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CREATING A GOOD LOCAL ECONOMY THROUGH PROCUREMENT

Pre Meeting Briefing Note 2 prepared by

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Presented to

Procure network partners and URBACT

1 PRE MEETING BRIEFING NOTE 2 – SPEND ANALYSIS AND DEVELOPING A PROCUREMENT STRATEGY

1.1 Introduction to the theme and meeting

The second meeting of the Procure network will take place in [Nagykálló, Hungary](https://en.wikipedia.org/wiki/Nagyk%C3%A1ll%C3%B3)[1] and [Satu Mare, Romania](https://en.wikipedia.org/wiki/Satu_Mare_County)[2] on Tuesday 19th, Wednesday 20th, and Thursday 21st September 2016. The focus is upon two thematic areas: spend analysis; and developing a procurement strategy.

The aspect around spend analysis will look to address three key questions (these have been previously identified by the partners):

❑ What should be measured as part of spend analysis?
❑ What spend analysis tools are other cities using?
❑ How can evidence be used to strengthen the local economy?

To answer the questions, the thematic element of this aspect of the meeting will be split into two parts. First, there will be a 'Masterclass' on undertaking spend analysis and second, there will be a case study and practical session which will enable partners to develop their skills in undertaking spend analysis.

The aspect around developing a procurement strategy will look to address four key questions (these have again been previously identified by the partners):

❑ Is there a need for a local procurement strategy?
❑ What steps are needed to produce a procurement strategy?
❑ How does procurement strategy subsequently link to procurement processes?
❑ How can political buy in be secured and how can the cities priorities be linked to procurement?

To answer the questions, the thematic element of this aspect of the meeting will be split into two parts. First, there will be an introduction to developing a procurement strategy which will cover off each of the questions. This will be followed by a series of practical workshops whereby partners will have the opportunity to go through the steps required to produce a procurement strategy.

This 'pre workshop briefing note' provides some initial information about each of the above aspects of spend analysis and developing a procurement strategy, which will be covered in more depth at the meeting. It is designed to enable partners and their local stakeholder groups to discuss prior to the meeting, in order for them to formulate thoughts and questions.

1.2 Aspect 1 – Spend Analysis

Municipalities and other anchor institutions spend billions of euros each year purchasing a range of goods and services through procurement. These procurement activities will relate to the purchase of goods (for example, stationary); services (for example, waste disposal); and works (for example, construction). Most institutions will keep a log or record by supplier of what they are purchasing, when they are purchasing, how much it is costing, and who they are purchasing it from, with this largely done for accounting,

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budgeting, and transparency purposes. There is however much more that can be done, and this is where the process of spend analysis comes in.

1.2.1 What can spend analysis identify?

Evidence is crucial to the development of any strategy and if places are serious about progressing the way in which they undertake procurement and they want it to reap more benefits in local economic, social and environmental terms then they need to understand the existing nature of their spend and where it goes. Spend analysis is best undertaken at the end of a financial year and existing data can be used and added to in order to identify the following:

The geography of spend
Institutions can explore the geography of where their spend goes. In this, they might be interested in the proportion of their suppliers and the proportion of their spend which is with businesses and organisations based in their municipality boundary; in their wider city-region or region; or/and in their country. They might also be interested in the proportion of spend which is leaking out of their municipality boundary or city-region.

Institutions can further explore the geography of where spend with suppliers based in their municipality boundary or wider city-region goes. In this, they might be interested in understanding the proportion of their spend which is within particular neighbourhoods in their municipality or in areas of deprivation in their municipality.

The sectors of spend
Institutions can explore the sectors where their spend goes. Here they might be interested in the proportion of spend which is with organisations in the construction or communications sector, for example or with consultants. This can in turn be linked to the geographical analysis to identify the sectors where there is lots of spend in their municipality or city-region; and in turn the sectors where there is leakage out of the local economy and gaps (sectors where there is very little local spend).

The nature of spend
Institutions can explore the nature of the businesses or organisations to which their spend goes. In this they might be interested in the proportion of their spend which is with Small to Medium Sized Enterprises (SMEs) or Non-Governmental Organisations (NGOs), for example. This can in turn be linked to the geographical analysis to identify the extent to which suppliers based in the municipality or city-region are SMEs or NGOs.

1.2.2 What data needs to be collected?

To undertake the above analysis, institutions need to identify and collect a range of data:

Geographical data
They need to collect data about their municipality and city-region. To undertake the geographical analysis described above there is a need to cross reference geographical information about each supplier with data for the geographical level at which the analysis is undertaken. For example, in the United Kingdom, postcodes[3] are utilised to define municipality boundaries – therefore to determine the proportion of spend in a certain municipality as part of spend

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[3] https://www.doogal.co.uk/UKPostcodes.php

analysis a full list of all postcodes for that municipality is required in order to cross-reference the postcodes of individual suppliers.

In partner countries, there will be different ways of defining municipality boundaries, but it is important that at the start of spend analysis that all codes for your municipality and city-region (where relevant) are collected. If further lower level geographical analysis is being undertaken it is also important to split the codes down by neighbourhood and collect information about areas of deprivation.

Spend data

Institutions need to collect information about each supplier which has been utilised by the institution in that financial year. This will be used as the base for all analysis and most institutions will keep a record of who spend has been with. As a minimum the following is required for spend analysis:

❑ The name of each supplier used in that financial year;
❑ The total amount spent with each supplier in that financial year;
❑ Address details for each supplier – this needs to include a postcode or other form of geographically identifying the location of the supplier.

In addition, institutions might be able to provide information about the sector of each supplier, whether they are a SME or NGO, and an email address for a key contact at each supplier (this is important for monitoring impact, which is the focus of thematic meeting 6).

Sector and business type data

If institutions cannot provide information about the sector of each supplier, whether they are a SME or NGO, and an email address then further research is required. In the United Kingdom, every business has a Standard Industrial Classification (SIC) code[4], which is framed around 21 key sectors; with each business being able to be searched for on the Companies House[5] database. In partner countries, there will be different ways of categorising business and means of collecting data; it is however important that sector data is collected for each supplier.

In terms of SMEs, these are organisations with less than 250 employees. In the United Kingdom, information about the size of the majority of businesses is detailed on the Mint Database[6], with information about NGOs detailed on the Charity Commission[7] website. Again, in partner countries there will be different ways of collecting information about SME and NGOs; it is however important that sector data is collected for each supplier.

1.2.3 Undertaking the analysis

At the transnational meeting, each of the aspects of data collection detailed above will be talked through during the Masterclass. This will be followed by the opportunity for partners to run through a practical spend analysis exercise utilising excel.

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[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455263/SIC_codes_V2.pdf
[5] https://www.gov.uk/government/organisations/companies-house
[6] http://www.bvdinfo.com/en-gb/our-products/company-information/national-products/mint-uk
[7] https://www.gov.uk/government/organisations/charity-commission

1.2.4 Utilising the analysis – the case of Manchester City Council, United Kingdom

Analysis of procurement spend (through spend analysis) can be utilised by municipalities and other anchor institutions in many ways. To demonstrate this, the following presents a case study of Manchester City Council, who have been undertaking detailed spend analysis since 2008/09[8]. Spend analysis has been used by Manchester City Council in the following ways (amongst others):

To develop a baseline position

The primary purpose of Manchester City Council first utilising spend analysis in 2008/09 was to get an understanding of where their spend was going, effectively a baseline position. They wanted to understand the following:

❑ The proportion of spend with businesses and organisations based in the Manchester boundary (the municipality) and Greater Manchester (the city-region);
❑ The proportion of spend with businesses and organisations based in wards (neighbourhoods) and areas of deprivation in the Manchester boundary;
❑ The proportion of spend with businesses and organisations in particular sectors;
❑ The proportion of spend with SMEs.

This baseline position has been subsequently used to shape a whole host of strategic activities around procurement, which are focused upon reaping further benefit for the local economy.

To promote contribution to the local economy

In each of the financial years following the development of the baseline position described above, Manchester City Council has undertaken spend analysis. The purpose of this has been to assess the impact of strategic interventions around procurement and importantly the extent to which the indicators above have changed. This has primarily focused upon the proportion of spend with businesses and organisations based in the Manchester boundary, which has increased year on year.

To inform strategy and social value criteria

Manchester City Council have utilised the findings of spend analysis to frame their procurement strategies and statements. For example, it has shaped the objectives of the recently developed Ethical Procurement Policy[9]. It has also been used as the evidence base to frame changes to the way in which Manchester City Council procures. They are seeking to get much more benefit out of every procurement in terms of local economic, social and environmental considerations; hence have adopted a social value criteria which constitutes a minimum 20% of every contract decision.

To engage with suppliers in deprived parts of the city

Manchester City Council have used spend analysis as a means of identifying suppliers which are based in wards (neighbourhoods) in the City, and particularly those based in areas of deprivation. They have then utilised this intelligence to go and visit these organisations and seek to influence their behaviour around recruitment and their own supply chains for example, so that they bring greater local economic, social and environmental benefits for those areas.

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[8] http://www.cles.org.uk/wp-content/uploads/2011/01/The-power-of-procurement.pdf
[9] http://www.manchester.gov.uk/downloads/download/6446/ethical_procurement_policy

To identify leakage

Manchester City Council have used spend analysis as a means of identifying the spend and the sectors of spend where there is the greatest leakage out of Greater Manchester (the city-region). They have used this intelligence to subsequently identify the extent to which this spend is 'influenceable' (this is for goods and services which are potentially available locally and not tied up in framework contracts, for example) and have as part of procurement exercises sought to ensure that local businesses and organisations are involved in tender processes.

The impact of undertaking initial and ongoing spend analysis and the implementation of the above activities (and others) has been profound:

❑ 73.6% of spend in 2015/16 was with Manchester (municipality) based businesses and organisations compared to 51.5% in 2008/09;

❑ 90.7% of spend in 2015/16 was with Greater Manchester (city-region) based businesses and organisations compared to 86.5% in 2008/09;

❑ 39.6% of Manchester spend is with businesses and organisations based in neighbourhoods in the 10% most deprived nationally;

❑ The proportion of total spend with SMEs has increased from 46.6% to 53.3%.

1.3 Aspect 2 – Developing a Procurement Strategy

The next logical step in adopting a progressive approach to procurement is to develop a procurement strategy. This follows on neatly from understanding European and National Level Law around procurement (the focus of thematic meeting 1) and spend analysis (as discussed above and the first element of transnational meeting 2).

At the transnational meeting in Satu Mare we will talk in more depth about developing a procurement strategy, the need for procurement strategy, and case studies. However, for the purpose of this pre meeting briefing note we purely focus on the component elements of a procurement strategy development approach, a suggested structure, and key questions you may want to ask yourselves when developing a procurement strategy. This is to give ULGs the opportunity to discuss before the meeting a structure for how a procurement strategy may look in their place.

(Procurement) strategies can take many forms and focuses, involve an array of stakeholders, and take various structures. We outline below a suggested set of activities which need to be undertaken to develop a procurement strategy.

Activity 1 – setting the context

The first activity is to frame the development of your procurement strategy in the context of a number of factors. First, it needs to be framed in the legislative context. By this we mean it needs to adhere to and be reflective of relevant European Directives, it needs to reflect national level law, and it needs to be framed by any local level policy around procurement. Second, it needs to be shaped by the wider priorities and strategies of the place in which the procurement strategy is being developed. With the emphasis of this network being upon achieving local economic, social and environmental benefit through procurement; it therefore needs to be set in the context of corporate and

economic development strategy and priorities, most notably around employment, skills, and business and enterprise development.

Third, it needs to be framed by a consideration of relevant stakeholders. Here, places will need to consider whether the strategy is purely for the municipality or whether it is for a range of institutions. Fourth, it needs to consider any existing procurement strategy and how the process of procurement is currently undertaken. Here, there needs to be a consideration of the strengths, weaknesses, opportunities and threats associated with thresholds, documentation, cost to quality to social value split, advertising approaches, and criteria for assessing tenders. As such places need to be asking themselves the following questions:

❑ Why do we need a procurement strategy?
❑ What is the legislation and policy which the procurement strategy needs to adhere to?
❑ How does procurement and the procurement strategy link to wider agendas?
❑ Who is the procurement strategy for?
❑ How effective is existing procurement strategy and process?

Activity 2 – Gathering evidence

The second activity is to gather a host of evidence around procurement activity in your place. Again this is dependent upon who your strategy is for, whether it be purely the municipality or collectively for all anchor institutions. Evidence gathered should include in relation to the following themes. First, evidence should be gathered as to existing levels of spend procuring goods and services. In this we are interested in spend on both capital and revenue procurements and also proportions of spend which are above and below threshold levels. Second, evidence should be gathered as to where existing procurement spend currently goes (i.e. the areas of spend analysis identified earlier in this briefing note: geography of suppliers, the sectors of spend, and the nature of spend).

Third, evidence should be gathered around any wider impact that procurement spend currently has. For example, the place may collect data through a social value procurement framework around the jobs created by suppliers as part of a contract. Fourth, if the procurement strategy is to include considerations as to how procurement can bring wider local economic, social and environmental challenges, evidence should be collected around the challenges facing that particular place. This can be collected through economic development and other strategies. As such places should be asking themselves the following questions?

❑ What data do we already have to evidence our procurement strategy?
❑ What are the gaps in data?
❑ How do we fill those gaps?
❑ What does the data tell us about procurement spend in our place?

Activity 3 – Developing aims and objectives

The third activity is to develop aims and objectives for your procurement strategy. These should be shaped by the context from activity 1 and the evidence from activity 2. The aims and objectives need to relate to both the compliance and process side of procurement and the local economic, social and environmental benefit element. They also need to relate to any wider policy and political drivers. As such places should be asking themselves the following questions:

- ❑ What is the context, evidence and policy drivers telling you about your place and procurement?
- ❑ What do you want your procurement strategy to achieve and what is its timeframe?
- ❑ How do these prospective achievements translate into themes and aims and objectives?
- ❑ Do you want to set any targets relating to your aims and objectives?

Activity 4 – Developing actions

The fourth activity is to develop actions which relate to each of the aims and objectives of your procurement strategy. The actions may again be both compliance and process focused and local economic, social and environmental benefit focused. They may also be things that are already happening and being expanded upon or new actions. For example, in relation to compliance and process, they may include:

- ❑ Develop simplified tender documentation in order to support SMEs to bid;
- ❑ Develop alternative processes for below threshold opportunities;
- ❑ Pilot alternative approaches to procuring goods and services; for example, competitive dialogue.

In relation to economic, social and environmental benefit, they may include:

- ❑ Develop social value procurement framework;
- ❑ Introduce social value criteria into the procurement decision;
- ❑ Embed measurement of local economic, social and environmental benefit into contract management.

As such places should be asking themselves the following questions:

- ❑ What actions do we already have and how effective are they?
- ❑ What new actions would we like to embed into our procurement strategy?
- ❑ Are our proposed actions realistic and deliverable?

Activity 5 – Implementing the strategy

The fifth activity is to detail how the completed procurement strategy will be implemented. In this there needs to be consideration of the following in relation to each aim and objective and associated actions:

- ❑ The timeframes for the action in terms of when they will start and whether they will be achieved in the short, medium, or long term;
- ❑ The partners which need to lead the activity and be involved;
- ❑ The resources which are required to deliver against that objective and action;
- ❑ A measure for determining the success of the objective and activity.

These are effectively the questions which places need to be asking themselves.

1.4   Tasks for undertaking

Prior to attending the transnational meeting on 20th, 21st and 22nd September in Nagykálló, Hungary and Satu Mare, Romania, all partners are asked to think about the following questions. If partners are holding local stakeholder group meetings before the meeting that would be a good place to consult on the questions. If not, project officers should look to discuss directly with their local stakeholder group coordinators and with other members of their local

stakeholder group by email. There will be various opportunities to discuss thoughts on these over the course of the three days.

In relation to the spend analysis aspect:

1) Does your institution and other organisations in your local group currently undertake spend analysis? If so, what are you analysing? If you are not undertaking spend analysis, what do you think you would like to analyse?
2) What data is available to your institution and other organisations in your local group to undertake spend analysis? What are the key gaps in data?
3) What data tools do you have in your countries to collect information about businesses (similar to Companies House and Mint Database in the UK)?
4) What is the purpose of your institution and other organisations undertaking spend analysis (think about the ways Manchester City Council have used it)?

In relation to the developing a procurement strategy aspect:

1) Does your institution and other organisations in your local group currently have a procurement strategy? If so, why do you have a procurement strategy and what is its structure and focus? If not, what do you think the structure and focus of a procurement strategy in your and other institutions in your local group should be?