

Values for Money

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One of the great paradoxes of British economic policy over the past half century is the fact that successive governments have devoted enormous efforts to things they could not control, like the external value of sterling for example, but neglected things they could control, like the procurement of goods and services in the public sector. The public procurement market in the UK was worth more than £230 billion last year, roughly equivalent to £1 in every £4 spent by the Exchequer, making the public sector a much bigger economic player than most people realise. Public procurement is a sleeping giant because of its untapped potential to effect social, economic and environmental change. When it is deployed effectively, the power of purchase can secure *values* for money in the broadest sense and not just value for money in the narrow sense.

The world of public procurement is a profoundly arcane world which outsiders find virtually impossible to fathom. Maybe this is why so few people have noticed that Europe's public procurement regulations are currently under review, with enormous implications for the way the public sector buys goods and services. Although public sector contracts will still be subject to the EU principles of fairness, transparency and non-discrimination, to ensure a level playing field across Europe, the European Commission wants to simplify the rules to ensure that public procurement can play its part in meeting the goals of Europe 2020, with its commitment to "smart, sustainable and inclusive" growth.

This regulatory review ought to have garnered more interest because it heralds the birth of a much more sustainable public procurement policy, providing an ideal vehicle for us to deliver our duty to sustainable development in Wales. Among other things the review will introduce three important new changes: (i) it will make it easier for small and medium-sized enterprises (SMEs) to participate in and benefit from public procurement

contracts by reducing paperwork and breaking up contracts into smaller and more feasible lots; (ii) it will promote the concept of whole-life costing, which allows contracting authorities to take account of social and environmental factors when weighing up the costs and benefits of competing offers; and (iii) it will extend the special measures already in place for sheltered workshops and employment programmes to embrace a broader range of beneficiaries. All of these provisions will make it easier for creative public sector managers to use the power of purchase to secure values for money.

Sadly, creativity and procurement are not natural bedfellows, and certainly not here in Wales, where we seem to be more risk-averse than elsewhere in Europe when it comes to deploying the power of purchase. Why is this? One possible answer is that it is due to a lack of competence and confidence, both of which can be traced to a chronic skills deficit at the heart of the public sector in Wales. The scale of the current skills deficit in the public procurement profession in Wales can be illustrated by a simple good practice rule, which recommends that every £15 million of public spending should equate to one qualified Chartered Institute of Purchasing and Supply manager. On the basis of this rule, we are some 174 professionals deficient in the Welsh public sector. I cited these figures in my evidence to a National Assembly inquiry into public procurement reform last month. When asked why we appear to be more risk-averse than elsewhere, my response was to say: “we are profoundly under-skilled in the public sector in Wales. We should be a leader, but we are a laggard. When you are not skilled and are not confident about your work, you cannot be expected to be creative”.

When creativity does emerge on the public procurement front, it tends to be despite the system rather than because of it, reflecting a lack of political leadership as well as a professional skills deficit. Two of the best examples of public sector creativity in Wales in recent years are the *Can Do Toolkit*, a good practice guide to positive procurement, and *Arbed*, the first pro-poor green energy scheme in the UK. These two initiatives merit a lot more attention in and beyond Wales because they hold valuable lessons for creativity and innovation in the public sector.

The Can Do Toolkit

The story of the Can Do Toolkit is instructive for many reasons, not least because this innovation would never have seen the light of day had it been left to the prosaic workings of government as it involved a high degree of novelty – and novelty is something that is not easily handled in the public sector. The Can Do Toolkit was designed to secure more community benefits from public contracts, beginning with targeted recruitment and training to bring unemployed or economically inactive people back into the labour market, and broadening out to help local firms win a greater share of public sector business. The Toolkit condensed a bewildering array of complex EU regulations into a simple manual of good practice, showing public sector officers *how* to innovate not just exhorting them to do so.

If the Toolkit was an innovative product, so too was the *political process* that fashioned it. At the heart of this process was i2i (inform-to-involve), a special purpose vehicle that had been set up to help registered social landlords to get the most out of the £3 billion investment programme to meet the higher quality specifications of the Welsh Housing Quality Standard. The most distinctive feature of i2i was that its members – all dedicated housing professionals like Keith Edwards of CIH – were in but not of government in the sense that, while they were clearly working for the housing and regeneration departments of the Welsh Government, they were also working for the social housing sector. This semi-official status gave i2i access to government without the constraints of being in government, a relative autonomy that it used to good effect. Among other things, i2i recruited the services of Richard McFarlane, a leading authority on community-centred public procurement, and he played an important role in fashioning the community benefit clauses of the Can Do Toolkit, ensuring that they were fully compliant with EU procurement regulations.

Of all the hurdles that i2i had to overcome to deliver the Toolkit, the most difficult was the *internal hurdle* inside the Welsh Government in the form of Value Wales, the official

procurement unit. Fuelled by conservative advice from its legal advisers, Value Wales expressed strong reservations about the legality of the Can Do Toolkit from the outset, claiming it failed to comply with EU procurement regulations. Value Wales even went so far as to commission external legal advice to bolster its opinion that the Toolkit was illegal, but to no avail. Significantly, the main reason for its opposition was the sheer *novelty* of the Can Do Toolkit - the fact that nothing like it had ever been attempted in the civil service before.

That the Can Do Toolkit emerged at all is cause for celebration. But we should learn two important lessons from this experience.

First, it was designed and delivered by i2i, an organisational innovation akin to what Americans call a Skunk Works, an officially sanctioned breakout space where a team of innovators is allowed to circumvent the habits and routines of a firm or organisation to excavate a novel path (the way IBM developed its first PC for example).

Second, the Can Do Toolkit would not have survived without robust political support from *within* the Welsh Government and this was provided by Jocelyn Davies and Leighton Andrews, the deputy ministers for housing and regeneration respectively, who were both deeply committed to the idea of a community-focused procurement policy.

The Arbed Programme

A partnership between the Welsh Government and the social housing sector, Arbed is another example of successful public sector innovation that holds important lessons for the way we design and deliver policy in Wales. Established in 2009, Arbed is an outstanding example of sustainable development in action because it aims to eradicate fuel poverty, reduce the carbon footprint of energy consumption and boost economic development by making Welsh homes more energy efficient. This was achieved in Phase one of the programme by retro-fitting homes with such measures as solid wall insulation, solar panels, heat pumps and a range of other energy efficiency measures.

The most distinctive aspect of the Arbed programme is that it is a pro-poor green energy programme, the first of its kind in the UK. Working with social housing providers, the Welsh Government consciously targeted the most deprived parts of Wales to ensure that the poorest households could enjoy the benefits of energy efficient investment. Equally innovative was the way that Phase one of the programme was financed – an initial sum of £30 million from the Welsh Government was used to leverage an additional £31 million, primarily from energy suppliers, housing associations, and local councils, making a total investment of £61 million. (The final Phase one budget will be larger because an additional £6.6 million has recently been secured for the programme). As a result of this collective investment, over 6000 homes were improved, the majority of which were in the social housing sector.

The Phase one programme also supported the development of a local supply chain in low energy measures. For example, 41 of the 51 installers that delivered Arbed measures operate primarily in Wales and five of the 17 products that were eligible for support, were manufactured in Wales. These local economic development benefits complement the social and environmental dividends of the Arbed programme.

Another distinctive feature of Phase one of the Arbed programme was the judicious division of labour between government and the social housing sector. While Arbed schemes were grant-funded by the Welsh Government, the actual procurement was done by social housing providers, a genuine partnership in which each side was played to its strengths. The fact that the social housing sector was given such a prominent role in the delivery of Phase one, owes much to the innovative management skills of Tim Sydenham, an energy expert who was brought into the Welsh Government to head up the Arbed programme. Many people in the social housing sector are convinced that had he not been involved, the normal workings of government would have issued a conventional tender and the work would have gone to one of the usual corporate suspects.

Once again, an innovative external agent helped to make the public procurement process more creative than it would otherwise have been and, once again, it would not have succeeded without robust political support from within government – this time from Jane Davidson, the minister principally responsible for the Phase one programme. Having built up its capacity to deliver energy efficiency schemes, the social housing sector is now very nervous that Phase two of the Arbed programme may not be as successful, not least because the contract will probably go to a conventional corporate supplier who will not be as committed to nurturing the capacity of social housing providers. This decision needs to be monitored very carefully because the total budget for Phase two of Arbed amounts to some £45 million, a major sum in an age of austerity.

Arbed and the Can Do Toolkit are successful examples of public sector innovation and we urgently need to learn the lessons of their success. Perhaps the most important lesson of all is that creative public procurement would not have emerged from the normal workings of government for the simple reason that novelty, the inner core of creativity and innovation, is frustrated rather than fostered in the compliance culture of the civil service. This means that the public sector needs to create a culture of constructive challenge in its own ranks, either by engaging with challenging partners from the private and third sectors or by developing more challenging mindsets from within.

Fashioning a more innovative public sector is no longer an option for us in Wales because radical change is being forced on us by the brutalising effects of a pre-Keynesian ideology. The key challenge for the foreseeable future is how to secure sustainability in an age of austerity. Creative public procurement can help us to meet this challenge of *values for money* - by furnishing such things as nutritious food for schools and hospitals, renewable energy and dignified eldercare. The missing ingredients in the recipe for creative procurement are *professional skills* and *political leadership* and we will never secure values for money in Wales unless we address these twin deficits.

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