑ High levels of unemployment and particularly youth unemployment;
- ❑ A struggle to respond to economic restructuring as a result of a reliance upon a singular industry;
- ❑ Migration and the need to create jobs to support both local and incoming residents;
- ❑ Increasing levels of carbon emissions and a need to make the transition towards a low carbon economy;
- ❑ Issues in developing the skills of workforces so that they can respond to the demands of a global economy.

These are also opportune times for European cities:

- ❑ Firms are continuing to want to invest in urban areas;
- ❑ There are an array of urban development programmes across the European Union; focused upon developing both physical infrastructure and alleviating social issues;
- ❑ Infrastructure and connectivity across Europe is improving with associated knock-on effects for the movement of trade and labour.

2.1.2 Linking the challenges and opportunities facing cities to procurement

The image on the right side of the diagram¹⁰ below crudely depicts the outcome of economic policy making in European Cities over the last 30 years for some local places. There has been a stream of investment through infrastructure development, inward investment, the public purse, and regeneration initiatives designed to improve them; but some places remain unchanged. There are not enough good quality jobs; businesses are not productive enough; people remain unskilled; and any growth that is being created is benefiting the few and actually exacerbating inequality.

The image on the right could also apply to the way in which procurement has been traditionally undertaken across Europe. As a result of legislation and an associated unwillingness to take risks, the procurement spend of city governments and other anchor institutions has not necessarily led to or contributed towards addressing the economic, social and environmental challenges facing that city.

⁹ European Union (2011) *Cities of tomorrow: challenges, visions, ways forward*. http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/citiesoftomorrow/citiesoftomorrow_final.pdf

¹⁰ New Economics Foundation (2002) *Plugging the leaks: making the most of every pound that enters your local economy*.

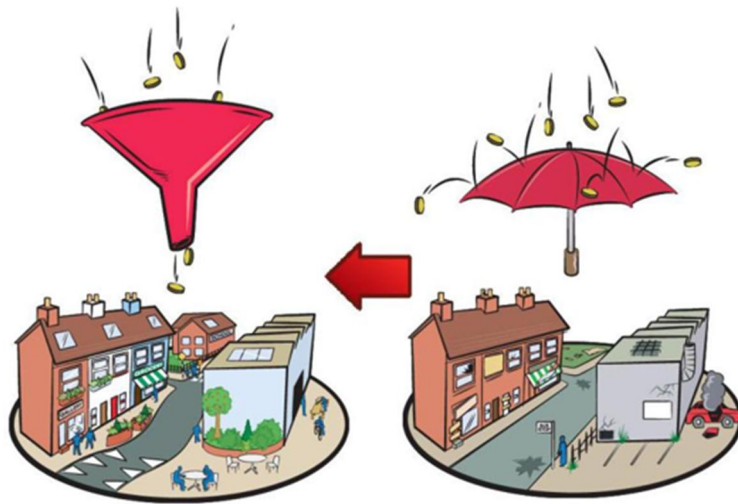


Illustration by Rory Seaford of The Creative Element,
www.pluggingtheleaks.org/resources/plm_ptl_images.htm

Economic development policy making, investment and indeed procurement needs to think more virtuously, whereby: the investment in a city is retained in the city economy through supporting local supply chains and local employment¹¹. As a result local people are more able to influence the activities being undertaken; and activities are undertaken by and are beneficial for a broader mix of stakeholders across the public, commercial and social sectors. This is effectively depicted in the image on the left hand side of the diagram above; where wealth is retained and investment brings a range of economic, social and environmental benefits. This is the core purpose of the Procure network: to change the behaviour of procurers so that the process is undertaken more innovatively leading to greater benefits for cities across Europe. This complements the objectives of the new European Directives around procurement.

2.1.3 The outcomes procurement can contribute towards

It can be argued that procurement can contribute towards a range of outcomes in cities across Europe through changing the behaviour of municipalities and other anchor institutions.

Economic

- ❑ Procurement can support local businesses both directly and through sub-contracting opportunities;
- ❑ Procurement can support new local businesses to develop, which address key challenges and fill gaps in provision;

Social

- ❑ Procurement can support businesses to create new jobs and support existing jobs for residents of the city¹²;

¹¹ Dudu, D. (2012) *How do local actors understand and tend to work toward local economy? A case study from Ares Grona Daler area, Jamtland, Sweden.* http://stud.epsilon.slu.se/5118/1/dudu_d_121206.pdf

¹² Joseph Rowntree Foundation (2014) *Tackling poverty through public procurement.* <https://www.jrf.org.uk/report/tackling-poverty-through-public-procurement>

- ❑ Procurement can support the creation of apprenticeships and the upskilling of local residents and their pay¹³;
- ❑ Procurement can support the development of new forms of enterprises and cooperatives¹⁴;
- ❑ Procurement through the above activities can support the achievement of wider outcomes around health and crime, for example;
- ❑ Procurement can stimulate social innovation through institutions co-designing services with communities and utilising social economy and social enterprise organisations in delivery¹⁵.

Environmental

- ❑ Procurement can assist in reducing the distance which goods and services travel;
- ❑ Procurement can assist in stimulating technological innovation through encouraging the market to develop new technologies which address both good and service requirements and enable environmental advances;
- ❑ Procurement can improve the look of cities and improve the local environment particularly where innovative processes are utilised in the design process and where creative individual are procured to design, build and manage new facilities and infrastructure.

It is important to note that each of the above outcomes can be achieved and that the new regulations from Europe support municipalities to achieve wider societal goals through procurement.

2.1.4 The policy fit of Procure

The development of the Procure network and its emphasis upon procurement is aligned to both wider European Union policy making; wider thinking about the future of cities across Europe; and existing knowledge, projects and networks working on procurement and associated issues.

In terms of Europe 2020¹⁶ and its emphasis upon jobs and growth, procurement can be a means of enabling growth which is smart (through more effective investments in education, research and innovation); sustainable (thanks to a decisive move towards a low carbon economy); and inclusive (with a strong emphasis on job creation and poverty reduction). Procurement should also be a component element of thinking and recommendations associated with the ESPON work on economic crisis and the resilience of the regions and around place¹⁷.

Whilst other URBACT and wider European funded projects have had a degree of emphasis upon procurement or have looked at it as part of a wider issue, the Procure network is the first which looks at procurement holistically as a means of enabling local economic, social and environmental benefit. For example, the Sustainable Food in Urban Communities¹⁸ network looked at procurement as part

¹³ Schulter et al (2012) *Pay and other social clauses in European public procurement*. http://www.epsu.org/IMG/pdf/EPSU_Report_final.pdf

¹⁴ Democracy Collaborative (2015) *Cities building community wealth*. <http://democracycollaborative.org/sites/clone.community-wealth.org/files/downloads/CitiesBuildingCommunityWealth-Web.pdf>

¹⁵ Uyarra, E. (2010) *Opportunities for innovation through local government procurement: a case study of Greater Manchester*

¹⁶ http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index_en.htm

¹⁷ ESPON (2014) *ECR2 – Economic Crisis: Resilience of Regions*.

http://www.espon.eu/main/Menu_Projects/Menu_AppliedResearch/ECR2.html

¹⁸ <http://urbact.eu/sustainable-food>

of a much wider focus upon urban food systems and healthy public food provision. Similarly, the Electric Vehicles in Urban Europe¹⁹ network explored how procurement could be used as one of the tools for overcoming barriers in the uptake of electric vehicles. Other relevant past URBACT networks include: diet for a green planet pilot transfer network; 4D Cities; Roma-Net II; and WEED project. Procurement also forms part of other projects associated with Horizon 2020 and INTERREG programmes.

The focus in Procure upon procurement and economic, social and environmental benefit is the first time procurement has been looked at holistically as part of the URBACT Programme and also other programmes such as NWE INTERREG IVB and INTERREG IVC. Indeed, procurement was identified as a key area of innovation in URBACT II's capitalisation report 'Social Innovation in Cities'²⁰, particularly where cities have used public procurement policies to encourage 'unusual' providers in the form of SMEs, NGOs or groups of citizens to access calls for tenders and projects. The importance of utilising purchasing power for jobs and growth benefits was also referred to in the wider capitalisation article²¹ from the URBACT II programme, with a reflection that 'more localised supply chains, in food or construction materials, can be driven by cities to bring greater sustainability and grow local jobs'.

2.2 The legislative framework

This element of the '**state of the art**' outlines the legislative framework within which procurement processes and practices across Europe fit, including at country level for the cities involved in Procure.

2.2.1 European regulations

The EC Treaty of 1957 (also known as the Treaty of Rome)²² first introduced the principle of a 'single market' and a unified Europe when it came to the movement of goods, services, workforces and finance. The Treaty effectively sought to ensure a Europe wide commitment to enabling the movement of such commodities freely between countries and a commitment to supporting the economic development of all member countries through trade between countries. Under this principle of a 'single market', the EC Treaty effectively outlawed anti-competitiveness in the process of procurement that favoured national or local suppliers.

This emphasis upon a single market is also reflected in the latest iteration of the EU Procurement Directives (Directive 2014/24/EU which repealed Directive 2004/18/EC), which is focused upon the procurement of public services. The new Directives however do allow for some flexibility when it comes to wider benefits being achieved through procurement. The Directives are intrinsically linked to the Europe 2020 Strategy²³ and the emphasis upon balancing the achievement of smart, sustainable and inclusive growth while ensuring the most efficient use of public funds. There is a focus in the Directives around 'increasing the efficiency of public spending, facilitating in particular the participation of small to medium sized enterprises (SMEs) in public procurement in support of common societal goals'.

¹⁹ <http://urbact.eu/evue-ii>

²⁰ URBACT II (2015) *Social innovation in cities*. http://urbact.eu/sites/default/files/03_socialinn-web.pdf

²¹ <http://urbact.eu/capitalisation-lessons-governance>

²² http://ec.europa.eu/archives/emu_history/documents/treaties/rometreaty2.pdf

²³ http://ec.europa.eu/europe2020/index_en.htm

Given the emphasis upon SMEs, the new Directives also more effectively advocate the use of pre-market engagement before a good or service goes to procurement and also promotes the potential engagement of social economy organisations (social enterprise and voluntary and community sector organisations) in the process.

2.2.2 Country level legislation

Each of the cities involved in the Procure network have nuances in the way in which the European Procurement Directives translate into national level law. Appendix 1 describes national level law in each country involved in the Procure network in turn, with the below element of the 'state of the art' drawing out key commonalities.

Countries across the European Union are required to adhere to the principles of the European Procurement Directives when it comes to the purchasing of goods and services. In legal terms, they have to ensure that those principles are embedded into national level law by 2016. This allows for a common approach to be adopted across Europe and for the process of procurement to be transparent. It also allows for any national level requirements and innovation to complement European level law.

The cities and countries involved in the Procure network are at various stages of adopting the principles of the European Procurement Directives into national level law and responding accordingly. Countries such as the United Kingdom and Italy have already adopted the Directives; with this often framed by existing national level legislation around procurement and also innovation in procurement. In Italy where innovative procurement has been evident for the last twenty years, this includes legislation around Green Public Procurement (GPP). In the United Kingdom, this includes the legislation of the Public Services (Social Value) Act in 2012 which encourages public authorities to consider economic, social and environmental value in procurement processes and decisions. In these countries, European Procurement Directives have been both adhered to and supplemented so that issues of wider concern are embedded into law.

Other countries involved in the Procure network are yet to formally embed the principles of the new European Procurement Directives into national level law including Poland, Romania, and Croatia. In these countries, considerations detailed in the new Directives around SME involvement and the consideration of wider societal goals are new and have not been considered before in national level procurement law or bespoke legislation as described above for the United Kingdom and Italy. In these countries, the ability to innovate is minimal as a result of the primary emphasis in procurement being on price. This is changing and each of the countries in the Procure network will have new national level law in place by April 2016, making the network even more relevant in how European and national level law translates to the city level.

The below details a key observation for each country around their national level procurement law:

- ❑ Croatia – national level law is framed by procedures around transparency and compliance; however the process is under review;
- ❑ Czech Republic – procurement is heavily monitored and inspected by specialist units;

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- ❑ Hungary – has a new Public Procurement Act which came into effect in November 2015; it places greater emphasis on value for money considerations in procurement;
 - ❑ Italy – has a strong history of innovating in public procurement and has specific considerations around the use of cooperatives and green procurement;
 - ❑ Netherlands – the consideration of proportionality is key, meaning that decisions have to be appropriate and reasonable in relation to the object being tendered;
 - ❑ Poland – is currently developing an amendment to its Procurement Act with an objective to simplify and make the process more flexible;
 - ❑ Romania – has seen numerous changes to national level law over the years, with 2016 set to see further amends as a result of the new European Directives;
 - ❑ Spain – national level law is driven by eleven priorities including: guaranteeing transparency; promoting SMEs; and promoting social participation in the process;
 - ❑ United Kingdom – the Public Services (Social Value) Act requires procurers to consider how the services they procure might improve economic, social and environmental well-being.

2.3 The barriers to progressive procurement

This element of the '**state of the art**' sets out some of the common barriers (both perceived and real)²⁴ which prevent cities across Europe from developing more progressive and innovative procurement processes and practices. It is important to note that the new European Directives and associated national level law should contribute towards reducing some of these barriers. The barriers can be split into five themes.

2.3.1 European legislative barriers

The core barrier facing cities in achieving local economic benefit through procurement has historically been European Procurement Law and associated Directives. The use of the term 'local' is viewed as discriminatory and anti-competitive by the Procurement Directives. There are two core elements of the EC Treaty and Procurement Directives which act as barriers to achieving local benefit through procurement:

- ❑ **anti-discrimination provisions** – the Directives, in particular their single market principles, prevent the discrimination of firms on the basis of locality. This means that procurement bodies cannot openly favour local suppliers and instead need to open the process up to national and wider European providers.
- ❑ **advertising obligations** – European procurement law stipulates that all contracts above the thresholds identified earlier must be advertised Europe wide through the Official Journal of the European Union (OJEU), thus encouraging competition nationally and from Europe. This obligation has always presented a significant barrier to local companies, as they are not often aware of contracts and services which are being advertised through OJEU.

²⁴ Association for Public Service Excellence (2010) *More bang for the public buck: a guide to using procurement to achieve community benefits*. <http://www.apse.org.uk/apse/index.cfm/research/current-research-programme/more-bang-for-the-public-book/more-bang-for-the-public-book/>

2.3.2 City government and anchor institution barriers

A further barrier to achieving benefit through procurement is municipality and anchor institution cultures in terms of local politics, policies and processes. Specifically, there can often be an intrinsic cultural and perception barrier at the local level across procurement departments, regarding exactly what can be achieved through the procurement process:

- ❑ **perceptions as a barrier** – there is a perception amongst municipality procurement departments that EU procurement law acts as a significant barrier to achieving wider benefit. In some cases, there is a perception that ‘local firms cannot supply us with products or services because of procurement law’.
- ❑ **perception of cost as a barrier** – another key perception barrier amongst municipality procurement departments is that inclusion of community benefits or social value will drive up the cost of procuring goods and services to the municipality and therefore should not be done in the face of budgetary pressures and efficiency drives.
- ❑ **lack of knowledge and training** – there is generally a lack of knowledge at the local level about how to use procurement to realise the possibilities for benefit. If procurement bodies do not have the knowledge about how to achieve wider benefit, this subsequently restricts the capability of suppliers to have knowledge of and achieve such benefits;
- ❑ **corruption** – there are challenges in some of the countries involved in the Procure network around corruption; whereby senior figures of cities are in prison as a result of the way in which procurement has been undertaken and contracts awarded. A barrier to more progressive procurement is therefore the legacy of this and a potential unwillingness to take risks.

2.3.3 Supply chain barriers

The notion of delivering wider benefits through procurement is often dependent upon having small businesses and a community and voluntary sector that are willing to be involved in the procurement process and have the skills, capacity and expertise to write tenders and ultimately deliver contracts. Specific barriers around this can include:

- ❑ **inability of small firms to bid for and deliver contracts** – Social economy organisations and SMEs often do not have the capacity nor the expertise to compete with larger providers in the procurement process. They cannot offer the same economies of scale as other providers and often do not have the capacity to fulfil procurement requirements or complete the tender process;
- ❑ **the size of contracts** – contracts above the European thresholds are often for multi-million Euro services. Social economy organisations and SMEs cannot compete to tender for and deliver these contracts as a result of their sheer scale. This therefore restricts any wider benefit through the potential use of these providers;
- ❑ **unawareness of opportunities** – Social economy organisations and SMEs often cite a lack of awareness and poor promotion of contract opportunities, as a core reason for not competing within the procurement process and

subsequently winning contracts to deliver services. They are often not aware of where to look for tenders advertised locally and through OJEU.

- ❑ **inclusion of social value drives up the cost of delivery** – there can be a perception amongst larger private sector organisations that delivering social value, through procurement adds additional cost to service delivery beyond what is required. If municipalities and anchor institutions build in a requirement for wider benefit into the specification stage of the procurement process, it potentially deters some suppliers from bidding.

2.3.4 Measuring social outcome barriers

The tendering process, unless it specifically requests organisations to demonstrate potential social and environmental benefits, can often fail to provide bidders with the opportunity to demonstrate such wider potential benefits. Social benefits can include employment, skills and training for local communities as a result of the procurement spending, together with provision of social amenities and the wider involvement and engagement of the local community in decision making.

- ❑ **social outcomes are often intangible** – the intangible nature of many social outcomes makes it difficult to provide for these in wider benefit clauses, as the supplier or procurer may not be able to measure the high level social aims of clauses and hence cannot establish whether they have been met or to what extent they have been met. This is likely to be a barrier, in that it may deter suppliers from bidding for fear of rebuke that they have not achieved sufficient levels of benefits;
- ❑ **there is no common measurement framework** – at the moment there is no common means of measuring direct impact of procurement spend and the indirect impact of supply chain behaviour. Plenty of municipalities and other anchor institutions undertake spend analysis but often at different geographical levels which makes benchmarking difficult. Additionally few if any places have effective contract management arrangements which enable wider outcomes to be monitored by suppliers and reported back to the procuring body.

2.3.5 Geographical barriers and the danger of protectionism

A key barrier to achieving greater benefits for local economies and in social and environmental terms through procurement is geography and not having a definition of the geography a city is working towards. All local economies are different as are administrative boundaries across Europe. Therefore cities need to have a mature understanding of what constitutes 'local' when it comes to procurement. This might be a local authority boundary, a city-region, a functional economic geography or a labour market. This definition then needs to follow through into procurement strategy, any criteria around social or environmental benefit for decision making, and in the measurement and monitoring of spend and impact. Local procurement practice therefore needs to be reflective of a defined geography.

Linked to the above, maximising benefit through procurement can be sometimes be seen as cities promoting a 'protectionist' agenda. Whilst promoting local organisations and other social and environmental can bring benefits for local economies, it can also come at the expense of neighbouring areas or authorities; which would in effect mean a 'zero-sum' game. There will be some procurement

opportunities which are not conducive to innovative procurement and where local economic, social and environmental benefits are not applicable; and others where they are. Cities therefore face a barrier in finding the correct balance between the two and ensuring that benefit comes through a range of means regardless of geography.

Related to the above, adopting an approach to procurement which also includes social and environmental benefit, for example, can also be perceived to be more expensive²⁵. Again, cities therefore face a barrier in ensuring that procurement balances both efficiency and effectiveness considerations.

2.4 Maximising benefit through procurement

This element of the '**state of the art**' outlines some of the ways in which cities and particularly municipalities and anchor institutions can address the barriers to more progressive procurement²⁶ detailed in element 2.3 and respond to the new European Directives and national law detailed in element 2.2.

The process of procurement is often split into four parts. There is the commissioning of the good or service; the development of procurement strategy; pre-procurement; and the delivery of the good or service and monitoring. Ways of maximising benefit for city economies in socio-economic and environmental terms across Europe, can be built in at each of the parts of the process by municipalities and anchor institutions.

2.4.1 Service commissioning

Cities can enable and maximise benefit for city economies in socio-economic and environmental terms across Europe, through the procurement process in the commissioning phase. This can include:

Linking procurement to wider corporate priorities

The purpose of any procurement process must always be to commission services and goods, which are required by service users in a cost efficient way. However there are a range of wider economic, social and environmental benefits which can be achieved through the process in terms of jobs, skills, business development, and a reduction in the distance travelled by goods. One of the most straightforward ways of progressing procurement is to link the process to the wider corporate priorities of a municipality. Most municipalities will have a priority around addressing unemployment, for example. They can raise awareness of this issue by detailing it in procurement strategy and making potential suppliers aware that it is an issue in the procurement process.

Reflecting community need

They can seek to ensure that service design and commissioning is reflective of community need, by engaging and consulting communities upon the design of services. This is emerging in the concept of co-production, where institutions and residents design services collaboratively, and where communities can have responsibility for small elements of budgets. This ensures that procurement is reflective of the needs and wants of communities, thus bringing benefits for local people.

²⁵ Hettne, J. (2013) *Strategic use of public procurement – limits and opportunities*. http://www.sieps.se/sites/default/files/2013_7epa.pdf

²⁶ Centre for Local Economic Strategies (2013) *Maximising benefit through progressive procurement: the policy and practice of Cheshire West and Chester Council*. Manchester: CLES <http://www.cles.org.uk/wp-content/uploads/2015/02/Progressive-Procurement.pdf>

Case Study – Mondragon, Basque Country

A key example of co-produced and designed services and cooperative models of procurement and delivery is Mondragon in the Basque Country of northern Spain, which is often considered the most successful example of employee-owned, cooperative, enterprise in the world.

What started in 1956 with a handful of workers making simple paraffin cookers and heaters, now consists of over 82,000 people in an integrated group of some 258 cooperatively-owned businesses, subsidiaries, and affiliated organisations. They are all linked through a structured, but flexible umbrella, the Mondragon Corporation. For strategic purposes, the member firms and their affiliates are distributed among three major areas:

- ❑ The Finance Area embraces three specific activities: banking, social security and insurance;
- ❑ The Retail Area is a network of supermarkets, cash & carries and other consumer goods chains with more than 2600 outlets;
- ❑ The Industry Area, which is divided into 12 different divisions.

The Corporation ensures that there is no competition among the network businesses and, even more importantly, fosters collaboration among them to create new businesses that take advantage of new market opportunities. Usually these new businesses are headed up by entrepreneurs that come from existing cooperatives. This occurs both organically and through seeking to harness the potential of procurement.

For example, Mondragon recently founded a new company, Smart Health Services (SHS), for managing integrated purchasing and supply logistics for health centres. This is a new type of business, combining a variety of health centre management services, with the aim to become a driver for integrating the capacities of different organisations from different parts of the Corporation.

Another example of inter-cooperation is an organisation created to achieve volume purchasing advantages. Several years ago, 16 Mondragon co-ops co-created this new service, and housed it in an organisation called Ategi S. Coop. Ategi's job is to put together the purchasing needs for utilities and other products/services (computers, phone/internet, etc.) of as many Mondragon co-ops as possible, and select and negotiate with suppliers and "deliver" the finished purchasing agreement to the co-op member. Any Mondragon company can join Ategi by making a membership investment and it may use Ategi for purchasing any one or combination of products/services.

The core outcome of the work undertaken in Mondragon is that of collaboration; the process of procurement is used as a way of creating new market opportunities for Cooperatives in the Corporation with subsequent benefits in local economic, social and environmental terms.

2.4.2 Procurement strategy

Cities can maximise benefit for city economies and in economic, social and environmental terms across Europe through the procurement process in the procurement strategy phase. This can include:

Developing procurement strategies with a common narrative

These set out a municipalities or organisation's priorities and processes in relation to procurement practice. They are a key means by which priorities and criteria relating to economic, social and environmental wellbeing can be embedded, ensuring that priorities feed into the decision making process for all contracts. They also highlight to suppliers the types of benefit city governments are expecting them to demonstrate in their response to tenders.

Case Study - Cleveland, United States

Collaborative working across anchor institutions has been a key part of Cleveland's response to economic decline. There is a common vision across these institutions for economic improvement with a narrative around procurement an integral part of this. Cleveland, Ohio has faced significant challenges over the last thirty years. The crash of the manufacturing industries in the 1980s and 1990s led to a reduction in the number of jobs to the sum of some 150,000, with associated consequences for the local population which reduced from around 800,000 to 400,000 as people headed elsewhere seeking opportunity. The response has been one of collaboration and relationship building with key organisations coming together to reinvigorate and rejuvenate the local economy. Organisations such as the Cleveland Foundation, City of Cleveland Economic Development, Cleveland State University, the Evergreen Cooperative, Neighbourhood Connections, and the University Hospitals have come together to commence a collaborative approach which is focused upon community wealth.

A number of activities around procurement and maximising benefit for the local economy have been undertaken in Cleveland by each of the anchor institutions. For example, University Hospitals operating as a commercial enterprise, recognised the importance of engaging with the wider vision of improving the economy of Cleveland. This was delivered for a number of reasons, as an improved economy and physical look enables the continued attraction of the brightest medical talent; whilst also enabling medical technology entrepreneurs to stay in Cleveland, and demonstrate their ethos by contributing jobs to the local economy. University Hospitals have particularly emphasised its procurement process. They have also worked collaboratively with Cleveland State University to set up a joint mail hub, and are incentivising procurement officers to consider Cleveland based businesses in purchasing decisions.

For example, Evergreen Cooperatives is a unique model of providing services. Over the course of the last five years, Evergreen have set up three new cooperative businesses: Evergreen Laundry, Evergreen Energy Solutions, and Green City Growers; all with the purpose of being worker owned; addressing unemployment in seven key deprived parts of the city; and providing services for anchor institutions and others in the Greater University Circle Area. Thereby relating the local community to wealth creation opportunities. The

Evergreen Laundry provides services to hotels and anchor institutions in Cleveland, including University Hospitals.

The core outcome of the work undertaken over the last ten years in Cleveland, has been its ability to bring together organisations across the public, commercial and social sectors to innovate and instigate change. There have also been particular increases in the amount of procurement spend by anchor institutions within Cleveland, and wider Cuyahoga County organisations. University Hospitals now spends over 44% with Cuyahoga County vendors, an increase of some \$140m between 2013 and 2014. The economic and social outcomes include the creation of over 200 jobs for individuals from the Eastside of Cleveland through Evergreen and other social economy organisations. The cultural outcomes include a real shift in the behaviour of senior management and officers in each of the key anchor institutions, particularly around procurement.

Developing accessible portals

They can develop a range of online activities which raise awareness amongst the local business base, SMEs, and social economy organisations, of upcoming tender opportunities. These can include online portals which provide alerts to relevant contract opportunities, and a means of uploading tender documents and guides that explain to small organisations what is expected in the tender process and how to complete procurement documentation. They can also develop portals specifically for sub-contracting opportunities.

Packaging contracts to make them more accessible

For contracts which are below the European thresholds, municipalities and anchor institutions can consider breaking contracts down into smaller lots to make them more attractive for local and small business. They can also break them down into more specific lots which enable different organisations to bid for different aspects of a contract.

Streamlining procurement documentation

One of the biggest barriers preventing local and particularly small organisations from bidding for contract opportunities is a (often fair) perception that the process is too complex and bureaucratic. Municipalities and anchor institutions can overcome this through the streamlining of documentation and particularly by:

- ❑ standardising Pre-Qualification Questionnaires (PQQs) and Invitation to Tenders (ITTs);
- ❑ providing sample and case study PQQ completion examples;
- ❑ simplifying the requirements of PQQs and ITTs;
- ❑ streamlining financial assessment criteria;
- ❑ removing PQQ requirements altogether for lower value contracts.

Using social and environmental criteria

Traditionally cities and particularly municipalities have undertaken procurement using two criteria: cost and quality. Often cost in some countries and procurements will be the only consideration as the procurer seeks maximum efficiency and the best price. Quality of the products being offered and the experience of the organisation delivering is also considered regularly. However, cities can also consider social and environmental criteria in procurement strategy and in the associated tender documents and decision. This can be done by

assigning, for example, ten percent of the decision to the extent to which potential suppliers detail that they will address social and environmental issues.

Case Study – Malmö, Sweden

Malmö's approach to procurement is particularly framed around sustainability, and undertaking socially responsible public procurement. Since 2007 while forming key components of their criteria, the city has started to think about the quality of their procurement processes, and social responsibility as well as cost. The emphasis upon social responsibility has been applied to a number of construction projects and procurements, including products such as the food served in schools, tea, coffee and textiles. The drive towards socially responsible procurement has been a political one with policy guidelines, which encourage products which are low environmental impact and socially responsible.

The approach has had a key impact both in terms of procurement processes, and the relationships between municipalities. The City of Malmö are continuously monitoring their purchases with an assessment undertaken three times a year, to investigate the percentage of green and ethical goods purchased. In the financial year 2011/12, for example, Malmö bought 37% of commodities with environmental criteria. Malmö collaborates with neighbouring authorities when procuring, in order to ensure that the social and economic benefit is maximised across a wider footprint.

2.4.3 Pre-procurement

They can maximise benefit for city economies and in social and environmental terms across Europe through the procurement process in the pre-procurement phase. This can include:

Working with local business to test markets

Procurement teams can work with economic development teams to identify local businesses, particularly SMEs, who might be suitable to bid for certain contract opportunities. Targeted market testing could be focused on businesses in specific sectors or based in particular parts of the city. They can follow up market testing with targeted capacity building. They can also engage with potential suppliers before formally putting a service out to tender through holding meetings and events. These enable institutions to detail their specifications in relation to a particular contract and to inform suppliers of what is expected of them in the tendering process, including any requirements around economic, social and environmental benefit. They also provide the opportunity to informally develop suppliers' skills in tendering.

Engagement work with business networks

They can make local businesses, particularly SMEs, aware of procurement opportunities through developing relationships with business representative bodies such as Chambers of Commerce and small business organisations. These organisations can also provide advice and guidance to their members about bidding for procurement opportunities, and also assist in developing capacity and capability.

Capacity building of social economy organisations

They can provide capacity building support for both SMEs and social economy organisations, which gives them the knowledge and skills to bid for contract opportunities. This approach is not about preferential treatment, but about local organisational development. Capacity building can focus upon raising awareness of opportunities, the process of completing a PQQ, or getting a social economy organisation tender ready. It could also involve one-to-one tendering support.

Apprenticeships, labour and social clauses

They can enable benefit by stipulating in tender documentation the requirement for contractors to add value for communities beyond service delivery. In construction projects, this could include a requirement to create apprenticeships for every euro 1 million spent, or a desire to create jobs for those who are unemployed. In more service focused activities, it could include wider social benefits such as community work.

Case Study – Nantes, France

The city of Nantes in South West France has been known for nearly 20 years, as a leading innovator in using social clauses in public procurement to stimulate local jobs. Over this time they have developed sophisticated support structures using social enterprises, to train and prepare the 'clients' to help them to get the jobs that are opened up in the private sector.

France revised its public procurement rules in 2006 to create a more permissive environment for the insertion of social clauses, which are accepted at EU level. This has led to considerable progress in awarding contracts by Nantes Metropole and surrounding suburban administrations (Chantenay, Vannes, Doulon, and Malakoff). Work has included Swimming Pools, roads, bus routes, and a media centre. The types of trades offered through the clauses include: mason assistant, carpenter, painter, building worker, pavers, green space maintenance, plumber, metalworker, plastering, and external cleaning.

2.4.4 Delivery and monitoring

They can maximise benefit for city economies and in both socio-economic and environmental terms across Europe, through the procurement process in the delivery stage. This can include:

Developing supplier networks

They can enable benefit and continuously ensure that wider economic, social and environmental benefit is considered in service delivery through the establishment of supplier networks. Supplier networks ensure a continuous relationship between buyer and supplier. Historically, goods and services have gone out to contract and suppliers have gone away and delivered the required service. A supplier network enables these institutions to voluntarily influence the behaviour of suppliers by informing them of corporate priorities and wider expectations around economic, social and environmental benefit; and in turn ensure these aspects of benefit are being delivered.

Continuous spend analysis and outcomes monitoring

They can continuously seek to identify the impact their procurement spend brings for their locality through spend analysis and contract monitoring. Through

geographical analysis, they can identify the extent to which spend lies with suppliers based in or within a branch in their municipality boundary; and spend within particular areas of the city. Through contract monitoring, institutions can identify the extent to which suppliers re-spend in the local economy upon local suppliers and employees of their own; and the extent to which they are adding value to wider local priorities and outcomes. Spend analysis can also be utilised to identify areas of spend which are 'influenceable' and 'non-influenceable'. In relation to the barrier around protectionism, it can be used to identify contracts which are not conducive to local economic, social and environmental benefits and those which are.

Case Study - Manchester City Council, United Kingdom

Manchester City Council in the United Kingdom has been forefront of work around measuring the impact of their procurement spend and utilising this evidence to amend procurement policy and practice, including the formulation of supplier networks.

In relation to delivering and monitoring, Manchester City Council has been undertaking work since 2008/09 around changing their procurement processes in order to bring greater benefit for the local economy. Central to this has been evidence gathering around the impact of spend and subsequent adoption of policy and practice. In each of the last six financial years the supply chain has been analysed to understand the extent to which, organisations providing the Council with goods and services are based in the Manchester boundary and wider Greater Manchester.

The above analysis and intelligence has been utilised to frame a range of activities which have sought to maximise the benefit procurement spend brings. A cross-departmental procurement working group was set up, which brought together procurement officers and commissioners of services and importantly economic development teams. A suppliers' network was also set up which brought together key existing suppliers to Manchester City Council and procurement and economic development teams, with a purpose being to influence the behaviour of the supply chain so that added value was brought beyond the delivery of a good or service. For example this meant discussions around addressing worklessness, creating sub-contracting opportunities for Greater Manchester based businesses, and apprenticeships. To supplement this further engagement work was undertaken with suppliers based in areas of deprivation, to make them aware of the challenges facing the locality, whilst seeking to influence their recruitment and supplier choices.

The core outcome of the work undertaken by Manchester City Council has been a shift in the behaviour of both the Council and its suppliers. Officers at Manchester City Council are now working more collaboratively to ensure that public service provision reaps maximum benefit for the Manchester economy and its residents. Suppliers are now also thinking about delivering local economic, social and environmental benefit. As a result of the activities described above and others, there has also been a change in both the levels of spend by Manchester City Council in its own boundary and re-spend by the supply chain. In the financial year 2008/09, 51.5% of spend upon the top 300 suppliers was with Manchester based suppliers; this has increased to over 67% in financial year 2014/15.

2.5 Concluding thoughts to the State of the Art

The Procure network is about supporting cities to maximise the impact their procurement spend brings for their local economies and in economic and social terms. Framed by the new European Directives and a realisation that procurement can be utilised as one of the ways in which challenges facing European cities can be addressed; this State of the Art has sought to provide a context to the theme of innovative and progressive procurement. The development of Procure comes at an opportune moment. The European Directives came into effect in February 2014 and member countries are required to embed their principles into national level law by April 2016. The principles are important as not only do they require cities to be compliant and accountable around procurement; but they also provide the opportunity to be flexible particularly around the engagement of SMEs and the achievement of wider societal goals.

Undertaking innovative and progressive procurement is however restricted by a range of barriers; notably around: law and bureaucracy; the behaviour of municipalities and other anchor institutions; the behaviour of suppliers; measuring impact; and geography. The means of maximising economic, social and environmental benefits through commissioning, procurement strategy, pre-procurement, and delivery and the associated case studies presented in the 'state of the art' will be explored as part of the Procure network going forward. However, the learning and practice could and should be adopted across other cities in Europe to enable the impact of procurement to be maximised.