

Evidence briefing: Assessing the local economic impacts of local procurement

1. Summary

Public sector organisations, including local and combined authorities, use public procurement to award contracts for the purchase of goods and services. As public procurement reflects policy goals, these purchases generate economic, social, or environmental benefits. There is increasing interest in using these contracts to secure additional economic, social and environmental benefits.

These benefits could be secured by imposing requirements as part of contract delivery ('social value contracting') or, by increasing the share of spending secured by different types of firms. Local procurement aims to increase the share of spending that goes to the local economy – either by imposing local content requirements through social value contracting or by increasing the number and value of contracts secured by local firms.

This briefing provides a framework to help local policymakers think through the benefits and costs of pursuing local procurement. It draws on a rapid evidence review of evaluations of the impact of public procurement on benefits and costs, and on economic theory and evidence. Reflecting What Works Growth's remit, we focus on understanding the potential benefits for local economic growth. Within 'wider benefits' we focus on those likely to have local economic benefits over the longer term, and do not consider, for example, the benefits of getting contractors to engage in community activities. Throughout the briefing, we have set out the considerations for an individual contract. However, this approach could also be used to assess total procurement spend across one or more organisations.

Key messages

Choosing an approach

- Start by establishing the objectives local procurement hopes to achieve.
- Consider whether the objectives can best be achieved through social value contracting or by increasing the number and value of contracts secured by local firms.
- If the preferred approach is to increase procurement from local firms, profile the local business base to check there are firms that can deliver the procurement requirements.

Assessing local economic benefits

- Understanding the potential increase in revenues for local firms provides a basis for thinking through the possible local economic benefits.
- Data on the labour share and labour costs can be used to convert revenues into an estimate of the number of jobs that could be created by local firms winning contracts. Alternatively, this could be done using data on revenue per employee. Using more granular data can improve estimates as job creation can vary across sectors, business size and business models.
- For social value contracts, the number of jobs specified as outcomes can be used as a starting point for calculations.
- Consider what proportion of jobs are likely to be secured by local residents, and whether a social value contract should be used to set targets.
- Account for displacement and crowding out when estimating the impact on local procurement – this will reduce the number of directly created jobs. Usually, the risk of local displacement and crowding out will be small so it is unlikely to significantly affect the overall employment impact.
- Crowding out is more likely where contracts involve specialist activities. In these cases, carefully assess the risk of crowding out by considering the local supply of the skills required to deliver these contracts.
- For social value contracts, aim to assess whether the jobs created will be additional.
- The total number of jobs created can be estimated using a multiplier. When applying a multiplier, carefully consider the factors that will affect the size of the multiplier, including supply chain links and commuting patterns.
- Consider the number of jobs created relative to the overall size of labour market to assess the potential impact on the employment rate. This can help assess the relative value of using procurement to create jobs compared to other policy options.
- Unless the employment impacts are large relative to the size of the local labour market, or the contract requires specialist skills, there is likely to be no significant effect on local wages. Social value contracts could be used to increase wages at the lower end of the income distribution.
- Consider whether there are likely to be any other income effects arising through the capital share.
- There may be additional benefits for firms of securing a public contract. However, as these are uncertain, they should not systematically be included in estimates of benefits.
- The benefits of prioritising local firms could be offset if other areas adopt the same policy, as this will reduce local firms' ability to win contracts elsewhere.

Assessing wider benefits

- Whilst the evidence suggests procurement can be used to secure wider outcomes, alignment between the contract and the social value outcome is needed.
- Carefully consider whether the benefits will accrue to the local area and whether they are additional.

Assessing costs

- Benefit-cost calculations should recognise that placing additional requirements on bidders or giving some bidders preferential treatment is likely to lead to higher contract costs.
- If it is possible to gather data on the increase in the number of local firms bidding and the cost of bidding to unsuccessful firms, add these to the benefit-cost calculations for local procurement. However, in most cases the cost of bidding is unlikely to be available.
- Letting contracts at the local level can be cost inefficient. Given that local procurement could increase costs further, it is important to consider how costs could be reduced. Auctions, bidder training and promotion could help reduce costs.
- Compare benefits and costs to assess whether pursuing local procurement is worthwhile.
- Compare benefit cost-ratios to other policy approaches to achieving the objective.
- In some cases, policy priorities may justify local procurement even if the costs outweigh the benefits.

Other considerations

- Consider when to use local procurement – will this be decided in a systematic way or on a case-by-case basis?
- Multiple factors will determine whether a contract is suitable for local procurement, including the size of contract, the goods and services being procured, and the objective being pursued. Smaller contracts are likely to be more limited in the outcomes they can deliver.
- Aiming to increase the number and value of contracts secured by local firms requires a definition of the local area. The appropriate geography may vary across different contracts.
- Consider whether to establish a formal collaboration with neighbouring authorities to achieve common objectives.

Monitoring and evaluation

- Use monitoring and evaluation to assess the impacts of local procurement policies.

2. Background

Public sector organisations, including local and combined authorities, use public procurement to award contracts for the purchase of goods and services. As public procurement reflects policy goals, these purchases generate economic, social, or environmental benefits (for example, a local authority commissions a contractor to build segregated cycle lanes to help improve accessibility to work and study, and reduce congestion and air pollution).

There is increasing interest in using these contracts to secure additional economic, social and environmental benefits. For example, a local authority might also wish to use a construction contract for cycle lanes to create employment or apprenticeship opportunities for residents.

The Public Services (Social Value) Act 2012 (the 'Social Value Act'), requires public bodies in England

issuing contracts above certain thresholds to consider how procurement might “*improve the economic, social and environmental well-being of the relevant area*”.^{1,2} For local and combined authorities, the ‘relevant area’ is their local area. When we talk about ‘local procurement’ we will mean the use of this process to generate local economic benefits (such as increasing employment, apprenticeship, and supply chain opportunities).³

Local procurement may involve:

- Increasing the number and value of contracts secured by local firms. This will generate local economic benefits if local firms are more likely to employ, or be owned by, local residents or are more likely to have local supply chains than firms based elsewhere.
- Using social value contracts to require contractors, who may or may not be local, to use local ‘resources’ as part of contract delivery.⁴

3. Choosing an approach

3.1 Establishing objectives

Local procurement can be used to secure a wide variety of different outcomes. As well as different outcomes (economic, social or environmental), there can also be substantial variation in the scale or intensity of requirements. For example, economic outcomes may vary from contractors committing to undertake careers talks in schools through to more substantive commitments on recruitment or wages.

Start by deciding objectives. For example is the objective to create local employment opportunities, support local businesses to innovate, or contribute to net zero targets? Be as specific as possible, and realistic about what is feasible. Few contracts will be able to achieve significant impacts on multiple objectives.

Consider how local procurement relates to other policies, especially the question of whether they are complements or substitutes. For example, if the aim is to create employment opportunities, will local procurement substitute for activities to support local businesses to grow, will it encourage businesses to relocate into the area, or will it complement existing initiatives? As the benefits from local procurement are likely to be relatively modest – other than for the largest of contracts – local procurement should generally be seen as a complement to other policies rather than a substitute.

Key messages:

Start by establishing the objectives local procurement hopes to achieve.

1 Legislation is also in place in Scotland (the Procurement Reform (Scotland) Act 2014) and Wales (the Well-being of Future Generations (WCFG) Act 2015).

2 The Procurement Bill, currently in Parliament, will update the public procurement regime in England, Wales, and Northern Ireland. The bill includes provisions to link public procurement with wider economic, social and environmental outcomes. The legislation would “*require buyers to take account of national strategic priorities such as job creation, improving supplier resilience, and driving innovation.*” It will allow buyers to reserve contract competitions below a threshold for UK suppliers, social enterprises, and SMEs, and require SMEs to be considered in procurement processes.

3 Local procurement can form part of community wealth building which aims to transform local economies through communities having direct ownership and control of assets and making best use of these assets to create and retain wealth in the local area. The approach taken to procurement within community wealth building is known as progressive procurement.

4 Outcomes could be explicitly stated (for example, including a clause that 50 percent of labour employed to construct segregated cyclepaths must live in local area) or contractors could be asked to propose what additional outcomes they would be willing to deliver, with these commitments then being built into the contract of the winning contractor.

3.2 Choosing between social value contracting and prioritising local firms

Consider whether objectives can best be achieved through social value contracting or by increasing the number and value of contracts secured by local firms. Social value contracting can be used to achieve a wide range of objectives, whilst prioritising local firms is mainly seen as a way to generate economic outcomes.

In some cases, the approaches may need to be combined to meet objectives. For example, ensuring new buildings meet environmental standards could be achieved through a social value contract. But if the objective is to help local businesses gain an advantage by early adoption of green practices, a combined approach would be needed (e.g. using social value contracting to set the environmental standard and undertaking local supplier development activities). This also applies to economic outcomes. For example, unless outcomes are specified through social value contracting, there is no guarantee that local firms will recruit local residents, pay a living wage, provide a good quality work environment or use local sub-contractors.

If the preferred approach is to increase procurement from local firms, profile the local business base to check there are firms that can deliver the contract requirements. For example, purchasing school or hospital meals locally may not be possible if there are limited local food manufacturing businesses. Similarly, if the hope is that local firms will win contracts that involve standards or accreditation (for example, ISO or Investors in People) or use of particular processes or methods, how many local businesses currently meet these criteria? Where the numbers are low, it may be necessary to put in place activities to encourage adoption. More generally, it can be helpful to consider fixed costs and economies of scale when trying to establish if local firms will be able to meet contract requirements. For example, does provision require expensive specialist equipment (fixed cost) or are there large cost advantages to firms producing large volumes (economies of scale)?

Local procurement is only likely to support sustainable local employment if the contract relates to a good or service that is delivered through an ongoing or regular contract (such as cleaning or IT services) and not if it is something that is procured rarely (for example, a new bus fleet).

Key messages:

Consider whether the objectives can best be achieved through social value contracting or by increasing the number and value of contracts secured by local firms.

If the preferred approach is to increase procurement from local firms, profile the local business base to check there are firms that can deliver the procurement requirements.

4. Assessing local economic benefits

This section sets out a step-by-step approach to help assess local economic benefits. The focus is on employment – where the most substantive impacts are likely to be seen – but it also considers other potential benefits.

Local procurement increases revenues of local firms.⁵ Some of this increased revenue will go to workers, some to suppliers, some to providers of capital and some to business owners. Not all beneficiaries will be local. To understand these effects, it is necessary to assess the increase in revenues for local firms, how much of this goes to different beneficiaries, and how much of these

⁵ Throughout this section, we refer to 'firms' but this could include non-profit distributing organisations (such as social enterprises or cooperatives). Our briefing on community wealth building will consider the relative merits of supporting profit-distributing firms versus non-profit distributing organisations.

benefits stays local.

Local procurement can create additional benefits indirectly through multiplier effects that occur as the increased revenue flows through the local economy. The scale of these multiplier effects will depend on supply chain linkages, and the extent to which additional income is spent locally. This will vary across local areas and by the type of procurement.

In most cases there will be local employment benefits from ensuring more local bidders are successful or imposing local content requirements from successful bidders. Whether this makes a noticeable difference to local employment will depend on the amount of procurement or extent of local content requirement, the size of the local direct and multiplier effects, and the overall size of these effects relative to the local labour market.

Sections 4.1 considers how much spend could be redirected towards local firms (if this is approach adopted). Sections 4.2 and 4.3 consider the potential benefits in terms of employment and other local economic outcomes. Section 4.4 discusses the challenges of scalability.

4.1 How much spend could be redirected towards local firms?

If the aim is to increase the proportion of contracts secured by local firms, the starting point for assessment is the amount of spend that can be re-directed from firms located outside the area. Calculating this requires:

- A clear definition of a 'local firm'. This could be based on head office location, presence of an employment site in the local area, ownership, or another factor. Each option has advantages and disadvantages. This choice will determine how many firms are in scope.
- Data on what proportion of spend currently goes to local firms.⁶ It is useful to understand how this varies across type of spend and size of contract. This is particularly important if the profile of future spend is likely to be different to previous years.
- Data on future spend. Again, more detailed data will allow a more accurate estimate.

Also consider the desired scale of change and the alignment between the business base and the contracts to be let. Many local areas are unlikely to have firms that will be able to meet more specialist contract needs.

Calculations should be based on the planned net increase in spend secured by local firms (rather than total spend) as this provides an estimate of the additional benefits that might be achieved if spend is redirected. The net increase is the intended total spend that will be secured by local firms, minus the spend secured by local firms in recent years (based on, for example, an average of the last three years).

Key messages:

Understanding the potential increase in revenues for local firms provides a basis for thinking through the possible local economic benefits.

⁶ [Tussell \(2022\)](#) estimates that 46 percent of local government spend was with local suppliers (defined as those based in the same region as buyer) in 2021. This proportion had increased from 41 percent in 2016. The figures varied across regions, with London having the highest proportion and East Midlands the lowest.

4.2 Employment benefits

Direct effects

For most local procurement, the main benefit to the local economy comes through increased employment.

Across the economy, labour accounts for 60 percent of revenue, meaning labour costs would on average account for £600,000 of a £1 million contract ('the labour share').⁷ This provides a good starting point for calculating potential benefits of increasing the proportion of contracts secured by local firms. The labour share of revenue will vary across different contracts with, for example, the labour share in a road-building contract likely to be much lower than the share in a contract for training services. Firms that import goods or services from elsewhere to sell on to local customers ('intermediaries') will tend to create fewer jobs and have a smaller impact on the economy than firms that produce goods and services locally.

Not all of the labour share will stay in the area, as it includes income tax, national insurance, pensions and benefits-in-kind. And some of the jobs may go to workers who live outside the local area and commute in. Employment income can be converted into employment (i.e. number of jobs) by dividing employment income by the total labour cost per employee (estimated as income plus national insurance, employers pension contribution and any other benefits-in-kind).

An alternative approach would be to divide revenue by an estimate of revenue per employee. For example, across all firms this was just over £190,000 in 2021, so dividing the revenue figure by 190,000 will give an estimate of the employment effect.⁸

Where data on both labour costs and revenue per employee estimates are available, using both to calculate an estimate of jobs will provide a range.

In both cases, using more granular data should give more accurate estimates. For example, the labour share is 50 percent in financial and insurance activities, 65 percent in construction, and 90 percent in transportation and storage.

For social value contracts, it is often not necessary to undertake these calculations, as the contract will specify the number of jobs or apprenticeships that are expected. Some contractors may fail to deliver their commitments, so aim to work with a range based on different levels of compliance. Over time, collection and analysis of monitoring data should help improve the accuracy of this range.

Consider what type of jobs will be created. If the objective is to grow the local economy, high-productivity, high-wage jobs are likely to be preferable (due to their higher multiplier effects and their scope to change the profile of the area) but not all contracts will be able to deliver this type of job.

Consider whether these jobs will be taken by local residents. All else equal, the local economic benefits will be larger the higher the proportion of jobs taken by local residents. When local firms secure contracts, the impact on local employment will depend on the extent to which the firms draw on local labour markets, which will depend on how specialised are the roles, travel-to-work patterns (including whether roles can be undertaken remotely), and current labour market conditions.

Targets for local employment can be set through social value contracting. This direct approach aims to ensure that local employment opportunities are created, although leaves open questions about compliance and sustainability of roles (i.e. whether individuals are kept on beyond the end of the contract).

⁷ [Labour costs and labour income, UK: 2022 \(ONS\)](#).

⁸ Calculation based on data from UK Business: Activity, Size and Location 2021 published by ONS following a user request (AH1019). Please contact What Works Growth if you would more information on this data or on how to request similar data.

Key messages:

Data on the labour share and labour costs can be used to convert revenues into an estimate of the number of jobs that could be created by local firms winning contracts. Alternatively, this could be done using data on revenue per employee. Using more granular data can improve estimates as job creation can vary across sectors, business size and business models.

For social value contracts, the number of jobs specified as outcomes can be used as a starting point for calculations.

Consider what proportion of jobs are likely to be secured by local residents, and whether a social value contract should be used to set targets.

Displacement, crowding out, and additionality

Often, the creation of new jobs by a firm will be partially offset by job losses in other firms. This is known as displacement. For example, a new supermarket might create new jobs but put smaller shops out of businesses. Displacement can also occur on a larger geographical scale. For example, when a firm moves to a new city it creates new jobs in one place at the expense of existing jobs in another.⁹ This kind of geographic displacement is the objective of local procurement, as the policy is seeking to ensure jobs created because of procurement are created within the local area rather than elsewhere.

Local displacement (when local firms are displacing other local firms) is unlikely to be an issue when these policies are initially used in a local area as local firms are replacing non-local firms.¹⁰ However, in the longer term, there is likely to be some displacement if contracts go to some local firms but not others. Analysis based on the net increase in spend going to local firms, rather than total spend – as recommended in Section 4.1 – accounts for displacement.

Crowding out occurs when public spending pushes up local wages, making it more difficult for other local firms to attract workers. As discussed later, the wage effects of local procurement are likely to be small, unless the net change in local spend is large relative to the size of the local economy. Crowding out could occur, for example, if the procurement involves highly specialised activities for which there is a limited supply of workers with the relevant skills or if social value contracting is used to achieve disproportionate wage increases for low-income workers.

For social value contracts, an additional challenge is that firms may have undertaken some of the activities anyway, or they may displace the activities of others. For example, contracted firms take on apprentices, but this reduces the number of available apprenticeship candidates or training places available to other firms. Capturing baseline data from employers – for example, on how many apprentices they have recruited in previous years – will allow better assessment of the potential for displacement.

Key messages:

Account for displacement and crowding out when estimating the impact on local procurement – this will reduce the number of directly created jobs. Usually, the risk of local displacement and crowding out will be small so it is unlikely to significantly affect the overall employment impact.

⁹ Displacement is sometimes called 'substitution' in examples like this.

¹⁰ The definition of a 'local firm' is a potential source of displacement. For example, defining this based on firm ownership could lead to locally owned firms displacing national providers with offices and employees in the local area.

Crowding out is more likely where contracts involve specialist activities. In these cases, carefully assess the risk of crowding out by considering the local supply of the skills required to deliver these contracts.

For social value contracts, aim to assess whether the jobs created will be additional.

Indirect effects

The increase in direct employment arising from local procurement can also have wider impacts on employment across the local economy. One mechanism for this is through supply chains. For example, if the firm that wins a contract purchases equipment from a local supplier this will increase the revenues of the supplier and may lead to them increasing employment. Reflecting this, social value contracts can set outcomes that relate to the supply chain.

Additional local jobs can also be created because of those newly employed in the area spending some of their new income locally.¹¹ For example, increased local employment is likely to increase demand for goods and services on the local high street, creating more retail and hospitality jobs. Local jobs created in this way will tend to be in ‘non-tradable’ sectors, which means they need to be done locally, either because they require face-to-face interaction – for example, health care, education, hospitality – or because local production overcomes substantial ‘transaction costs’ related to distance – for example, local food delivery and perishable goods.

Understanding supply chains, travel-to-work patterns and spending patterns will help with assessment of the extent to which the increase in spend will feed through into additional job creation.¹²

Estimating the total impact on jobs – the ‘multiplier’

An employment ‘multiplier’ can be used to calculate the total number of jobs created. There are several ways to estimate the multiplier. Evidence reviewed for the What Works Growth [local multipliers toolkit](#) suggests that the multiplier for private sector jobs is around 1.3. This means that, on average, for each new private sector job created directly (i.e. through local procurement), 1.3 additional private sector jobs will be created indirectly, with 0.4 from jobs created through the supply chain and 0.9 from increased demand from more people employed locally.¹³

The Office for National Statistics (ONS) uses a different method, known as input-output analysis, to estimate the multiplier for different sectors. The ONS figures suggest that each new private sector job creates 0.7 new private sector jobs in the supply chain (but provides no estimate for the jobs created through increased incomes).¹⁴

The 0.7 to 1.3 figures are averages.¹⁵ The employment multiplier for a procurement contract could be

11 Any increase in local wages resulting from changes to public procurement will also have a similar effect, although the employment effects are likely to be larger.

12 What Works Growth’s guide to [using data for local economic policy](#) provides information on understanding local supply chains.

13 There are differing conventions for how multiplier effects are presented. Here, a multiplier of 1.3 means 1.3 additional jobs for every job created directly: 1.3 times the number of directly created jobs gives the number of **additional** jobs. A different convention is to call this a multiplier of 2.3: 2.3 times the number of directly created jobs gives the number of **total** jobs. It is important to check which convention is being used.

14 More detail on these two methods can be found in on the What Works Growth [website](#).

15 Some policymakers may choose to prioritise non-profit distributing firms, such as social enterprises and cooperatives, within their procurement policies. There is no data on whether multiplier effects are likely to be higher or lower in these types of organisation than in private sector.

larger or smaller than this, depending on:

- The extent to which winning bidders use local suppliers: the more they use them, the more jobs should be created in the local supply chain.
- Where new employees will work, live, and spend their income. This will affect the extent to which increased demand for goods and services occurs within the local area.

When estimating the multiplier, it can be useful to think of the averages presented above as providing rough estimates of the likely multiplier. The multiplier may be increased or decreased compared to these averages based on assessment of local supply chains, travel-to-work and spending patterns.

Key messages:

The total number of jobs created can be estimated using a multiplier. When applying a multiplier, carefully consider the factors that will affect the size of the multipliers, including supply chain links and commuting patterns.

Relative impact on employment

The impact on employment should be compared to total employment in the area. The impact on the employment rate (or unemployment rate) is likely to be small if the number of new jobs is small relative to the overall size of the local labour market. The working age population of the median sized English local authority is 83,600 (North Hertfordshire), which means changes in procurement would need to create 836 new jobs to increase the employment rate by one percentage point. The equivalent figures to achieve a one percentage point change for the largest (Birmingham) and smallest (Rutland) local authorities are 7,398 and 197.

Key messages:

Consider the number of jobs created relative to the overall size of labour market to assess the potential impact on the employment rate. This can help assess the relative value of using procurement to create jobs compared to other policy options.

4.3 Other local economic benefits

Wages

Unless the increased labour demand from procurement is large relative to the overall size of the local labour market it is unlikely that it will affect local wages – as these reflect overall labour supply and demand in the local area. In most cases, the increase in jobs is likely to be small relative to the overall labour market, so it is reasonable to assume that there will be no effect on local wages. One potential exception is if the jobs are in specialised labour markets, when wages for those specialist skills may increase. But as this only affects a very small part of the labour market, the overall impact is still likely to be limited.

Social value contracts could be used to increase wages at the lower end of the income distribution, by setting a requirement for contractors to pay a 'living wage' above the minimum wage or another target.

Key messages:

Unless the employment impacts are large relative to the size of the local labour market, or the contract requires specialist skills, there is likely to be no significant effect on local wages. Social value contracts could be used to increase wages at the lower end of the income distribution.

Other income effects

The focus so far has been on the effects on local labour markets. Local firms securing contracts could also impact the local economy through the ‘capital share’ – the proportion of the additional revenues that go to owners of capital assets such as buildings, machinery, data, patents or brands. For example, if a firm expands because of the contract and rents additional office space, some of the additional revenue will go to the owner of the building.

Data on the capital share can be used to calculate the potential scale of these impacts. Again, geography matters and the extent to which these increased returns remain in the local area depends on whether owners of capital assets are based locally.

The capital share could also be used to calculate the impact of any social value outcomes that aim to increase tangible (for example, new buildings) or intangible (for example, R&D) assets.

In both cases, as gains are likely to be small relative to the existing capital incomes, it is unlikely to result in a large impact on the local economy. The income effects arising through the capital share are likely to be much more varied than the effects on employment that occur through the labour share, so calculations must be based on a strong understanding of individual contract circumstances.

Key messages:

Consider whether there are likely to be any other income effects arising through the capital share.

Other effects on firms

There is some evidence to suggest that securing a public contract can improve access to credit, either because firms are considered more creditworthy or because contracts can act as collateral against debt. Where public procurement contracts lead to an increase in firm revenues or business development activities, this appears to be because the contract helps them develop new products, acquire new clients, improve their reputation, or improve their market knowledge. However, there is potential for displacement, with increased revenues or credit availability for firms in public procurement supply chains being offset by decreased revenues or credit availability in other firms.

Whilst there appear to be financial benefits from securing a public sector contract, the evidence on productivity and firm survival is less encouraging. Only one study included in our evidence review on public sector procurement looks at these outcomes. It finds that productivity goes up in the short term when a firm wins a public sector contract but is lower two years later. It also finds survival increases after two years but suggests that this could reflect inefficient SMEs surviving.

An increase in local demand may also encourage local firms to expand supply, leading in some cases to the area becoming a net exporter of the good or service (a ‘home market effect’). Most local procurement contracts are unlikely to be large enough to stimulate this change.

Key messages:

There may be additional benefits for firms of securing a public contract. However, as these are uncertain, they should not systematically be included in estimates of benefits.

4.4 Scalability

Whilst firms can benefit if public sector organisations (or other anchor institutions) in their area adopt a local procurement policy, they will be disadvantaged if organisations in other areas also adopt local procurement policies. The benefits may therefore be limited to the period when these policies are only used by a small number of local areas. The balance of potential benefits and costs will depend on the characteristics of individual economies, including their business base and their location. For example, local authority areas located near major cities may be at greater risk, if their business base includes lots of professional service firms that rely on contracts from the nearby city. In contrast, if local procurement targets both the city and its surrounding areas, this could be an opportunity for firms in the wider area. Areas where a large proportion of local public sector spend currently goes to non-local suppliers ('net importers') are likely to benefit most from introducing a local procurement policy, whilst areas that are 'net exporters' are at greatest risk from other areas adopting local procurement.

Key messages:

The benefits of prioritising local firms could be offset if other areas adopt the same policy, as this will reduce local firms' ability to win contracts elsewhere.

5. Assessing wider benefits

Section 4 focused on local economic impacts. Public procurement by local organisations can also be used to secure wider social or environmental objectives. Is procurement an effective way of delivering these wider social and environmental objectives, and if so, how they can be maximised? Reflecting our remit, we focus on wider outcomes that are likely to have local economic benefits over the longer term.

For environmental objectives, there is some evidence (cited in our rapid evidence review) that procurement can encourage the adoption of green practices. As well as having beneficial environmental impacts, this can also help firms to develop new products and services, opening new markets. The evidence suggests that having an explicit focus on generating environmental outcomes – for example, contractors are required to use green construction methods, or to have green accreditation – was key to achieving these outcomes. This suggests that public procurement could potentially help deliver environmental outcomes.

Multiple studies (again, cited in our rapid evidence review) have found that public procurement can lead to innovation, such as firms increasing R&D spend, developing new products, increasing sales from high-tech products, and implementing process innovations. There is also evidence that public procurement contracts can help widen the applicability of technologies or innovations. These benefits were mainly observed in relation to procurement that was specifically asking for innovative solutions, or more highly specialised procurement exercises, such as procurement by national scientific agencies. More generic procurement exercises for standard goods and services may not produce innovative activity. This highlights a potential limitation of using procurement to generate wider social

and environmental impacts: not all contracts will generate all forms of wider benefits. Consider what type of wider benefits are likely to be feasible from a given contract.

Consider which benefits from wider social and environmental objectives will accrue to local areas. For example, air quality objectives will have more localised effects than climate change objectives. In some cases, the local impact will depend on specific circumstances. For example, 'waste diverted' will have a different impact in areas that process their own waste or depend on the type of waste involved. Innovation outcomes are likely to diffuse widely as innovations are adopted elsewhere.

Another issue is additionality. As with employment outcomes (discussed in Section 4.2), firms may have undertaken some of the activities specified in wider social and environment objectives anyway.

Also consider if any support will be needed to help firms achieve wider objectives. For example, providing pre-employment training and support for care leavers could help employers meet objectives to increase employment of this group.

Key messages:

Whilst the evidence suggests procurement can be used to secure wider outcomes, alignment between the contract and the social value outcome is needed.

Carefully consider whether the benefits will accrue to the local area and whether they are additional.

6. Assessing costs

The preceding sections provide a framework for estimating the benefits of local procurement and the use of procurement to achieve other wider objectives. Potential costs should be considered alongside these benefits. In addition to the direct costs – for example from changing procedures for evaluating bids or supporting more local bidders – giving some bidders preferential treatment or placing additional requirements on bidders will generally increase the costs of the service being procured. There may also be costs to local firms that bid but are unsuccessful.

The small size of many contracts at the local level can mean they are cost inefficient but there is evidence that auctions, bidder training, and the greater promotion of contracts can lower costs.

6.1 Cost of additional requirements or preferential treatment

Evidence (cited in our rapid evidence review) suggests that placing additional requirements on bidders (as in social value contracts) or giving some bidders preferential treatment leads to an increase in contract costs of between one and four percent. Given the evidence is limited, the range could potentially be larger.

This additional cost reduces resources that could be spent on other policies, including those targeted at local economic growth and levelling up. Consider whether these goals could be more effectively achieved using other policy measures.

Key messages:

Benefit-cost calculations should recognise that placing additional requirements on bidders or giving some bidders preferential treatment is likely to lead to higher contract costs.

6.2 Costs for local firms who bid but are unsuccessful

A local procurement policy should lead to more local firms bidding for contracts. However, not all firms will be successful, with unsuccessful firms incurring additional costs. These costs are hard to estimate as it is necessary to know both the number of firms involved and the cost of bidding. It may be possible to estimate the change in the number of local firms bidding for contracts before and after the policy changes, but the costs of bidding are likely to be harder to estimate.

Key messages:

If it is possible to gather data on the increase in the number of local firms bidding and the cost of bidding to unsuccessful firms, add these to the benefit-cost calculations for local procurement. However, in most cases the cost of bidding is unlikely to be available.

6.3 Managing costs

Consider how to get maximum value from procurement spend. One major challenge is that the small size of many contracts at the local level can mean they are cost inefficient, with evidence (cited in our rapid evidence review) finding that contract costs are between two and 29 percent lower when procured centrally. One reason for this is that search costs are increased if contracts are only advertised locally. This effect is likely to be particularly pronounced when the goods or services being procured are complex or specialist, with higher estimates for more specialist services. Other factors such as corruption or political interference can also increase costs, but there is some evidence (discussed in our rapid evidence review) that inefficiencies have a larger impact on costs than corruption.

Given the potential higher costs associated with letting contracts locally and from placing additional requirements on bidders or giving some bidders preferential treatment, consider approaches that could reduce costs. Our rapid evidence review provides some useful insights on this. There is evidence that auctions reduce costs. However, setting up an auction-based procurement system at local level is likely to be costly. Another approach to lowering costs is bidder training for potential suppliers, with one study finding this can reduce the value of bids submitted by around 2 percent – reducing bid values from both firms participating in training and, when the training is highlighted, from their competitors. Other approaches include greater promotion of contracts and digitalisation of procurement processes, both of which have been found to lower costs. Bidder training and promotion can also have other benefits, for example, increasing the number of bidders.

Policy implications include:

- Consider whether there would be benefits in working collaboratively with other local authorities to let contracts for common requirements, with contracts of larger value likely to be more cost efficient.
- There would be value in central government, the Local Government Association, or another partner developing a national auction system that local and combined authorities could use.
- Consider ways to minimise risks from corruption. For example, should efforts to develop supply chains be undertaken by separate teams to those involved in undertaking procurement exercises?

Key messages:

Letting contracts at the local level can be cost inefficient. Given that local procurement could increase costs further, it's important to consider how costs could be reduced. Auctions, bidder training and promotion could help reduce costs.

6.4 Cost-benefit analysis

Benefits and costs should be compared. In general, only local procurement exercises where benefits outweigh costs should be pursued.

The benefit-cost ratio should be compared to other approaches that aim to achieve the same policy goal. For example, is using local procurement to create more apprenticeship opportunities a more cost-efficient way of achieving this than other policy options?

In some cases, a local authority may well pursue local procurement even if costs are greater than benefits. For example, a local authority may wish to demonstrate its commitment and leadership on net zero and use social value contracting to embed this. In these cases, it is important to recognise the political nature of this choice.

Key messages:

Compare benefits and costs to assess whether pursuing local procurement is worthwhile.

Compare benefit cost-ratios to other policy approaches to achieving the objective.

In some cases, policy priorities may justify local procurement even if the costs outweigh the benefits.

7. Other considerations

7.1 When to use local procurement

Should local procurement be used to secure additional benefits for all contracts? An assessment of the benefits and costs can help answer this question. If local procurement will only apply to some contracts, will this happen on a systematic basis (for example, apply to all contracts over a certain value or to deliver a particular type of service) or will decisions be made on a case-by-case basis? Even where local procurement is pursued on all (or a high proportion of) contracts, some decisions will need to be made on a case-by-case basis – for example, selecting different objectives and outcomes for road building, school meals or IT contracts.

Whether a contract is suitable for local procurement will depend on a wide variety of factors, including the size of contract, the goods or services being procured, and the additional benefits being sought through local procurement. For example, feasible objectives will be more limited for small contracts, and some outcomes (for example, reducing emissions) will be more relevant to some contracts than others.

Assessing the benefits and costs of local procurement for individual contracts can help identify when local procurement is worth pursuing. Whilst it is unlikely that benefits and costs of every contract can be assessed, looking at a range of different contracts can provide a sense of the types of contracts

where it will be worthwhile. There would be value in working co-operatively with other authorities to build up a database on this topic, or for government to coordinate this centrally.

Key messages:

Consider when to use local procurement – will this be decided in a systematic way or on a case-by-case basis?

Multiple factors will determine whether a contract is suitable for local procurement, including the size of contract, the goods and services being procured, and the objective being pursued. Smaller contracts are likely to be more limited in the outcomes they can deliver.

7.2 Geographic considerations

Aiming to increase procurement from local firms requires a definition of local area – will this apply to an individual local authority area or cover a larger area? This could be particularly important in cases where the objective is to increase local employment and a large proportion of residents commute to neighbouring areas for work. In addition to travel-to-work patterns, other considerations include the overall size of the area (with local authority areas with small populations less likely to have businesses that meet their needs than large areas), and the types of contracts being let (with it being more likely that there will be eligible firms if a larger area is covered).

The appropriate geography is likely to vary across different procurement exercises. For example, some specialised goods and services might require a larger geography than others. For economic outcomes, using a functional economic geography is likely to be more appropriate than administrative boundaries. In some cases, economies of scale could be achieved by procuring jointly with others.

There can be conflicts between some objectives and geographies. For example, if an objective is to reduce food miles of school or hospital meals, this may be better met by a business that is just outside the 'local' area.

Consider whether to establish a formal collaboration with neighbouring authorities to achieve common objectives. This may generate cost advantages as well as encourage sharing of expertise on local procurement across authorities.

Key messages:

Aiming to increase the number and value of contracts secured by local firms requires a definition of local area. The appropriate geography may vary across different contracts.

Consider whether to establish a formal collaboration with neighbouring authorities to achieve common objectives.

8. Monitoring and evaluation

Collecting monitoring data and, where possible, undertaking evaluation of local procurement policies will help increase the data available to inform future assessments.

Key messages:

Use monitoring and evaluation to assess the impacts of local procurement policies.

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