

Assessing the local economic impacts of local procurement

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Wider interventions and outcomes

Why are we doing it:

- In response to Levelling Up
- Improve the evidence on interventions not traditionally thought of as 'economic'
- Consider some non-economic outcomes.



What will it deliver:

- Evidence reviews on public procurement policy, public sector relocation, public spaces, community wealth building and social capital projects
- Useable resources to help places assess the likely impacts of these wider interventions.



Local public procurement

Local public procurement delivers direct benefits:

- Most obviously, public services and infrastructure for people and businesses (employment training).
- Also, the goods and services needed to deliver public services and infrastructure (IT systems).

What additional local benefits can be delivered:

- by prioritising local businesses?
- by requiring contractors to deliver additional outcomes such as employing local people? (social value contracting).

Legal duty: The Public Services (Social Value) Act 2012.

How it applies: The National Social Value Measurement Framework (also known as TOMs - Themes, Outcomes and Measures).

Using procurement to deliver additional benefits

Economic benefits:

- Income for local businesses
- Local employment
- Local wages

Wider benefits:

- Environmental and social outcomes
- Other business outcomes.

Estimate the impact in your area using local data and look at the evidence from past procurement exercises.

Estimating economic impacts using local data

Information about your local area can help you to assess the likely scale of local procurement changes.

For example, for procurement changes to redirect spend to local businesses:

- the amount of spend being redirected can be used to estimate the number of new jobs directly created.
- ‘displacement’ and ‘crowding out’ need to be considered – they capture the impact on other businesses.
- average employment ‘multipliers’, combined with local data, can be used to estimate the number of additional jobs created in supply chains and by newly employed people spending more money locally.

Evidence on economic impacts from past procurement

Impacts on businesses that win contracts:

- **Innovation:** some specialised procurement exercises shown to increase innovative activity – R&D spend, patent applications
- **Business revenue:** some evidence that securing a public contract can increase revenue from other sources, for specialised contracts
- **Business productivity:** one study shows short-term benefits but a decrease in the longer term
- **Business survival:** the evidence is mixed and one study concludes that winning public contracts can lead to survival of inefficient SMEs.

The evidence is fairly limited.

Evidence wider outcomes from past procurement

- The evidence base is very limited
- There is some evidence that procurement policy can encourage the adoption of green practices
- We found no robust impact evaluations which measured the impact on employment.

Factors that can offset benefits

- **Additionality:** Some social value requirements may have been delivered anyway. For example, businesses already moving to greener practices because of market demands.
- **Displacement:** The social activities of successfully bidding businesses may displace others. For example, taking on more apprentices to win a social value contract could reduce the number of apprenticeship candidates available to other businesses.
- **Scalability:** If all places prioritise their local businesses, there will be winners and losers. Local authority areas near to major cities may be at particular risk.
- **Location:** Not all social benefits are localised. For example, climate change contract requirements will have less localised effects than air quality contract requirements.

Costs

Local procurement and social value contracting have costs as well as benefits:

- Available evidence suggests an increase in costs of between 1% and 4%
- Costs to local businesses who would not have previously bid for contracts, who bid and fail.

There is some evidence on what has worked to limit increases in cost:

- Auctions – costs reduced by between 8% and 25%
- Training for local bidders – value of bids reduced by 2%
- Greater promotion of contracts – one study shows positive impact (reducing costs)
- Digitalisation of procurement processes – evidence is mixed.

Policy implications

- Collaboration with other areas: contracts of larger value are more cost-efficient
- Potential value of a national auction system
- Practices to reduce potential for corruption

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