



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

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## **WRITTEN STATEMENT BY THE WELSH ASSEMBLY GOVERNMENT**

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**Title:** Public Procurement in Wales

**Date:** 18 February 2011

**By:** Jane Hutt, Minister for Business and Budget

The Welsh public sector spends over £4.3 billion, or around one third of its budget, on external goods and services. How these are commissioned and procured has a profound impact on the efficiency and quality of our public services and on the business community in Wales.

This is particularly critical in the current financial climate. The reaction to the recent schools construction framework awarded by Powys County Council shows the level of concern that can be felt by business. In this exercise 'lots' were created for smaller value projects and 'community benefits' conditions were used. The six suppliers who won in open competition all have Welsh offices and employ local people and as part of the framework, are required to provide local supply chain and training and development opportunities. The outcome of a further schools construction framework is to be announced shortly and I am aware that it includes a mix of suppliers, including indigenous businesses. However, to ensure we are capturing all the benefits and discovering any improvements that may be made, I have commissioned a 'lessons learned' exercise. It is vital that we all understand and address the issues faced both in procurement and across the business community and take appropriate action. I will report back on this in due course.

As Minister for Business and Budget, with responsibility for public procurement in Wales, I must ensure that we realise best value from every 'Welsh' pound. We face a reduction in public spending, whilst an ageing population and rising expectations are intensifying the demand for services. As custodians of public money, we must aspire to exemplary procurement – just "doing things as they have always been done", will no longer be enough. The actions we are taking dovetail with those set out in '*Economic Renewal – a new direction*', and for this reason I have been keen to encourage suppliers to engage and explore practical steps to improve outcomes in Wales. I have established a number of channels to improve dialogue including the Construction Steering Group and Supplier Reference Panel. I am confident that a proactive approach will yield an ever stronger relationship between public procurement and Welsh business.

I recognise that the financial climate is making it harder for individual businesses that fail to win public contracts. In particular, the construction sector in Wales faces real difficulties and strong competition.

To help address the challenge of the major 40% cut in our future capital budgets, the Assembly Government has taken significant and determined action, both in the current financial year and in next year's Budget, to shield our capital programme and hence the construction and associated industries in Wales from the ravages of this major cut imposed on us by the UK Government.

In addition more informed approaches to procurement have channelled benefit into our local communities. Our *'Opening Doors – Charter for SME Friendly procurement'* has seen contracts worth £12.5bn advertised through sell2wales. Last year 24% more lower value contracts were advertised, suitable for smaller businesses. Through our *'Community Benefits'* guidance we have encouraged an approach to capital contracting that focuses on local benefits, creating numerous training and sub-contract opportunities. Where this has been adopted the local economic return on the capital investment has been 30% higher than the average.

In direct response to feedback from the Economic Renewal roundtables we are tackling the pre-qualification process. Our single question set is being trialled, and during the year will be hard-wired into the refreshed *'sell2wales'* website. This *'Supplier Qualification Information Database (SQulD)'* project has the potential to reduce significantly the tendering costs for suppliers – currently estimated to be over £20m per year.

This new approach will also bring down some of the barriers faced by smaller suppliers. Already we have seen smaller Welsh based construction companies winning 15 of 26 major tenders issued last year. In the Housing sector we saw significant procurement activity by Registered Social Landlords in order to meet the Welsh Quality Housing Standard. 90% of this work was won by Wales based suppliers.

The overall competition picture within Wales remains positive. A review of £3.5bn of public sector expenditure has shown that Wales based suppliers are winning contracts – nearly 60% of the 3400 suppliers winning direct work worth between £150k and £5m per year were SMEs and 1800 or 51% were based in Wales.

Looking forward I want to see a faster pace of change. We need to move from piece-meal and gradual improvement into full adoption of recognised innovation. This means leadership; it means being willing to act swiftly and boldly for the good of Wales. Public sector leaders have a duty to take procurement seriously and to be involved in the decisions that are made.

I wish to lay out my vision for the future and give a clear message on what I expect from our public sector partners and what support I will be providing through the Assembly Government's Value Wales division. The Efficiency and Innovation Board that I chair provides practical leadership to tackle these issues.

Firstly *'Capability'* - all organisations need to assure themselves that they have access to the right level of commercial procurement advice either directly or through access to

shared support. In July 2010 I announced the creation of the '*Homegrown Talent*' project, supported through the European Social Fund, to develop the capability we need across Wales. The first set of procurement trainees are being recruited now through Value Wales, and a training programme for senior leaders and officers will be made available during 2011.

Secondly 'e-procurement' – all organisations need to eradicate unnecessary manual processes and make best use of technology. '*Xchangewales*' offers a full suite of e-procurement tools and I am providing implementation support through Invest-to-Save and the European Social Fund. All organisations must take this opportunity to make substantive business change. Over the next two years all tenders and the majority of orders and payments should be electronic. This has the potential to release over £50m of staff time savings.

Thirdly 'Collaboration' - common and repetitive spend needs to be carried out once for Wales. We need to organise our expenditure and develop collective sources of expertise in high spend areas such as construction, social care, and ICT. Through our E&IB Procurement workstream, led by the CEO of Denbighshire Council, we commissioned a Taskforce. Its recommendations and report '*Buying Smarter in Tougher Times*' is now being considered by the Welsh public sector. I am pleased that new approaches are being put forward and I have asked Value Wales to help deliver and develop these ideas further. Stronger collaboration has the potential to realise some £150m of savings over the next 5 years if we plan and work together. Standardising our specifications and removing variation from common items has been shown to take out cost and release savings.

Over the last year I am encouraged by the changes that I have seen. In my update to the Assembly on the Efficiency and Innovation Programme in September I highlighted the opportunities available from collaborative deals and use of electronic procurement processes. In the last year alone, savings of £11m have been made from collaborative procurement and over 70% of organisations are now using all the major Value Wales or all-Wales agreements.

Adoption of e-procurement is growing but can and should increase. Currently 7 Local Authorities, 158 schools from 5 regions, almost the entire NHS and Assembly Government itself are live on the '*xchangewales*' e-trading hub; with many more organisations making use of e-tendering, purchase cards and e-auctions. Staff time savings worth £8m have been identified this year and 16 tonnes of CO2 saved.

Fourthly - Fostering Welsh supply chains. All organisations need to play their part in demystifying and simplifying procurement processes. This means approaching our aspirations for savings in the context of developing Welsh supply chains and securing a social return on capital investment and major revenue contracts. As I stated in Plenary this week, I want to see all major capital and revenue contracts adopting a '*Community Benefits*' approach and I will shortly be writing to all chief executives to provide fresh guidance and to urge action. Our suppliers must play their part in driving down cost, but at the same time we need an approach that fosters strong and competitive supply chains in Wales.

There are significant rewards if we seize the opportunities available. We can make efficiencies and at the same time deliver a social return in our major areas of expenditure - provided we develop our capability, take down our barriers and commit to a shared vision for Wales.

