

# MAKING SPEND MATTER

## Frequently Asked Questions 1

### Advanced Spend Analysis



# INTRODUCTION

## About Making Spend Matter

The **Making Spend Matter Transfer Network**<sup>1</sup> is one of 23 transfer networks funded through the **URBACT Programme**<sup>2</sup>. Generally, the transfer networks are seeking to transfer an **URBACT identified piece of Good Practice**<sup>3</sup> associated with integrated urban development to other cities across Europe.

In the case of Making Spend Matter, the identified good practice is around the process of public procurement, and in particular a methodology called spend analysis, which enables cities to measure where their procurement spend goes and subsequently work in cooperation with other partners and the market to progress the way in which they undertake procurement policy and practice.

The spend analysis good practice has been developed by the City of Preston in the United Kingdom over the course of the last seven years. Since 2018, Preston has sought to transfer the principles and practice of the methodology to six other cities: Pamplona (Spain), Vila Nova De Famalicão (Portugal), Schaerbeek (Belgium), Kavala (Greece), Bistrița (Romania), and Koszalin (Poland).

## About the Making Spend Matter Toolkit

The Making Spend Matter Toolkit ([www.preston.gov.uk/makingspendmattertoolkit](http://www.preston.gov.uk/makingspendmattertoolkit)) brings together guidance and learning from the network to enable other public organisations and cities to start / continue their own strategic procurement journey. The Toolkit comprises four parts:

- The first part explains how public organisations can take a more strategic approach to public procurement to help them deliver positive impact on their communities, economy and environment.
- The second part provides a spend analysis tool produced by CLES (a national organisation for local economies in the UK), and a guide (produced by

Making Spend Matter partners) to help cities analyse their procurement spend in terms of geography, sector and with different types of suppliers, and interpret their findings to help inform where changes can be made to procurement processes.

- The third part provides tips and guidance through a series of Frequently Asked Questions (FAQs) and infographics on a range of topics including from how to develop a strategic approach to public procurement, increase your engagement with Small and Medium-sized Enterprises (SMEs), embed social and environmental criteria and measure the wider impact of your procurement activities.
- The fourth part provides practical examples on the topics highlighted in parts two and three and other activities which partners engaged in during the lifetime of the Transfer Network.

## About Bilateral Meetings and FAQs

As part of the activities of Making Spend Matter, each of the partners has had the opportunity to participate in bilateral meetings on any of the themes of advanced spend analysis, business database development and SME engagement, and social and environmental criteria. There have been two meetings on each theme: the first being a 'how to' workshop; and the second focusing upon partner progress and wider case studies.

Over the course of the bilateral meetings, partners have asked a number of questions about the themes; the answers to which will be of interest to the partners which did not participate in the sessions and to other cities which are interested in adopting a more strategic approach to procurement. This Frequently Asked Questions (FAQ) document provides responses to common questions about the theme of advanced spend analysis.

<sup>1</sup> [www.urbact.eu/making-spend-matter](http://www.urbact.eu/making-spend-matter)

<sup>2</sup> [www.urbact.eu/](http://www.urbact.eu/)

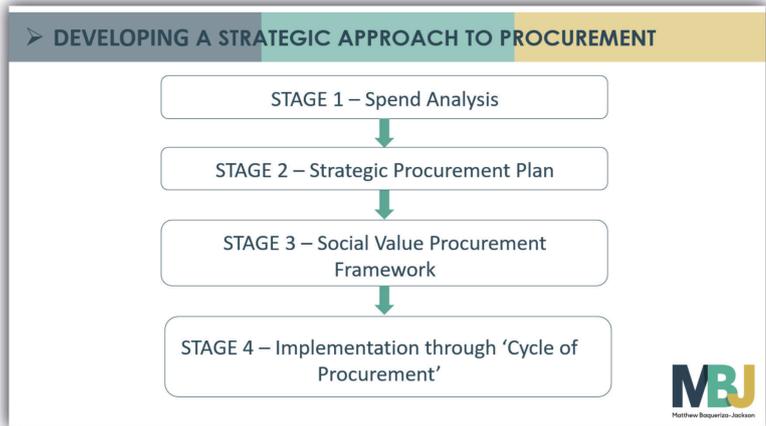
<sup>3</sup> [www.urbact.eu/good-practices/home](http://www.urbact.eu/good-practices/home)

## Question 1

# Why is it important to Analyse Spend?

The core purpose of Making Spend Matter has been to transfer a spend analysis methodology to six cities, and to use the evidence derived from it to adopt a more ‘strategic’ approach to procurement. By ‘strategic’, we mean using procurement as a means of addressing wider economic, social and environmental challenges. The first stage of developing a strategic approach to procurement (as outlined in diagram 1) is to undertake spend analysis. This is important because it gathers evidence which can inform the development of each of the other stages of the strategic approach to procurement. There are two different types of spend analysis: ‘basic’ spend analysis and ‘advanced’ spend analysis.

Diagram 1



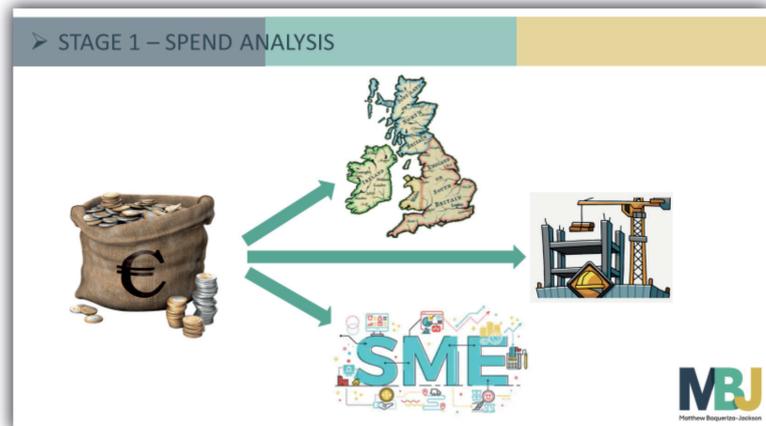
## Question 2

# What is ‘Basic’ Spend Analysis

‘Basic’ spend analysis explores the procurement spend of a municipality or anchor institution over a given period of time. For example, it could look at the total procurement spend of a municipality of 10 Million Euros. The analysis explores that total spend against three factors, as detailed in diagram 2. This FAQ should be read alongside the Making Spend Matter Tool and Guidance (see above).

The first factor is geography – the ‘basic’ spend analysis explores how much of the 10 Million Euros, for example is spent in the Municipality’s boundary or in the wider Region or in the Country. The second factor is Small to medium-sized enterprises (SMEs) – the ‘basic’ spend analysis explores how much of the 10 Million Euros is spent with (SMEs). The third factor is sector – the ‘basic’ spend analysis explores how much of the 10 Million Euros is spent with businesses and other organisations in different industrial sectors, such as construction or social care.

Diagram 2



### Question 3

## What is 'Advanced' Spend Analysis?

The 'basic' spend analysis outlined in Question 2 is just one of the pieces of analysis and activities which municipalities and anchor institutions can undertake to understand their procurement spend. 'Advanced' spend analysis can be used to explore this spend data in more detail or identify information which demonstrates the wider impact of procurement spend in economic, social, and environmental terms. There are three types of 'advanced' spend analysis: gap analysis, re-spend analysis, and wider impact analysis.

### Question 4

## What is Gap Analysis?

The 'basic' spend analysis enables municipalities to understand how much of their procurement spend is with organisations based in their Municipality or Region and with particular sectors. It however does not enable municipalities to understand and question/ask questions about what happens to the spend which is not spent within their Municipality or Region, or the sectors of spend which this procurement spend is within. Gap analysis therefore explores the procurement spend which is leaving the defined geographical area in more detail. This data can be analysed by sector in two ways.

- The first is to identify the sectors which have the greatest amount of procurement spend leaving the defined geographical area – for example, 5 Million Euros of construction spend may be leaving the defined geographical area and 1 Million Euros of communications spend.
- The second is to identify the sectors where there is a small proportion of spend in the defined geographical area in comparison to the overall spend within the Municipality boundary or Region – for example, Municipalities may spend 40% of their total procurement budget in their own municipality; however, when it comes to analysing the spend with the construction sector, this percentage reduces to 10%.

Once the gaps have been identified, municipalities can then have a conversation around why these situations are the case. This dialogue enables municipalities to understand which spend can potentially be delivered by another type of organisation, such as an SME; or in which a new type of organisation could be created, such as a cooperative; or in which capacity building activities could be undertaken with businesses based in the Municipality or Region.

It is important to note that gap analysis is not about protecting a particular economy and ensuring all goods and services are delivered by 'local' organisations. Instead, it is about ensuring that organisations based within a municipality at least have the awareness to develop their skills, capacity and knowledge and potentially bid for procurement opportunities. It is also about creating and growing new types of businesses.

## Question 5

### What is Re-Spend Analysis?

‘Basic’ spend analysis will enable municipalities to detail the proportion of procurement spend which they spend within their Municipality or Region. It does not however allow municipalities to understand what happens to procurement spend once it reaches the supply chain. To what extent, for example, do suppliers re-spend the money they receive with suppliers of their own which are based in the defined geographical area such as their municipality? To what extent are the employees of supply chain organisations resident in the municipality?

Re-spend analysis enables these questions to be answered, with suppliers asked six questions through a survey:

- What proportion of your organisation’s total spend is upon employee wages?
- How many employees does your organisation have?
- How many of your employees are resident in {insert geographical area of focus}?
- What proportion of your organisation’s total spend is upon suppliers?
- How many suppliers does your organisation have?
- How many of your suppliers are based in {insert geographical area of focus}?

From the ‘basic’ spend analysis, municipalities will know how much is spent with each supplier. They can then use this as a base figure to explore, using the data extracted from the survey, how much each supplier re-spends in the defined geographical area. This can then be added together and averaged to identify how much the supply chain as a whole spends in the defined geographical area.



## Question 6

### What is Wider Impact Analysis?

As well as undertaking re-spend analysis, as detailed in Question 5, municipalities can also use the survey described as a way of collecting data about the wider impact of procurement spend. For example, they can ask questions around the number of jobs suppliers have created, or the number of hours of volunteering that employees of the suppliers have undertaken, or the amount of carbon emissions they have reduced. The above collects output data from each supplier, which in turn and using tools such as the National Themes, Outcomes, Measures (TOMs)<sup>4</sup> can be used to estimate the wider impact of procurement spend.

<sup>4</sup> The TOMs are a UK focused tool developed by the Social Value Portal. They enable financial proxies to be applied to an output such as creating a job for a previously unemployed individual. <https://socialvalueportal.com/national-toms/>

## Question 7

# What happens after ‘Basic’ and ‘Advanced’ Spend Analysis is undertaken?

Each of the elements of data collected through ‘basic’ and ‘advanced’ spend analysis are effectively a ‘baseline’ evidence base. They will tell municipalities where their procurement spend goes geographically, sectorally, and in business type terms; they will identify in which sectors of spend there is potential to diversify the supplier base; and they will identify how suppliers re-spend procurement spend and the wider impact they have upon wider economic, social, and environmental issues.

The ‘baseline’ evidence can then be used to shape the other stages of the strategic approach to procurement as detailed in the diagram in Question 1.

- The ‘basic’ spend analysis data could be used to inform the Strategic Procurement Plan in stage 2 and the setting of targets for the increase of spend with SMEs, for example;
- The gap analysis data could be used to inform the Stage 4 implementation and particularly identify sectors to target for meet the market events, for example.
- The wider impact analysis data could be used to inform the outcomes for inclusion in the Social Value Procurement Framework in Stage 3, for example, and the wider monitoring undertaken in the Stage 4 implementation.



Making Spend Matter is a network of 7 European cities, funded through the URBACT III Programme and the European Regional Development Fund, exploring how spend analysis can be used as an evidence base to improve public procurement and deliver wider benefits to communities and places.