Wales Centre for Public Policy
Canolfan Polisi Cyhoeddus Cymru

Sustainable public procurement

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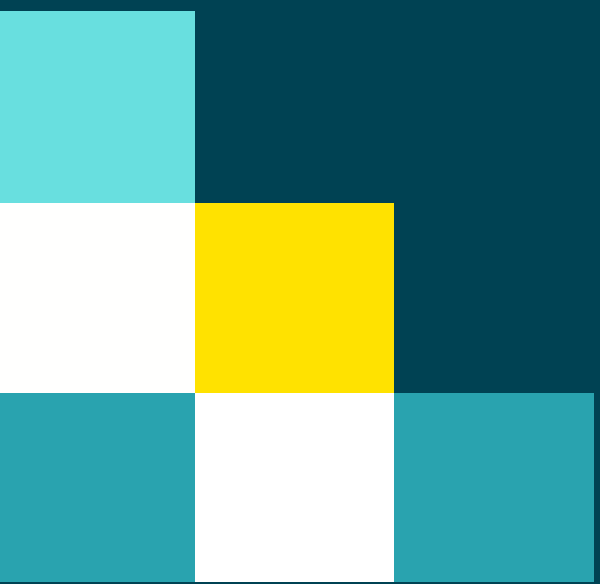

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Summary

- The Welsh public sector spends approximately £6 billion annually on goods, services and works. This represents nearly one third of total devolved expenditure and it is important to maximise the value it brings Welsh tax payers and service users.
- There is growing interest in how the Welsh Government and public services can leverage their considerable purchasing power to secure an array of economic, social and environmental outcomes. The renewed scrutiny of procurement provides an opportunity to think again about how public bodies approach procurement.
- Procurement needs to be a strategic undertaking and public service leaders need evidence about which approaches work best.
- Sustainable Public Procurement (SPP) involves building social, environmental and economic benefits into public procurement activities. In this way public bodies can promote social inclusion, boost local economies and safeguard environmental standards.
- Changes needed to implement SPP include the use of contract clauses to integrate sustainability throughout the whole procurement process; enhanced engagement with the supplier market; and more effective ongoing contract management.
- Officers need a clear mandate from politicians to enable them to accept higher upfront costs where these are needed to achieve longer-term, system-wide added-value. Evidence supports using life cycle costing and full cost accounting to enable this kind of decision making.
- The existing legal framework is supportive of SPP and provides scope to strengthen current practice. It is possible to simplify processes to encourage smaller organisations to successfully tender. Public bodies need to be more confident about applying these approaches.
- We need to invest more in professional development for procurement officers to tackle known deficits in knowledge, skills, capacity and resources that hinder the effective implementation of SPP.
- While examples of good practice and guidance on SPP abound, evidence of sustained impact and value for money is scarce, due in part to a paucity of research, monitoring and evaluation. Demonstrating the impact of SPP is critical for both developing good practice and public accountability.
- Procuring sustainably throughout the public sector in Wales requires senior champions who will set a strategic vision, commit to effecting change, take ownership over targets and drive good practice throughout their organisations.

Introduction

This paper has been produced at an important juncture in discussion of public procurement in Wales. Procurement services have been criticised by both the Wales Audit Office and the National Assembly's Public Accounts Committee (Wales Audit Office 2017a; 2017b; National Assembly for Wales, 2018; Morgan and Lynch, 2017), and following a year of consultation, the then Cabinet Secretary for Finance announced the cessation of the National Procurement Service in its current form over time, and the development of a new procurement strategy (Drakeford, 2018).

In parallel, there has been a growing appetite to generate greater social and economic return from the approximately £6 billion annual public procurement expenditure across Wales. Numerous Welsh Government initiatives now call for procurement to be used to lever broader social, economic and environmental outcomes, including generating fair work, boosting local economies, lowering the carbon footprint, and preventing human trafficking in supply chains (Welsh Government, 2017; 2018a; 2018b). Procurement has also been identified as an opportunity to drive a range of outcomes by experts working with the Wales Centre for Public Policy; including efficiency, effectiveness, inclusivity and equality (Parken, 2018; Williams, 2017; Green et al., 2017; Marsden et al., 2016; Trickey, 2016).

It is therefore timely to consider the outcomes public bodies can hope to achieve from procurement and the approaches they can adopt in order to do this. The evidence suggests that there is real potential to 'get more' from procurement and that it offers the opportunity to address some of the most persistent social, economic and environmental issues we face, globally, nationally and locally. In this report, we present evidence-based insights that we hope will inform debate and decision-making surrounding procurement and sustainability. We consider what is meant by sustainable public procurement; the key approaches to achieving it; how these can be implemented, including a discussion of some of the challenges and trade-offs; and we conclude with key messages for public bodies in Wales.

What is sustainable public procurement?

Sustainable Public Procurement (SPP) is about building social, environmental and economic considerations into public sector contracts and balancing those alongside traditional value-for-money considerations such as price and quality (Morgan and Morley, 2010). The premise of SPP is that requiring a contractor to meet certain standards – for example, requiring a firm to pay the living wage, or to use low-emission vehicles or recyclable packaging - will have both a direct impact on its activities, and potentially influence practice across the wider market (United Nations Environment Programme, 2017).

Sustainable public procurement emerged as a concept in the early 2000s and sustainable and ethical procurement have since been priority objectives among both senior public procurement practitioners and scholars (Walker, 2015). There are numerous related terms and concepts: Green Public Procurement (GPP), Social Procurement, Socially Responsible Procurement (SRP), Social Value Procurement (SVP), and Sustainable Procurement Behaviour (SPB) (McCrudden, 2004; Lynch et al., forthcoming; Furneaux and Barraket, 2014; Morgan and Morley, 2010; Hebb and Hachigian, 2017; Nadeem et al., 2017; Grose et al., 2012). For the purposes of this review we will consider all of these under the umbrella term of SPP.

Evidence from across the EU and beyond acknowledges the progressive role that procurement can play in encouraging the implementation of linked policy objectives in the context of environmental, social and economic challenges and constrained public sector budgets. In the main, this evidence takes the form of case studies and best practice guidance, which usefully demonstrate a range of ways in which sustainability can be incorporated in to public sector contracts and provide ideas and suggestions to help contracting authorities explore methods of implementation (Leacock, 2013). However, these are primarily descriptive, with little data on outcomes, impact or value for money. Despite the numerous examples of sustainable procurement in action, there is a scarcity of evidence on impact (Hebb and Hachigian, 2017; Morgan and Morley, 2010; Sutherland et al., 2015; Lynch et al., forthcoming). On the other hand, there is little evidence of any negative impact of SPP on cost, time taken to let contracts, or other procurement objectives.

Supporting the Welsh economy

Boosting local economies is a key ambition driving many SPP approaches. Local sourcing from “grounded firms” (Brill et al., 2015), often micro-businesses and SMEs that are rooted in communities, can keep money circulating where it is invested, maximising local linkages by

supporting firms and providing employment in communities. This is a key tenet of the 'foundational economy', which considers the provision of essential goods and services that citizens rely on and which exist in all localities (e.g. health, social care, education, housing, maintenance, utilities, food and retail). A large proportion of the value generated by these services is distributed through the wages of those involved in their provision. The foundational economy is therefore considered an equalising, stabilising, dynamic and potentially resilient part of the economy (Froud et al., 2019).

Public procurement is also often cited as a key lever for place-based economic development (Vardakoulias et al., 2017; RSA, 2017). The Centre for Local Economic Strategies (CLES) highlights the procuring power of "anchor institutions"– such as the local authority, hospital, college and schools – and their role in "community wealth building" by collaborating on procurement to direct spending to local businesses and organisations (CLES, 2017). By recognising the impact of their procurement spend, changing the procurement process and influencing the behaviour of suppliers, they report nearly 60% of public procurement in Manchester is now with SMEs and suppliers spend nearly £134 million within the Manchester economy (CLES, 2018). Yet some urge caution: in the US, the Institute for Public Procurement (NGIP) claims that local preference stipulations can erode competition, diminish standards and breed complacency and therefore does "not support the use of local preference policies as an appropriate tool for improving local economies" (NGIP, 2015 p.5). UK, EU and WTO procurement rules are based on the idea of equal treatment of local and non-local suppliers, therefore a good understanding of the legal framework is required when implementing place-based policies (see p.17).

Research points to the need for careful implementation of sustainable public procurement in practice to both benefit from these potential economic gains as well as to avoid negative unintended consequences on local economies. When implemented effectively, SPP can foster entrepreneurship and development within small businesses, especially in those areas which have suffered the most 'economic distress' (Aschhoff and Sofka 2009). On the other hand, increased formal bureaucratic procedures that might arise from attempts to implement SPP, when combined with a narrow definition of value for money, can have a negative impact on smaller suppliers (Peck and Cabras, 2011).

Social inclusion and fair work

The language of 'social value' has been gaining ground in procurement circles since the introduction of the UK Public Services (Social Value) Act in 2012, but social aims have been integrated in procurement practices for some time under the banners of community benefits, social cohesion, social capital, social responsibility or civic mission (Cartigny and Lord, 2017).

A cluster of measures promoting social inclusion and poverty reduction focus on improving work and pay conditions for workers delivering public sector contracts. For example, requiring contractors to support skills training and apprenticeships for disadvantaged groups, those with protected characteristics, and those furthest from the labour market. Growing concern about in-work poverty has also seen a drive towards stipulations tackling low pay, such as requiring contractors to pay the real living wage (as defined by the Living Wage Foundation).

Beyond immediate suppliers' workforces, public bodies can seek to influence the whole supply chain underpinning the services and goods they buy. Using the public sector's purchasing power and influence over its suppliers may, in theory, see more favourable terms and conditions trickle down throughout the supply chain. Procurement may also seek to incorporate broader determinants of fair work and job quality, such as measures promoting professional development and progression, autonomy and workplace wellbeing. Some public bodies have introduced stipulations relating to fair and ethical trade as well as human rights. The Modern Slavery Act (2015) applies to England and Wales; all organisations that receive funding from the Welsh Government are expected to sign up to its code of practice on ethical employment in supply chains (2018a); while in 2008, with the endorsement of a panel of experts, Wales became the world's first Fair Trade Nation, resulting in commitments from the Welsh Government and other public bodies. Public procurement may also be used to promote culturally appropriate goods and services, for example by extending compliance with the Welsh Language Act to contractors delivering public services.

Some public bodies have sought to strengthen civil society and citizen voice through procurement. Third sector organisations and social businesses (such as cooperatives, mutual and social enterprises) are used both to deliver goods and services, and as an intermediary to engage communities and stakeholders in design and decision making around local services. Both aims are promoted respectively in the Social Services and Wellbeing (Wales) Act 2016 and through the involvement and collaboration principles of the Wellbeing of Future Generations (Wales) Act 2015. The 2015 Public Contracts Regulations allow certain contracts to be reserved for social enterprises or for employment programmes supporting disadvantaged workers (Reg 20 and 77, HM Government, 2015).

Safeguarding the environment

Green Public Procurement (GPP) encompasses a wide range of measures that intend to protect and enhance the environment and is increasingly used by countries to achieve policy objectives in this area (OECD, 2015). GPP can include requirements on contractors to protect natural resources, promote biodiversity, or to use responsibly sourced and produced goods, such as fish, seafood, or wood and paper certified by the Marine and Forest Stewardship Councils or other ecolabelled products or services. Other measures seek to control consumption and production, for example by reducing carbon and water usage, and

range from broadening recycling approaches, developing the circular economy[1], eliminating single use plastics and employing extended producer responsibility schemes, to tackling poor air quality, promoting active transport, electric vehicles and associated infrastructure. Alongside specifying sustainable production processes, public bodies can measure and monitor the environmental value of procured goods and works, for example via environmental award criteria (European Commission, 2016), life-cycle purchasing, and environmental full-cost accounting of the materials and processes employed as well as their impact and disposal (see p.20).

GPP can drive innovation, expansion and growth in wider markets for environmentally friendly goods, services and works (Cheng et al., 2017; International Institute for Sustainable Development; 2012); for example, rendering standards such as BREEAM (Building Research Establishment Environmental Assessment Method), which certifies the sustainability of buildings is now commonly applied within the construction industry. The EU highlights construction, health services and transport as sectors where there are substantial opportunities to benefit from the application of GPP due to the large share of public purchasers in those sectors (European Commission, 2016).

Literature promoting GPP will often expound both the environmental and economic gains that may arise from the reduction of inefficiencies in the management of resources (International Institute for Sustainable Development, 2012). Yet, other commentators take issue with the win-win rhetoric around green growth, noting how it often obscures the economic and political trade-offs and complexities surrounding the reforms necessary to achieve environmental sustainability (Jones, 2018; Resnick and Thurlow, 2012). The Intergovernmental Panel on Climate Change highlights the enormous investments required to limit global warming to 1.5 degrees Celsius (IPCC, 2018) and Lundberg and colleagues are especially sceptical about the extent to which procurement is an effective environmental policy lever. They conclude that the few empirical studies on GPP available indicate “a weak impact at best” (Lundberg and Marklund, 2018:50), and find that green criteria in public procurement can have a negligible or even negative effect (Lundberg et al., 2015; 2016). The evidence base around GPP is contested, as is the evidence on the effectiveness of the social and economic measures introduced above; all of which calls for further research.

[1] Wrap UK describes the circular economy as “an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life”.

Implementing sustainable procurement

A big-data study into sustainable procurement approaches highlights that “there is no 'one best way' to purchase sustainably”, and that “sustainable procurement policy can be implemented in all manner of ways” (Grandia and Kruyen, 2017). Here, key techniques evidenced in the literature are briefly discussed.

Contract clauses

A widely used approach is to include community or social benefit clauses in the specification, tender and award criteria of contracts and allocate a sustainability weighting to how the tender is scored. Contract clauses can either take the form of clear stipulations by the procurer, for example that FSC accredited wood should be used, or more open provisions whereby the bidder is invited to demonstrate how they can incorporate various aspects of sustainability into the contract, based on their own expertise. The latter is a more innovation-oriented approach but one that can be challenging to score and compare transparently.

Community benefit clauses are familiar to Welsh procurers and the Welsh Government provides detailed advice and guidance (Welsh Government, 2014; Value Wales, 2016) but there has been no in-depth evaluation of their use in Wales. A Scottish evaluation found that they are increasingly used in public sector contracts there, and contractors are increasingly adopting sustainable practices into their business as standard (Sutherland et al., 2015). Nevertheless, while two-thirds of the Scottish organisations that were surveyed had used community benefit clauses, only a quarter of these used them routinely. Concerns about the legality of some community benefit clauses have limited their uptake, however the 2015 Public Contracts Regulations make clear that contract clauses may address economic, innovation-related, environmental, social or employment-related considerations, provided such terms are linked to the subject-matter of the contract and advertised in advance (Reg 70, HM Government, 2015).

Engaging with the supplier market

Engaging with the market pre-tender is considered good practice to generate sufficient and high quality responses to bids, particularly where new requirements for suppliers are introduced. Tools that can support market engagement activities include publishing market position and market shaping statements that summarise supply, demand and needs analysis. Pre-qualification questionnaires (PQQs) can be used to shortlist suppliers to invite to tender as part of a restricted tendering procedure, and can help establish the sustainability credentials, strategy or experience of potential providers. Providing a sustainability matrix or

specific framework; for example, checklists and scoring mechanisms around training and apprenticeships, can also guide suppliers on the priorities and standards expected by procurers (as in the development of the Works site in Blaenau Gwent).

Research also highlights codes of conduct, certification, self-commissioned and independent auditing and monitoring, as important techniques for socially responsible procurement and verifying social responsibility in supply chains (Landmark, 2014).

Sustainability as an intrinsic approach

Researchers agree that clauses should build on agreed community priorities, be clear, relevant and proportionate to the contract. However they argue that building sustainability properly into an organisation's procurement approach goes beyond simply awarding contracts with extra clauses. It should extend to how a contract is defined and the qualifications of contractors (McCrudden, 2004). Others expand on this; Sutherland et al. illustrate a four-stage Community Benefits Cycle (2015:19) identifying the stages of the procurement process where value can be added:

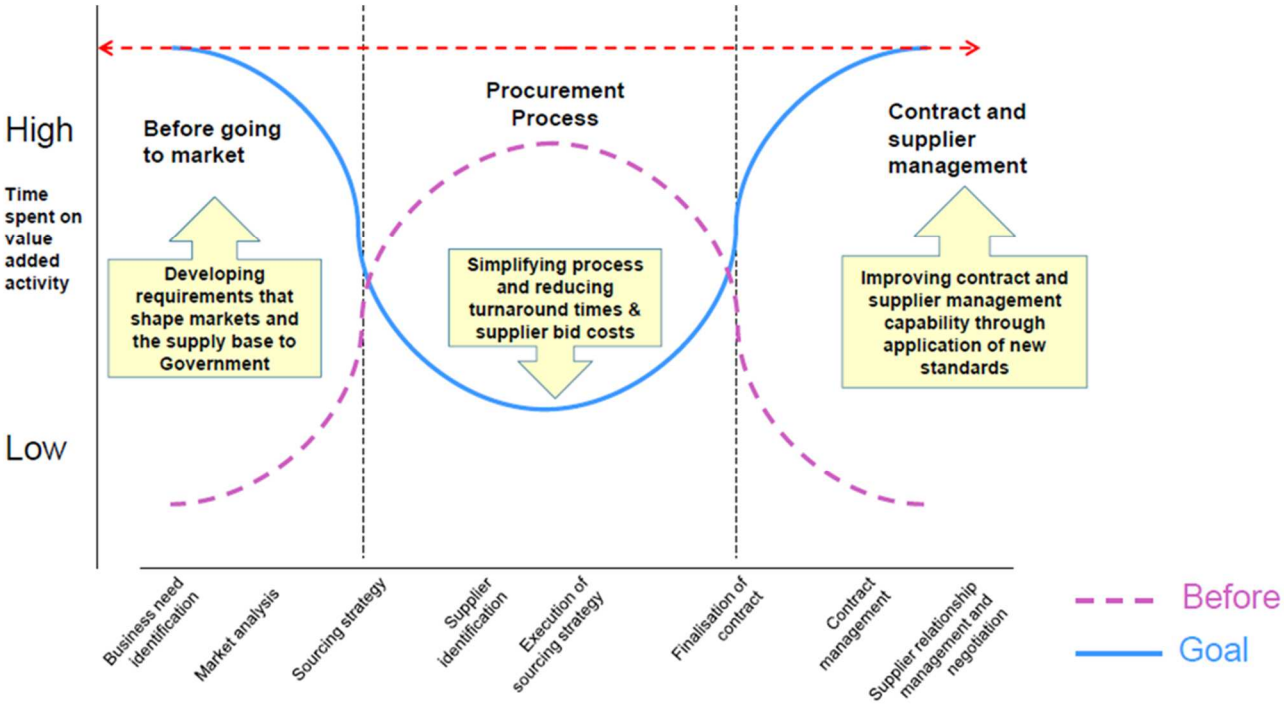
1. Pre-tender;
2. Invitation to tender and setting community benefit clauses;
3. Evaluation of tenders; and
4. The delivery, monitoring and evaluation of community benefit clauses.

They highlight the importance of procurement officials viewing community benefits as 'business as usual'; working with contractors and clarifying the local delivery support available.

Overseeing the procurement process

The UK Crown Commercial Service has developed a model to illustrate the discrepancy between where time is currently being spent in typical procurement processes and the activities that add value. Figure 1 highlights the need to simplify the processes that traditionally dominate in public procurement, in order to free up capacity to concentrate on pre-procurement and contract management phases (see capacity section p.19). This aims to support market engagement and broader market shaping activities and to improve the execution of the contract and relationships with suppliers during implementation.

Figure 1: Time spent on value-added activity in procurement



Crown Commercial Service (2015:5)

Choices and challenges in implementation

A significant body of literature discusses the factors that may hinder or enable the successful implementation of sustainable public procurement. These include choices and trade-offs with important potential policy or financial implications, and which therefore merit political and senior executive leadership.

Paying for sustainability

Upfront cost vs. added value

Traditionally, public sector contracts have been awarded primarily on the basis of the lowest priced bid. In principle, this focus has shifted with the 2014 EU public procurement directives that introduced a fuller definition of the concept of Most Economically Advantageous Tender (MEAT) (Directive 2014/24/EU). MEAT encourages the weighted consideration of cost alongside other factors such as quality, environmental, safety or social aims, and therefore encapsulates a broader notion of 'what is valuable'. This has, as a result, opened the door to opportunities for governments across the EU to use their procurement processes to improve sustainability by including specific award criteria in a MEAT evaluation (Grandia and Meehan, 2017). MEAT has directly influenced the Welsh Government's interpretation of value for money:

> **"Value for Money should be considered as the optimum combination of whole-of-life costs in terms of not only generating efficiency savings and good quality outcomes for the organisation, but also benefit to society, the economy, and the environment, both now and in the future."** Wales Procurement Policy Statement (Welsh Government, 2015:4).

Research suggests that lowest cost tendering, rather than MEAT, is adequate when the degree of uncertainty is low, for example, when a procured product is standardised and quality is easily verified (Lundberg and Bergman, 2017). However, experts agree that in general lowest cost tendering is still too prevalent across UK public procurement:

> **"UK procurement is not as innovative or SME-friendly as it might be, due to the incessant focus on lowering costs and the tendency to focus on processes rather than outcomes."** (Semple, 2016).

This can be explained in part by perceptions of the cost and value of sustainable procurement, and resultant trade-offs. The Wales Audit Office found that some public bodies

expressed concern that procuring sustainable goods, services and works often drove up prices, but at the same time, polices to obtain lower prices often meant that that goods had further to travel (WAO, 2017a p.65). Furthermore, adding stipulations and requiring closer contract management in sustainable procurement can be perceived as operational costs and at odds with the public sector efficiency agenda (Morgan and Morley, 2010). Where procurement teams have to take these trade-off decisions, they can understandably settle for the option they perceive as the lowest short-term risk. Therefore, a clearer mandate from leaders to encourage adoption of sustainable procurement, and thus potentially accept higher immediate costs, may be needed (NAO, 2013).

Long-term and indirect added value

Some advocates of SPP argue that sustainability aims can be achieved *without* any additional costs to the purchaser and, in certain cases, can result in cheaper purchasing (United Nations Environment Programme, 2017). Others recognise that there may be additional upfront costs but see these as balanced out by the wider social, economic or environmental value that is achieved either indirectly or over the longer term and argue that a richer framing of 'what is valuable' is required for sustainable procurement to be achieved (Morgan and Morley, 2010).

Indeed, guidance on public procurement legislation recognises that cost remains important and as such recommends the adoption of a cost effectiveness approach when awarding contracts, such as Life Cycle Costing (LCC) or full cost accounting (Crown Commercial Service, 2016). A number of free tools exist to calculate life-cycle costs in procurement, which comply with UK and EU procurement rules. However, ensuring such approaches are understood and long-term perspectives are recognised can be challenging under existing structures – for example, where local authority spending decisions are made by finance committees unfamiliar with such practices; when budgets are set annually; or when SPP benefits accrue outside the public body that will bear the increased up-front cost (known as the problem of 'split incentives'). This has led to calls for system-wide accounting for value. For example, Dark Matter Laboratories are seeking to redesign institutional infrastructure, away from organisational and institutional outcomes and cost accounting, towards whole system balance sheets, in the context of childcare and early years systems (Radical Childcare, 2018).

Evidence suggests that for a full assessment of the current and future costs of proposed procurements, public service leaders should require that life cycle costing and full cost accounting become standard practice in financial reporting and decision making, while recognising the system-wide benefits of SPP.

Proportionality in contracts

The multi-faceted nature of sustainability means that sustainable public procurement risks being burdened by stipulations that are too great in number, too varied or too substantial. Consultation with the Welsh construction industry found that while contractors were supportive of community benefits and corporate social responsibility in contracts, there were concerns that at times these could be prioritised over other core deliverables or that too many social clauses could dissuade bidders (CITB Cymru Wales, 2015). As a result, there is now a duty of 'proportionality' in national procurement regulations that aims to simplify procurement processes and avoid overburdening small contracts or losing sight of the primary objective of the goods, services of works to be purchased.

There are experts who argue that adding *any* requirements that are non-core, indirect or secondary will result in additional costs, and they question the value of trying to achieve broader aims from procurement at all (Telles and Ølykke, 2017). Sustainability can incur costs to both the procurer and bidders. Similarly, Lundberg and Marklund cast doubt on whether GPP can effectively achieve *multiple* environmental objectives, noting that green criteria for food procurement might range across diverse issues such as organic food, recycled packaging, the use of sustainable aquaculture and marine products, to integrated production, and animal welfare. They advise that public procurers should focus on a single objective as close to the subject matter of the procurement as possible and be very specific with the one-to-one matching of criterion and objective (Lundberg and Marklund, 2018). They criticise ''the more the better'' approach to GPP arising from studies that fail to take account of opportunity costs associated with adopting GPP while possibly ignoring more direct environmental policy tools such as direct incentives to suppliers, or legislation and enforcement.

These arguments demonstrate the complexity of the subject. Storsjö and Kachali for example, recognise the validity of these claims but note that "considering the limitations in financial resources available to public authorities, and that it is the same authorities involved in ensuring effective public service, innovation, and civil preparedness, dealing with these elements in an integrated manner only makes sense". (2017, p.354)

The duty of proportionality and simplification of procurement processes should support smaller organisations to both manage and bid for contracts. This means that public bodies need to be selective about the sustainable outcomes they require from each contract. Procurement is clearly not the only vehicle for pursuing sustainability objectives, some of which may be better promoted using different policy tools.

Interpreting the law

Legal compliance with competition and procurement law is often portrayed as a barrier to including sustainability considerations in public contracts (Brammer and Walker, 2011). In 2014 however, updated EU directives on procurement were transposed into English, Welsh and Northern Irish law under the Public Contracts Regulations 2015. The new directives aimed to encourage sustainable procurement through cutting bureaucracy, creating more opportunities for SMEs, and expanding opportunities to use procurement as a policy tool (Landmark, 2014; Semple, 2015; Grandia and Meehan, 2017; European Commission, 2016). They allow new opportunities to reserve contracts for organisations employing disabled or disadvantaged people; to include fair trade standards in award criteria (exemplified in recent case law); and exclude unethical employers from tenders, such as those convicted of child labour or people trafficking, or of failure to pay taxes or social security (Semple, 2017).

The interpretation of the law on exclusion and selection criteria is not straightforward, and the directives are not intended to protect local markets. Protectionism is considered anticompetitive and using sustainability criteria as a tool to promote local preference of suppliers can erode the incentive for other potential bidders to improve their sustainability practices.

> **"The objective of environmental and social criteria may be partly to keep 'bad' suppliers out - but they are much more powerful when they have the ability to positively influence industry practices, for example to reduce emissions"** (Semple, 2016).

Favouring local suppliers should not be the primary purpose of using sustainability criteria in public procurement – as mentioned above it conflicts with competition and procurement law. Other methods are more appropriate for building local markets, such as ongoing engagement and support to local suppliers to enable them to win competitive procurements (Bloomfield, 2015; Morgan et al., 2017). Indeed, market engagement activities are positively encouraged by the 2014 EU procurement directives and transparent feedback following tender decisions is required. Research shows however that feedback and debriefing suppliers, while being good practice in SME-friendly procurement, is generally poorly executed in the UK (Evans and Cahill, forthcoming).

The Welsh Government is challenging many of the oft-cited barriers to local sourcing, such as state-aid rules, procurement guidelines and contract law, in four pilot projects that aim to establish enterprises and create jobs in areas of high unemployment in the South Wales Valleys. These "Better Jobs Closer to Home" pilots will reserve contracts for specific types of supplier believed to be well placed to support the social aim of increasing long-term employability (James, 2018).

A certain level of expertise is required among procurement professionals to confidently interpret and apply the legal framework when pursuing new procurements. While there is uncertainty around which standards will govern procurement following the UK's departure from the European Union, the existing legal environment demonstrates that environmental and social considerations can coexist with competition and cost-effectiveness in procurement (Semple, 2016). Some experts therefore suggest that public procurers should focus less on the avoidance of legal conflict and more on policy techniques such as designing tender scoring criteria (Lundberg and Bergman, 2017).

The existing legal framework is supportive of sustainable procurement and provides scope to strengthen current practice. It is nevertheless nuanced and understanding its aims and detail can give confidence to those interpreting and applying it to procurement activities.

Building knowledge and skills

A lack of awareness, knowledge and skills are the most significant barriers to sustainable public procurement in practice. In Scotland uncertainty about the legality of community benefit clauses is one of the reasons given by Scottish public bodies for not using them. However, the main reasons were that they are not seen as relevant to the types of contract they work with, practical concerns about contract management, and that some had not heard of community benefits clauses at all (Sutherland, 2015). This has also been recognised at European level, with a strategy to improve professional procurement skills being launched in 2017 (European Commission, 2017).

Limited professional procurement expertise in public bodies is an oft-cited problem (Barrett and Rees, 2016; McClelland, 2012). Back in 2005, the UK Sustainable Procurement Task Force recommended creating extra training (and ensuing it is taken up), tailored for senior managers, procurement specialists, and general staff, to help tackle confusion and help more people involved with procurement across organisations internalise and implement good practice (DEFRA, 2005). In Wales, Morgan and Morley (2010:34) observe that whilst procurement professionals have clear policy guidance illustrating *why* they should engage in sustainable procurement, there is very little advice on *how* it should be implemented and they conclude that there is a 'knowledge deficit' across the Welsh public sector.

> **"Having the policy and commitment is important but having sufficient numbers of well-trained people to undertake implementation is also critical."** (United Nations Environment Programme, 2017:41).

Public bodies do not necessarily have to look far for evidence of what works and best practice. Morgan and Sonnino (2008) highlight there are stark discrepancies in procurement

practice between neighbouring authorities, and a decade later Morgan (2018) still observes "leaders and laggards" in close vicinity and questions why good practice is a bad traveller. Walker (2015) suggests that the public sector might learn from the private sector and could benefit from adopting certain practices in areas such as sustainable supply chain management.

Continuous professional development of the procurement function across public bodies in Wales through sustained training and accreditation should boost knowledge and skills and support the implementation of SPP.

Collaborating to increase capacity

Effectively using community benefit clauses requires procurement and contract management capacity which is often not readily available (Jaehrling et al., 2018). For example, while data collection may be the responsibility of the contractor, contracting organisations need to be equipped with the authority and capacity to collate, analyse, verify and report on this data. Many public bodies do not resource the procurement function effectively to achieve this (Sutherland et al., 2015) and pushing monitoring and reporting duties onto the contractor can potentially put smaller organisations at a disadvantage as they may not be able to meet such additional requirements (Hebb and Hachigian, 2017).

Both spatial and sectoral collaboration are, according to the UN, key to taking sustainable public procurement to scale (United Nations Environment Programme, 2017). It notes that transforming production and consumption patterns will require collaboration throughout the entire value chain, meaning significant cooperation between the public and private sectors. Collaboration is also commonly touted as a means to overcome capacity issues. In various studies of Welsh NHS procurement, researchers investigate joining forces across authorities to create regional collaborative procurement teams, to combine resources, capacity, reduce costs and add value (Morgan et al., 2010; Bloomfield, 2015; Papanagnou and Shchaveleva, 2018).

The Wales Audit Office highlight a Cardiff Council trading company, which sells procurement and commercial services to both public and private sector organisations; and the shared service arrangement between Pembrokeshire County Council and Pembrokeshire College, whereby the college pays for advice and support from the council's procurement officer, community benefits officer and head of procurement (WAO, 2017a). Case studies from across Europe also show that collaborating across authorities can save on costs and achieve more significant results across multiple local and regional authorities. Examples include working groups coming together to purchase compliance monitoring and verification systems, sharing data, or pooling human and financial resources (Landmark, 2014).

Collaborative procurement arrangements exist across Wales but these are ad-hoc and largely unrecognised. Recording and sharing experiences of the diverse models of joint working and learning that exist in particular localities and purchasing categories may help tackle resource and capacity issues within public organisations and support procurement professionals to achieve the increased expectations placed upon them to procure sustainably and engage in pre-procurement, supplier and contract management activities.

Monitoring and evaluation

Many authorities engage in SPP because they see it as 'the right thing to do' but are not especially concerned with measuring its precise impact. However, failure to conduct impact evaluations may leave them vulnerable to 'greenwash'[2] or dubious social benefits touted by suppliers. Monitoring sustainable procurement processes and evaluating their impact can be a powerful way to generate much needed evidence to understand benefits, costs, barriers and enablers and as a result, to improve decision making. This information can also be used to demonstrate financial accountability and cost effectiveness to taxpayers.

There is no one agreed evaluation approach that works best in all procurement contexts, with the result that there is a fragmentation of methods. However, clarity of objectives, accountability and transparency, and standardisation and comparability are recognised as principles that underpin good evaluation (Hebb and Hachigian, 2017:38).

> **"Some experts suggest that this fragmentation of evaluation methods and metrics is indicative of a healthy, bottom-up approach to designing evaluation in ways that are suitable for local contexts and that can serve diverse objectives. Others express frustration and concern with the lack of guidance on selecting appropriate methodologies and tools."** (Hebb and Hachigian, 2017:10-11).

There is substantial debate as to how sustainability contract clauses should be valued. Morgan (2015) distinguishes between empirical assessments of the impacts of a contract, and how a community subjectively values those impacts. Cartigny and Lord (2017) contemplate how including social benefit conditions "provide added value, not in the monetary sense of the word, but as a broader impact to the local area" (p.111). They argue that monetising social value is "a wasted effort", asserting that people's connections, feelings and perceptions cannot be measured financially (ibid).

[2] Greenwash is when an organisation promotes itself as to present an environmentally responsible public image, when in fact its activities do not live up to the standards portrayed.

Nevertheless, there are tools available to calculate social return on investment (SROI) for sustainable public procurements. The Social Value Portal, for example, has developed the TOMS tool which can be used to calculate a financial value for the social value delivered (2018). Yet, SROI assessments can be onerous and most public bodies lack adequate skills and resources to implement them; for example, the Social Value Portal identifies 1,150 metrics for social value. As a result, a shift away from SROI and toward simpler methods is apparent, not only to encourage adoption but because procurement officers and contractors question the objectivity of financial proxies (Hebb and Hachigian, 2017:36).

To date, most evaluations have focussed on short-term outputs and outcomes, such as the number of social enterprises or local businesses that are awarded contracts; rather than longer-term social, environmental and economic impacts. Similarly, evaluations focus largely on the early procurement stages, such as pre-procurement and tendering, and less on the contract management stage to ensure contractors are meeting their objectives (Hebb and Hachigian, 2017:10). There are valid reasons for this. A major reason is the challenge of capturing impact: while procurement teams may control the early procurement stages, they generally have less influence once the contract is awarded and handed over to be managed by colleagues, for whom the delivery of the core goods, service or works may be a higher priority than sustainability concerns.

Despite this, some impact evaluations have been conducted. Examples include those that have assessed public savings, local business growth and local spend (see work by CLES 2017; 2018). However, broader social objectives and non-cashable benefits, such as well-being and poverty alleviation are challenging to evaluate, owing largely to resource and data limitations (Sutherland et al., 2015; Grandia and Kruyen, 2017).

Demonstrating the impact of sustainable procurement decisions is critical for both developing good practice and public accountability but doing so effectively can be challenging. There are increasing efforts to develop appropriate frameworks and tools to capture added-value, although there is no current consensus on the best approach.

Political and executive leadership

International studies confirm that sustainable public procurement is in part driven by a strong policy and legislative context. Where this exists, sustainable procurement appears to be widely implemented by public sector organisations. However, where directives are more voluntary in character, competing necessities and priorities often dominate. For this reason, political and strategic leadership are deemed crucial to enable sustainable public procurement to flourish (Brammer and Walker, 2011; United Nations Environment Programme, 2017). In Wales, the McClelland review highlighted:

> **"Where influence seemed highest, is where Chief Executives and Heads of Finance place appropriate value on the role of procurement. It seems lower where the function is seen as being administrative and, for that reason, positioned within an administrative organisation."** (McClelland, 2012:32).

Sustainable procurement cuts across organisational functions (Morgan and Morley, 2010) and extends across partners and communities. CLES research suggests that because of this making public procurement sustainable requires "a creative, innovative and holistic, multi-pronged approach", and that senior managers need to bring about this culture shift:

> **This cannot happen through procurement officers working in isolation; all local authority departments need to get on board and incorporate procurement and related community benefits into their service plans and outcome targets** (Jackson, 2010:8).

Evidence from Welsh case studies suggests that when elected members and senior managers are engaged in this agenda procurement professionals feel empowered to act and implement the tools available to meet corporate priorities (Morgan and Morley, 2010). Senior managers can however be reticent about sustainable public procurement due to uncertainty surrounding outcomes, a resulting reluctance to take responsibility, and also a lack of clarity in some organisations around accountability for achieving policy outcomes (Storsjö and Kachali, 2017). One approach to encouraging elected members and senior managers to take SPP more seriously could be to hold them accountable for sustainability targets based on a clear strategic vision (Sustainable Procurement Task Force, 2005; Morgan and Morley, 2010).

Evidence suggests that sustainable public procurement requires top-level advocates to set the strategic vision, take ownership over targets and drive good practice throughout their organisations.

Organisational behaviour

According to a UK survey, local authority "culture and perception" was among the primary barriers to achieving community benefits from public procurement identified by local authorities themselves (45%) (Jackson et al, 2010). There is a large body of literature surrounding organisational behaviour change which appears relevant to sustainable public procurement, with particular regard to the need to shift cultures within an organisation to embrace and embed a vision and practice. There has been research on sustainable procurement behaviours (SPB), personal values, leadership style and organisational culture (Nadeem et al, 2017); change management to overcome organisational barriers (Blair and Wright, 2012); and the application of behaviour change theory to changing values, attitudes,

norms and behaviours (Grose et al., 2012). Studies suggest that the level of sustainable procurement varies by procurement project even within individual public organisations. Analysis from a survey of public procurers in the Dutch government suggests that to boost sustainable procurement activity throughout organisations, the focus should be on increasing knowledge about sustainability and the environment, affective commitment to change, by appealing to emotions, and sustainable procurement behaviour (Grandia, 2016).

It is also worth noting that no organisation operates independently of its broader context, and therefore it is important to consider community norms, that exist independently of the organisation. Research suggests that socially responsible procurement is best undertaken with support from unions and politicians, and strengthened by existing market regulation (Jaehrling et al., 2018).

> **"In order to realise the collaboration and integration of linked policy objectives, action and change are dependent on cultural, behavioural and systems change in the whole supply chain and across policy areas not just in public procurement policy and practice."** (Leacock, 2013:44)

Cultures, values and norms influence sustainable procurement behaviour within organisations. Therefore, senior leaders in public bodies must be committed to effecting change, whilst recognising the contextual limits within which they are operating.

Conclusion

This report summarises some key evidence that is useful to public service leaders when engaging with the sustainability ambitions and practices of their organisations. All Welsh public bodies are accountable for and have a duty to report on their activities and impact under the Wellbeing of Future Generations Act, for which the accompanying statutory guidance specifies procurement as a core organisational activity and therefore a key lever for promoting the sustainable development principle (Welsh Government, 2016a). SPP is therefore attractive to policy makers as it proffers the potential to help tackle wider societal issues and in Wales there is a strong policy steer and pockets of good practice to support its adoption and development.

However, there is significant variability in practice and limited high-quality evidence demonstrating the success of SPP to inform action. The lack of impact evaluation means the question remains among some experts as to whether public procurement is an effective policy tool at all (Grandia and Meehan, 2017). Overcoming this issue requires the generation of evidence on 'what works' in SPP in specific contexts.

The available evidence on how to implement SPP suggests that achieving desired outcomes takes leadership and vision from within the procuring organisation. Even when procurement professionals have the tools to implement this agenda, they need to be empowered by the decision makers with whom responsibility and accountability lie, to make it a priority, with the associated resource investment.

The influence that public bodies can have in taking a progressive and proactive approach to sustainable procurement is potentially far reaching. By replicating their policy agendas and values as far as possible in contracting arrangements, sustainability standards can become embedded throughout supply chains and in private and third sector organisations. Stimulating demand for goods and services with high sustainability credentials can actively encourage the creation of new providers, a mixed economy, diversified market and continuity of supply.

The evidence also shows that SPP relies on building relationships, collaborating and sharing learning, with providers, service users and other public sector partners. Embracing new ways of working and creativity, ambition and innovation in procurement - not only for procuring goods and works (e.g. food, construction), but in facilitating system-wide wins across complex public services (e.g. health and social care) – requires the support of informed public service leaders.

A series of recommendations are highlighted throughout the "choices and challenges" sections of this report. In the first instance however, we suggest that public bodies in Wales:

- Revisit and review their procurement activities, to identify opportunities to maximise the social, economic and environmental impact of spending decisions;
- Include the outcomes of this review in their reporting under the Wellbeing of Future Generations Act and fully evaluate its implementation and impact to contribute to the generation of evidence on ‘what works’ in Welsh and local contexts;
- Involve public service leaders and decision makers in recognising the potential of SPP, to raise the profile of procurement and give agency and authority to procurement professionals to embrace new ways of working;
- Increase the social and environmental standards required in contract arrangements with suppliers to influence the broader supply chain; and
- Build procurement skills and capacity across the organisation, and collaborate with others to share good practice to drive ambition, capacity and capability to adopt sustainable procurement practices.

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