



Centre for Local  
Economic Strategies

September 2017

***UPDATING THE SPEND ANALYSIS BASELINE***

Summary Report

**Centre for Local Economic Strategies**

Presented to

**Preston City Council**

## 1.1 Context

Since 2011, Preston City Council have been seeking to progress the way in which it thinks about and delivers local economic development activities. Over the course of the last six years, under the umbrella of the 'Community Wealth Building' Initiative, Preston City Council and others have sought to harness the potential of their existing wealth for the benefit of the Preston economy and residents. This has included work around (amongst others): the Living Wage; harnessing the potential of Anchor Institutions; developing a procurement practitioners group; and developing a cooperative network. Since 2013, the Centre for Local Economic Strategies (CLES) has been engaged as a partner in developing and delivering the Community Wealth Building Initiative.

In all of the above we have sought to collectively change cultures and behaviours so that greater benefit is derived for the Preston economy and its residents. The starting point of CLES' involvement in Preston was framed by our previous work in Manchester around procurement and particularly seeking to understand procurement spend and where it went geographically and shifting the behaviour of both procurement officers and suppliers so that greater benefit could be realised. We realised that there were a number of 'Anchor Institutions' based in Preston which had significant levels of procurement spend and where there was scope to influence this spend both directly and indirectly for the benefit of the Preston and wider Lancashire economies and people. There was also scope for the Anchor Institutions to work together towards a collective vision.

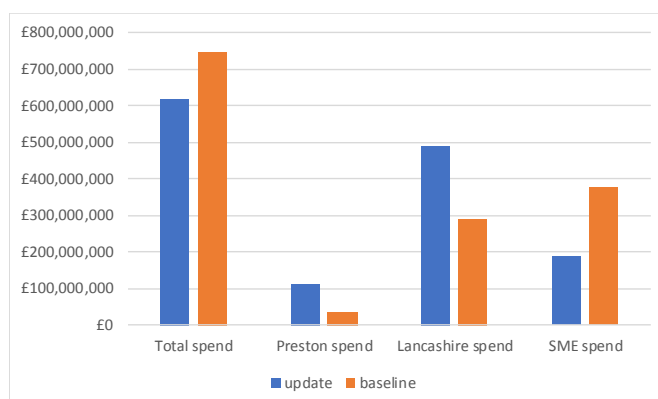
For the 2012/13 financial year, CLES therefore undertook procurement spend analysis for six Anchor Institutions (Preston City Council, Lancashire County Council, Preston's College, Cardinal Newman College, Lancashire Constabulary, and Community Gateway). In this we explored each institution's top 300 suppliers (by value) and particularly:

- ❑ the extent to which spend was with suppliers based in the Preston boundary and subsequently ward and areas of deprivation – of the total spend of nearly £747million by the six Anchor Institutions, £37.5million was spent with organisations based in Preston (5%);
- ❑ the extent to which spend was with suppliers based in wider Lancashire - £289million was spent with organisations based in Lancashire – including Preston (39%)
- ❑ the extent to which suppliers were SMEs – 49.7% of total spend was with organisations classified as SMEs.

## 1.2 The last four years and updating the baseline

Over the course of the last four years, CLES, Preston City Council and each of the Anchor Institutions have undertaken work to shift their processes and practices around procurement, so that wealth is harnessed more effectively for the benefit of the local economy (Preston and Lancashire) and residents. The work has clearly had an organic impact on the behaviour of the institutions, however we have not revisited until now the baseline position for each anchor and collectively to assess any changes in spend with Preston and Lancashire based suppliers and with SMEs. In our 2017 update, we have therefore identified the extent to which direct impact upon the Preston and Lancashire economies has changed.

**Figure 1: Collective analysis**



### 1.2.1 Total spend on suppliers

- ❑ In the updated analysis, across the six participating Anchor Institutions a total of **£616,863,091.08** was spent procuring goods and services;
  - This compares to £746,730,478.83 in 2012/13.

### 1.2.2 Spend with Preston based suppliers

- ❑ Across the six participating Anchor Institutions, a total of £112,337,690.64 was spent with organisations based in Preston (18.2% of total spend);
  - This compares to £37,586,833.17 in 2012/13 (5% of total spend);
- ❑ **In monetary terms this means an increase in spend with Preston based organisations of £74,750,857.47.**

### 1.2.3 Spend with Lancashire based suppliers (including Preston)

- ❑ Across the six participating Anchor Institutions, a total of £488,659,587.40 was spent with organisations based in Lancashire (equivalent to 79.2% of collective spend);
  - This compares to a total of £288,970,907.44 in 2012/13 (39% of spend);
- ❑ **In monetary terms this means an increase in spend with Lancashire based organisations of £199,688,679.96.**

### 1.2.4 Spend with SMEs

- ❑ Across the six participating Anchor Institutions, a total of £185,613,659.38 was spent with SMEs (30.1% of total spend across Anchor Institutions);
  - This compares to 49.7% in 2012/13, but is reflective of a shift in methodology of gathering information around SMEs.

### 1.2.5 Leakage and gap analysis

- ❑ Across the six participating anchors institutions £128,203,503.68 (20.8%) of spend leaks out of the Lancashire economy;
- ❑ CLES has conducted an analysis of the top 30 suppliers (by value) for each Institution that are based outside of Lancashire, to determine the nature of good and services provided. We have then explored the extent to which this spend is potentially influenceable<sup>1</sup>;
- ❑ **Of spend across the institutions of £98,098,005.80 with the top 30 suppliers based outside of Lancashire, we estimate that £58,835,861.37 (60.0%) is potentially influenceable.**
- ❑ The sectors of Works – Construction, Repair and Maintenance, Human Resources, and Consultancy are the ones with the greatest amounts of potentially influenceable spend;

### 1.2.6 Additional analysis

In addition to the above analysis, we have also undertaken a number of pieces of additional analysis and projections:

- ❑ We estimate that if total spend levels had remained the same at £747million and if the percentages of spend in the Preston and Lancashire economies were at 2016/17 levels of 18.2% and 79.3% respectively that £135,904,947.15 would have been spent in the Preston economy in 2016/17 and £591,410,539.23 would have been spent in Lancashire;
- ❑ Utilising cumulative impact analysis, we estimate that over the course of the last five years that £385,821,216 has been spent by the six Anchor Institutions with Preston based organisations and that £1,983,594,522 has been spent with Lancashire based organisations;
- ❑ Utilising the actual levels of increase in spend figures for Preston and Lancashire and associated GVA per employee averages, we estimate that the increase in Preston spend supports some 1,648 jobs; with the increase in Lancashire spend supporting some 4,500 jobs.

<sup>1</sup> By influenceable we mean that the contract is not part of a national framework and that the good or service is potentially available in the Lancashire economy.

### 1.3 What next?

We can conclude that the activities undertaken over the course of the last four years have brought impact, in that both the percentages of spend by Anchor Institutions in the Preston and Lancashire economies have increased, as have the amounts of money being spent with Preston and Lancashire based organisations through the process of procurement. Despite the positive impact of the Community Wealth Building Initiative so far, and particularly the shifts in the behaviour and spend of the Anchor Institutions, there remains scope for further change and enhanced impact. As such, the following present recommendations for Preston City Council and the other Anchor Institutions.

#### 1.3.1 Recommendation 1 – explore influenceable spend in more depth

The leakage analysis undertaken across the Anchor Institutions identified that over £128million leaks out of the Lancashire economy. It also identified through gap analysis with the top 30 suppliers for each Anchor Institution that leaks out of Lancashire that nearly £59million is potentially influenceable. This money sits across a number of industrial sectors, but is particularly prevalent in those of Works – Construction, Repair & Maintenance; Human Resources; and Consultancy, with these three sectors effectively accounting for nearly £42million of the potentially influenceable spend.

To further increase the impact that the Anchor Institutions bring for the Preston and Lancashire economies, CLES recommends that these three sectors are targeted as ones where spend levels with Preston and Lancashire organisations can be potentially increased. Indeed, across these three sectors there are 445 organisations in Preston alone that can potentially provide these types of goods and services.

Therefore, as part of future procurement exercises around spend in these sectors, the Anchor Institutions need to:

- 1) Identify who these organisations are and what their scope, capacity, and capability is to potentially bid for opportunities moving forward. This means maintaining an up to date business database for these three sectors;
- 2) Engage with these organisations prior to procurement exercises commencing, so that they are both aware of opportunities and have scope to innovate. This can be done through involving organisations in the design of services, through ‘meet the buyer’ events, and through simply making them aware of opportunities;
- 3) Encourage Preston and Lancashire based organisations to develop consortia where it is appropriate on larger value procurement opportunities.

#### 1.3.2 Recommendation 2 – explore cooperative development

Recommendation 1 identified that there are three core sectors where there is scope for the procurement spend of Anchor Institutions to be influenced, with these sectors being those where there is already a propensity of existing organisations based in Preston, in particular. Preston City Council has an aspiration through the Preston Cooperative Network to develop worker owned cooperatives, and as such the leakage and gap analysis also identifies sectors where there is scope for such organisations to be created.

Based upon evidence, CLES would recommend that there are four main sectors which the Preston Cooperative Network could focus upon. These are sectors where there is both a relatively significant existing spend which is leaking out of Lancashire and where there is not necessarily a diversity of organisations already based in Preston which can potentially provide those goods and services in the future. The four sectors for focus are:

- ❑ Social Community Care Supplies and Services – Adult: an existing leakage of £6,263,991.85 and 22 existing organisations in Preston;
- ❑ Catering: an existing leakage of £5,420,537.89 and 23 existing organisations in Preston;
- ❑ Facilities & Management Services: an existing leakage of £1,212,112.99 and 10 existing organisations in Preston;
- ❑ Furniture & Soft Furnishings: an existing leakage of £158,104.36 and 0 existing organisations in Preston.

The Preston Cooperative Network would need to work on identifying the people that would form part of these worker owned cooperatives and work with procurers across the Anchor Institution to open up opportunities for them to bid. This would include similar practices to that described in recommendation 1.

### 1.3.3 Recommendation 3 – engage more proactively with SMEs

One of the core areas of negative change between the baseline position of 2012/13 and the update of 2016/17 is the decreasing percentage of spend with SMEs (albeit largely as a result of a shift in the means of identifying SMEs through the methodology). However, SMEs make up the vast majority of businesses in the economy and employ the vast majority of people. So linked to recommendation 1, Anchor Institutions in Preston should also actively look to engage with organisations which are SMEs and which could potentially bid for and win goods and services contracts. This is being trialled, for example, through an October 2017 business event being put together by Preston City Council and Preston's College. It could also be done through the Chamber of Commerce and Federation of Small Businesses.

### 1.3.4 Recommendation 4 – continue to measure spend

The work undertaken around spend analysis to date has been driven by Preston City Council, with CLES commissioned to undertake the analysis. Moving forward, CLES would recommend that spend analysis is embedded into the practices of the anchor organisations on an annual basis. CLES would provide an excel template which would be utilised by the anchors to detail their top 300 suppliers for the financial year, with the spreadsheet undertaking the required calculations. This would enable analysis to be undertaken on an annual basis with CLES effectively being quality checkers. The work could be discussed and brokered through the URBACT local group for the Procure project, and any successor practitioners group post May 2018.

### 1.3.5 Recommendation 5 – take procurement practice and analysis of impact to the next level

The spend analysis activities undertaken as part of this report has explored direct impact i.e. the spend in a particular geographical area, or with SMEs, or with a particular industrial sector. The potential of procurement to deliver wider outcomes is however far greater and as such considerations of social value need to run throughout the commissioning and procurement process and additionally into the behaviour of the supply chain. There needs to be five stages of activity undertaken to embed social value into the procurement practices of the Anchor Institutions:

- 1) There needs to be a common set of outcomes which all procurers in the Anchor Institutions are committing to deliver as part of procurement exercises. This is effectively the existing Lancashire Social Value Procurement Framework;
- 2) Commissioners within Anchor Institutions need to be considering the social outcomes of the Lancashire Social Value Procurement Framework when designing goods and services and particularly the extent to which that good or service lends itself to the achievement of that outcome;
- 3) Procurers need to be asking questions of suppliers in tender documentation as how they will contribute through delivery to social value outcomes. They also need to decide what weighting they are going to place on those questions in addition to price and quality;
- 4) Procurers then need to score against responses to social value questions as part of the decision-making process. This can be undertaken on a quantitative, qualitative, or pass/fail basis;
- 5) Finally, and into delivery, Anchor Institutions need to embed the delivery of social value outcomes into the terms and conditions of the contract, together with monitoring their achievement.

It is at stage 5 of the above, where CLES recommends that the Anchor Institutions take their analysis to the next level, so undertaking on an annual basis analysis of the extent to which suppliers are contributing to wider outcomes. This will enable both direct and indirect impact to be detailed. CLES recommends that as part of this case studies are developed across the Anchor Institutions of effective practice and impact.

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### 1.3.6 Recommendation 6 – evidence the value of other initiatives

The work around Anchor Institutions and procurement is just one component of activities being undertaken in Preston around community wealth building. There are also activities being undertaken around the credit union, around cooperatives and cooperative network development, around community energy, around pension funds, and around community banking. CLES recognises that all of these initiatives are inherently linked and recommends that there needs to be an emerging evidence base developed which demonstrates their collective impact. This could be drawn together by CLES, Preston City Council, the Anchor Institutions, and other organisations working on the initiative such as UCLAN.