

# **Maximising the Impact of Welsh Procurement Policy**

## **Executive Summary**

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## Introduction

The Minister for Finance and Leader of the House commissioned this review into how to strengthen the impact of Welsh procurement policy. The Minister announced this in an oral statement on 21st February 2012.

In the current economic climate high expectations are placed on what procurement can deliver for Wales. Value Wales is the division of Welsh Government with the remit to help the public sector deliver more from annual expenditure well in excess of £4 billion, through improving both practice and the outcomes achieved. It largely operates through engagement with public sector organisations in the Local Authority, NHS, Education and Emergency Services sectors and with business, while also carrying out some aspects of direct contracting and service provision.

### Review terms of reference

It is timely to consider the overall effectiveness of Welsh public sector procurement and how the impact of procurement can be maximised. The Review will look at whether Welsh Government has the right operating model and resources in place; if the central resource is being effectively deployed; if the wider public sector resource is adequate; if other Welsh Government policies are appropriately aligned; whether Welsh public sector procurement is delivering value for money and having an optimal impact on economic growth.

The Review will therefore consider:

- ◇ The current plans to deliver the procurement aspects of the Programme for Government
- ◇ Procurement landscape and operating models
- ◇ Measurement tools
- ◇ Data
- ◇ Communication channels
- ◇ Operating constraints
- ◇ Dependencies (within Welsh Government portfolios and across the wider public sector)
- ◇ Achievability.

It will compare and benchmark the delivery model, resources and outcomes against other governments and any other similar data sources.

It will take account of the on-going work to shape future strategy including:

- ◇ The National Procurement Service outline business case (collaborative procurement)
- ◇ The xchangewales Futures Project (e-procurement)
- ◇ The Procurement Excellence Project (Welsh Government internal procurement organisation)
- ◇ The potential changes resulting from the new EU directives in 2013
- ◇ Research into interpretation and application of EU/UK procurement rules
- ◇ Existing policy commitments (including Anti-Poverty Action Plan, economic renewal, Micro-Business Report, sustainable social service, and Simpson Review)
- ◇ The recommendations made on public sector procurement made in the Micro-Business Task and Finish Report which was launched on 18 January; and
- ◇ Sector Panel feedback (e.g. Construction).

In the context of this remit the approach adopted in conducting this Review was based on two distinct strands of activity.

Firstly, there has been an examination of existing documents, statements, reviews, reports and commentaries covering public procurement topics and issues which range from policy to day to day operations.

Secondly, through an intensive series of interviews and meetings I was able to absorb opinion and advice from stakeholders from both within and outside the public sector, and of course especially those with a strong interest or involvement in public procurement. Some of this opinion and advice was in written format.

It should be emphasised that there was a high level of interest shown in my work and the cooperation and assistance provided could not have been better.

I thank all who spent their time in providing input and advice.

**John McClelland, CBE**

## 1. Key findings of the review

Significant progress has been made in public procurement in Wales in recent years. This results not only from an intense focus by the Welsh Government and other public sector leaders, but also from the considerable efforts of those involved in procurement operations across the public sector.

Cabinet level leadership and detailed engagement is particularly strong and the Welsh Government's ambitions and supporting policies have been clearly outlined and communicated. Influential leaders from across the public sector have also responded to the Government's initiatives and engaged in governance mechanisms.

The Government's ambitions include an expectation that public procurement should deliver a range of wider benefits including positive impacts on the economy, the environment and social wellbeing.

Policies have been developed on a strong foundation of excellent research and advice from Value Wales, and also from insightful and influential reports and reviews conducted by various working groups and committees. In support of the implementation of policies, and in pursuit of progress, a wide range of centrally developed programmes, tools and services are provided to the entire public sector by Welsh Government. The quality and effectiveness of these offerings is generally high and in some cases at the leading edge of developments in UK public sector procurement.

This recent progress has put public procurement in Wales in a better position now relative to other parts of the UK compared to its position of several years ago. However there is still opportunity to make further progress.

The current overall position is being achieved despite some significant weaknesses in capability and performance. Procurement capability in terms of staffing, skill levels and the degree of influence allowed to procurement officers could be improved in general and especially in some specific parts of the public sector. For example, within an overall shortfall in skilled resources in Local Government, there are authorities with resource levels that compare well to benchmarks from within and outside of Wales.

Yet there are quite a number where staffing levels, compared to those benchmarks, are completely inadequate and where the spending per procurement staff member is many times that of authorities with adequate staffing. I also assessed from available information and sampling that there is a relatively low proportion of part or fully qualified professionals. The combination of these two factors leads to the conclusion that there is a skills deficit and resultant procurement capability impact that needs to be addressed to make further progress. In the case of some Local Authorities I would question whether minimum standards can be met with such low levels of skilled procurement staff and believe a programme of procurement capability assessments should be introduced, so that organisations can demonstrate to the Welsh Government that they have adequate skilled resources for effective delivery.

There certainly also appears to be a correlation between the procurement capability of individual organisations and the results they deliver. These show wide variations in outcomes across key aspects of performance. In the context of impact on the economy, this is seen in the data that lies behind the increase in the proportion of total spending conducted with companies based in Wales. Within an average of 54% for all Local Authorities there is one authority spending 70% with Wales based companies and another spending 37.9%. The detailed statistics strongly suggest that the weaker and less centralised the procurement capability the lower the proportion of spending with Wales based companies.

An examination of the operating model showed that approximately 20% of Welsh public sector spend is through collaborative contracts. Within this overall total the Health Service reported that 63.4% of its total spending was collaborative, while I assess the Local Government equivalent to be around 11%.

When reviewing take-up of central tools and services a similar picture emerges. Some organisations lead in their use of the capabilities that make a significant difference for businesses and buyers in Wales yet others do not use, or only partially use, programmes that support implementation of Welsh public procurement policy. The impacts of not adopting policies and programmes include lost financial savings, lower benefit to the Welsh economy and increased complexity and cost for Welsh businesses, arising from a lack of standardisation.

A conclusion easily reached is that the path to further progress is through more focus on implementation, particularly by those organisations lagging behind the others. This will require investment, and especially by Local Government where it is important to recognise that there is not only a shortfall in skilled resources at a number of individual authorities but also under-investment and low participation in collaborative procurement. So I would emphasise that both areas should receive investment rather than attempt a trade-off between the two.

This Review also raises the question of additional investment being made in supplier development by the Welsh Government. This would assist more businesses in Wales to compete for public sector business. Investment should also be considered by the Welsh Government to support the start-up phase of a new national procurement service. Given the Welsh Government's very high expectations compared to resources allocated, investment may also be required in Value Wales' capability if it is to act more formally and effectively on behalf of the Welsh Government in ensuring that policy is fully implemented. This should also address weaknesses in data and key performance indicator collection to help drive progress.

To underpin all of this, I am recommending a mandatory approach to policy implementation, initially through conditions of grant and ultimately through legislation.

In final summary, there is a structured, strongly directed and well governed model for public procurement in Wales. To be more effective and make further progress some weak areas need to be strengthened and a more intensive programme of implementation adopted. Further conclusions and recommendations from the report are shown below. They are grouped under the appropriate section headings from within the full report.

## 2. Government Policy and Deployment

Welsh public procurement policy has been developed in the context of advice and research which is outstanding in its competence and technical content. This has arisen from the quality of both the work undertaken by Value Wales and that of various working groups and committees. Policy and expected outcomes have been directly communicated in various important documents and by Ministers whose leadership, knowledge of, and engagement in, public procurement matters is commendable. Outstanding work has also been done in developing policy, strategies and practices and very good progress has been made in public procurement in general.

However, policy acceptance, deployment and implementation is not consistent across the public sector and although there are exemplar organisations there are some lagging in embracing and implementing Welsh Government policy. There is therefore a significant opportunity for Welsh public sector to grasp further benefits by adopting an intense focus on a more comprehensive implementation of the policy, plans and programmes already developed.

### Recommendation 1

Welsh Government procurement policy should be consolidated into a single 'Policy and Practices Document' which would be available as a handbook for leaders, executives and procurement professionals to use as a blueprint for their conduct of all public procurement.

### Recommendation 2

Given that further progress is heavily dependent upon practical implementation, rather than on new policy, implementation of public procurement policy should be regarded as a duty rather than an option. In the short term, this duty should be made mandatory through its inclusion as a condition of grant for all public sector funding provided to organisations by the Welsh Government.

### **Recommendation 3**

The Welsh Government should formally adopt the content and recommendations of the Buying Smarter in Tougher Times Report into Welsh public procurement policy thus making its acceptance and implementation mandatory.

### **Recommendation 4**

To correct any misconception over targets, the Welsh Government should confirm that it expects delivery of a balanced set of wider benefits.

## **3. Procurement Capability**

If Health Service staffing is left aside there is an overall deficit in procurement resources in the public sector in Wales. Resources are not only in shortfall but are also not consistently spread. The situation is especially serious in Local Government where although some authorities have adequate resources there are others showing gaps that are concerning and likely to impact on performance. In addition within these resources less than half of procurement staff are part or fully qualified. It would seem that some organisations place a low value on procurement capability and certainly do not see it as an operation to invest in or position as strategic within their organisations. Within the UK Wales was amongst the first to introduce 'procurement capability assessments', which focused on the competencies of individual procurement departments, allowing strengths and weaknesses to be highlighted and corrective actions internally pursued. Unfortunately these were discontinued. The Home Grown Talent programme is an outstanding initiative. However there are only 24 trainees planned which is a low target in the context of the scale of the problem.



### **Recommendation 5**

It should also be a duty to ensure that the function of procurement within every public sector body is staffed with skilled procurement resource to a level that is adequate to support the public body's obligations for governance, and delivery of the Welsh Government's policies and required practices. This should include appropriate recognition of the value and positioning of procurement within organisational structures.

### **Recommendation 6**

Local Government should take urgent steps to address its skills deficit and in particular the serious shortfalls in resources at some authorities.

### **Recommendation 7**

Given that staffing at the Welsh Government Corporate Procurement Services unit seems inadequate, the Welsh Government should examine patterns and granularity of spending covered by the service to establish where it should be benchmarked for resources given the unique nature of activities.

### **Recommendation 8**

The Welsh Government should sponsor the reintroduction of regular 'procurement capability assessments'.

### **Recommendation 9**

Given the scale of the skills deficit the Home Grown Talent programme should be expanded to provide a greater number of trainees.

### Recommendation 10

The Welsh Government should commission a full and formal survey of procurement resources and professional skill levels in the public sector.

## 4. Economic, Social and Environmental Impacts

There has been significant progress made in delivering wider benefits from public procurement in Wales. This has been achieved through a range of actions including policy development and deployment and the creation, provision and implementation of policy driven programmes, tools and improved practices. This is demonstrated in the fact that, for the year 2010 / 11, some 52% of Welsh public sector spending was conducted with businesses based in Wales. It is also demonstrated in the fact that Wales leads in the introduction and take-up of community benefit clauses within contracts. However despite this general improvement some organisations lag the advances made by others through adopting available programmes and tools, and in having a focus on maximising the wider benefits from public procurement.

Wales is in advance in directly linking the Business, Enterprise, Technology and Science portfolio to the public procurement agenda. Mechanisms such as xchangewales and Sell2Wales have transformed the procurement landscape for buyers and suppliers. However, some of the more complex programmes need to be revisited. For example, the Supplier Development Programme seems effective but covers only a small proportion of suppliers. The concept of economic development through filling 'supply voids' is a sophisticated but challenging programme and one where clear leadership and accountability is vital. As is consistent engagement and support from the buying community.

Finally, despite improvements in procurement practices there is still a level of disquiet amongst suppliers and representative bodies about public procurement practices and in particular their ability to gain access to opportunities. This anxiety is particularly strong in the construction industry and amongst the third sector. Great reliance has been placed on the new SQuID procedure and PQQ tool.

### **Recommendation 11**

The mandatory duty for all funded bodies to adopt Welsh Government procurement policy should include delivering the wider benefits of economic, social and environmental impacts.

### **Recommendation 12**

All bodies in Wales funded by the Welsh Government should be required to include in their annual reports a statement describing how they have delivered on the policy of wider benefits, and should show and comment on the value and % proportion of their total procurement expenditure that has been spent in Wales and also with SMEs.

### **Recommendation 13**

The concept of directly linking economic development, and specifically supplier support and development, to public procurement should be vigorously pursued.

The lead role and strategic responsibility of the Business, Enterprise, Technology and Science Division in this area should be underlined in a formal communication to the public sector in Wales. New mechanisms to work directly with procurement operations across Wales should be developed and should require the appropriate participation of individual and collaborative procurement units.

#### **Recommendation 14**

The budget for investment in supplier support and development should be reviewed and increased to provide wider and more in depth coverage of the priorities described above.

If funding cannot be augmented then the available resources and finances should be concentrated on priority areas that will provide the greatest and potentially quickest return. Given the value of spend and its relevance to the economy the construction sector should be considered as a prime candidate for this concentrated approach.

#### **Recommendation 15**

The Welsh Government should identify the factors that contribute to a higher proportion of spending with SMEs, and require plans from the lower performing organisations to bring them to that level.

#### **Recommendation 16**

Interaction with the third sector should be reviewed with a view to fully understanding its concerns about public procurement and the contribution it can make to wider benefits. Ways should be found to enable practical engagement with the public sector in designing services to support defined outcomes.

#### **Recommendation 17**

The recommendations of the 'Barriers to Procurement Opportunity' research should be implemented as soon as possible and in particular overall implementation of the SQuID tool should be a priority.

A specific standalone programme for the construction sector should be initiated immediately so that those with highest expectations of SQuID can experience early progress.

### **Recommendation 18**

A replacement IT solution for Sell2Wales should be introduced at an early date.

## **5. Operating Model**

Over a number of years and based on logical architecture an operating model has been built, and sponsored by the Welsh Government, from previously existing consortia and new initiatives. One of its foundations being a 'memorandum of understanding' and vision of all-Wales sourcing orchestrated by Value Wales, which confirmed the commitment of the various sectors to a structure of operations and activities consistent with a layered approach. It reflects the fact that even with optimum levels of collaboration there will still be very substantial and high value procurement conducted locally at individual organisations. It also reflects the need to have a layer of collaborative procurement, with a tier that focuses on national cross sector contracts and also a tier that addresses collaboration within sectors, and sometimes regionally.

In addition, the model has a clearly identifiable and distinctive system of governance that seeks to ensure engagement and oversight from Ministerial leadership throughout the network of activities, down to day to day operations performed by procurement professionals. This model is well structured and reasonably robust, operates well in many parts and has progressed in the last few years with around 20% of total spending being conducted through collaborative contracts.

However, there are also some really weak areas where, with more effective operations and with some incremental investment, there could be substantially more delivered including greater impacts on the wider benefits sought by the Welsh Government. This is especially the case in Local Government where the proportion of spend through collaborative contracts is no more than 11% while in the Health Service the equivalent coverage is 63%. Also, in Local Government there are individual authorities where low staffing levels must impact upon the effectiveness of locally conducted procurement.

### **Recommendation 19**

Within the operating model local procurement is not conducted consistently well and especially within Local Government. I recommend that all organisations address this at an early date including correcting contributing weaknesses in staffing.

### **Recommendation 20**

To substantially improve the collaborative coverage and the effectiveness of the operating model, I recommend that the Welsh Government sponsor and provide funding support to establish a new national procurement service to address the national, common and repetitive categories of spending. This proposal is described in detail in section 6 of the full report.

### **Recommendation 21**

Given the low proportion of Local Government spending that is conducted against collaborative contracts, I recommend that the Local Government sector a) invests substantially more in existing consortia to increase the collaborative coverage of unique Local Government sector categories, and b) participates actively in a new national procurement service.

### **Recommendation 22**

Given the level of collaborative spending by the Welsh Government and its Sponsored Bodies, I recommend that the spending of Welsh Government Sponsored Bodies come under the remit of its Corporate Procurement Service, so that one professional procurement unit can provide the WGSBs and the Welsh Government departments with unified support, including access to, and use of, collaborative contracts from all sources.

### **Recommendation 23**

The system of governance should be “tuned” to ensure that it is effective in having clear line of sight responsibility and accountability vertically down and horizontally across the layers of procurement activity. I recommend that the membership of the Procurement Board is reviewed to ensure that there is 100% representation of all procurement operations in the public sector and, that within this review the Chairs of the two Local Government purchasing consortia in Wales be appointed to the Procurement Board.

### **Recommendation 24**

The model of governance should be used even more effectively to drive progress by examining and measuring performance. I recommend that the Measurement Framework contain a relatively small number of data driven performance indicators addressing the critical success factors for procurement and this “dashboard” format be adopted by every organisation in the Welsh public sector. Summaries of these key performance indicators and adoption and implementation of Value Wales programmes and tools, should be reviewed sector by sector or consortium by consortium at the Procurement Board.

### **Recommendation 25**

During this review I observed a deficit of essential data and also problems in transforming available data into management information. I recommend that the Welsh Government consider making an appropriate investment in this capability.

## 6. Value Wales and its programmes

Value Wales contributes significant added value to Welsh public sector procurement. Within its mission it has an extremely diverse set of responsibilities which vary from the conduct of day to day procurement and support, to mission critical e-procurement services through to research and development of high level policy advice. These responsibilities are mostly well conducted and with commitment and high endeavour from the staff. Nearly 80% of the staffing is associated with the operation of services for Welsh Government and external organisations and, of the balance, there are only 11 staff associated with procurement policy and its deployment and implementation, including skills development. In this respect it would seem that the Welsh Government's policy expectations of Value Wales exceed the current resource allocation. Policy work and the quality of advice and support offered to Ministers is excellent. In addition, the tools and programmes developed by Value Wales to support its deployment and implementation are well capable of supporting the ambitious transformation being sought by the Welsh Government. In some cases, leading edge capability is provided. The significant progress in Welsh public procurement is notable and this reflects well on the overall public procurement community. It also symbolises the effectiveness of programmes and tools when adopted.

The progress is driven by many organisations successfully implementing these programmes and tools. However the rate of positive change is being impeded by other public bodies not or only partially implementing.

### Recommendation 26

Implementation of the programmes and tools that support Welsh Government policy should also be mandatory and use of the Sell2Wales advertising channel for all OJEU and above threshold sub-OJEU contracts, should be the focus of early action.

Although the xchangewales service has been extremely effective in its delivery of e-procurement, new investment is required. This should only be made if organisations across the public sector commit to using the service.



### **Recommendation 27**

The imperative of overseeing, examining and intervening across the public sector to drive implementation of policy and the adoption of required practices should become a core part of Value Wales' activities. The allocation and prioritisation of resources, communication of the authority vested in it and its position within the sector should be consistent with this realignment.

### **Recommendation 28**

The mission and structure of Value Wales should be reviewed for assurance that its current responsibility for providing operational services to the Welsh Government and the wider public sector is consistent with the intense and independent focus required on policy adoption and implementation.