

# **Eco-innovation and the Power of Purchase:**

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# Procurement paradox

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- Public procurement has enormous economic power but little political status – the procurement paradox
- Public procurement is big business:
  - In the UK it is more than £230 billion p/a, 13% of GDP
  - In Wales it is nearly £5bn p/a, 10% of GDP
- “Attempts to ‘green’ procurement have largely failed. The public sector should be setting bold, new and sustainable specifications for the products and services it buys” (Letter to Prime Minister from Climate Change Group of CEOs, 2008)

# Regulatory framework

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- Public bodies have to comply with international and national rules and regulations when purchasing goods and services
- Three basic principles have been established to ensure public money is spent in an open and prudent way
  - **Transparency:** public contracts must be organised transparently and must use objective, accountable criteria
  - **Equal treatment or non-discrimination:** all companies must have a fair and equal chance to compete for the contract, and calls for tender must be widely advertised
  - **Best value for money:** Purchasing decisions should be based on the price of bids, but quality criteria can also be taken into account

# Greening procurement

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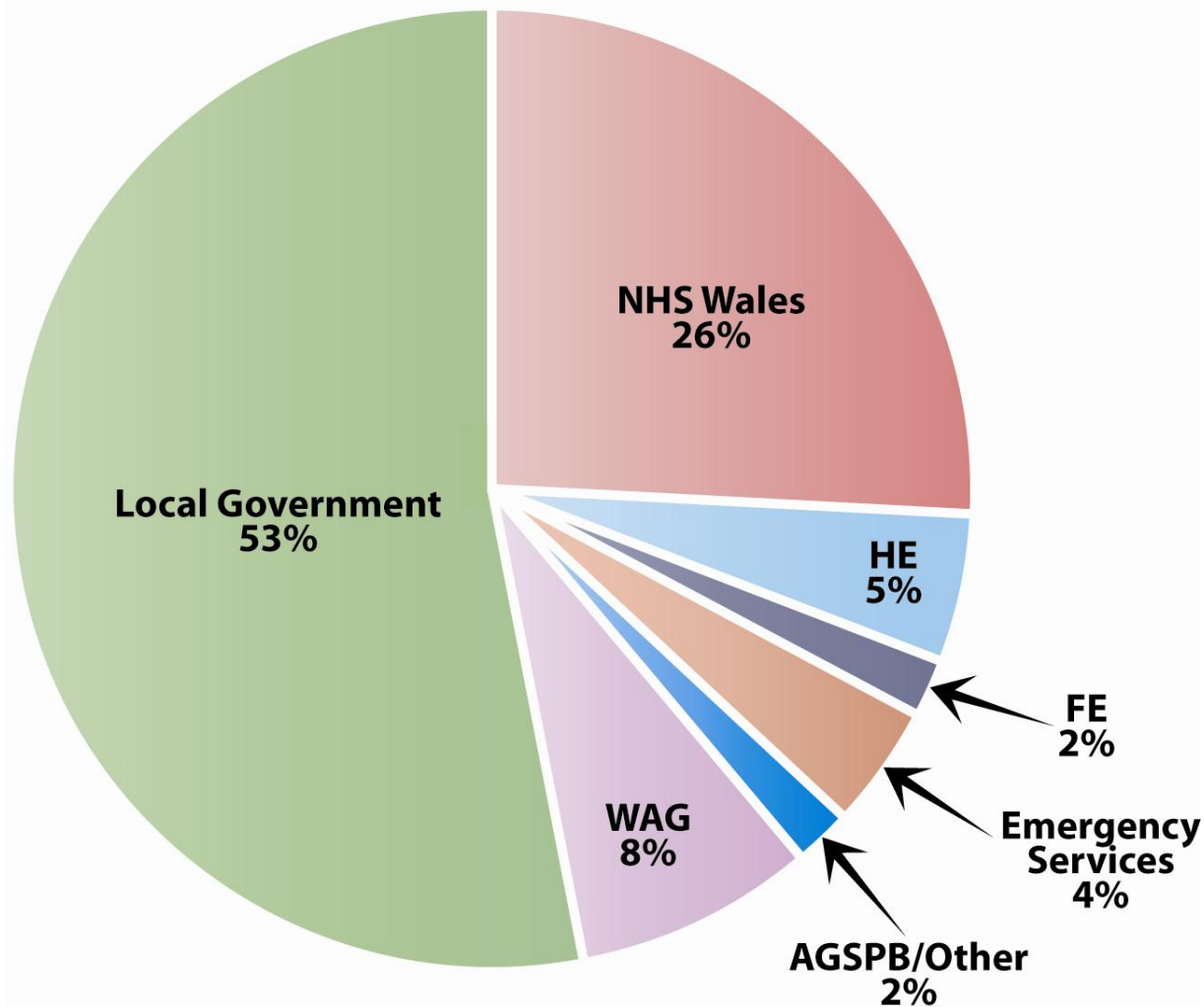
- ❑ In the 1990s public procurement in the EU was largely driven by narrow economic criteria, reflecting the principles of free trade and the single market
- ❑ Two trends opened EU public procurement to wider social and environmental criteria
- ❑ ***New political context:*** sustainable development was included in the Treaty of the EU in 1997 and reinforced by the Gothenburg Summit in 2001, which adopted SD as a major pillar of the Union
- ❑ ***European Court of Justice:*** in 2002 the Court ruled that the City of Helsinki was legally entitled to use award criteria for a bus contract that included not just overall price but also emission and noise levels – a landmark case in the history of green procurement

# Going green – easier said than done

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- Green procurement is generally defined as getting value for money – that is, buying a product that is fit for purpose and taking account of the whole-life costs (HM Treasury, 2007)
- Assessing “value for money” is not as easy as it looks because it requires a sophisticated system of metrics to enable managers to assess whole life costs – *low cost* is not the same as *best value*
- Whole life cost measures the costs and benefits of a product over the full life-cycle of the product not just the upfront cost

# Welsh public procurement spend (2007/08)



(Note: NHS partial analysis due to re-coding of categories within the financial management systems, expenditure provision based upon value of orders raised only not invoices paid and the exclusion of analysis of TFR3 Health data)

# Top Supply Categories

% in Wales	
Legal Services	77%
Transport	74%
Social Community Care	68%
Construction	65%
Education	60%
Leisure Services	60%
Cleaning & Janitorial	60%
Catering	50%
Vehicles not buses	49%

% Outside Wales	
Mail (Mail Services - Royal Mail top supplier)	91%
Medical	85%
ICT (ICT - Welsh Ambulance Service largest contributor - telecoms, second largest BT WAG)	84%
Financial Services	78%
Consultancy	77%
Utilities	67%
Human Resources (HR - likely to be using Welsh staff but with an invoice address outside Wales)	64%
Environmental Services	59%
Facilities Management	51%
Building Const Materials	51%

# Skills, Metrics, Governance

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- Green procurement is stymied by 3 key factors – skills, metrics and governance
- On the *skills front*, the biggest problem is the lack of CIPS qualified staff – barely more than 200 qualified professionals in the Welsh public sector, when there should be at least 300 on the 1/£15m principle
- On the *metrics front*, the biggest problem is that cuts and savings are easier to measure/manage than value-adding activity
- On the *governance front*, the biggest problems are the fragmentation of purchasing power and the variability in performance across the public sector

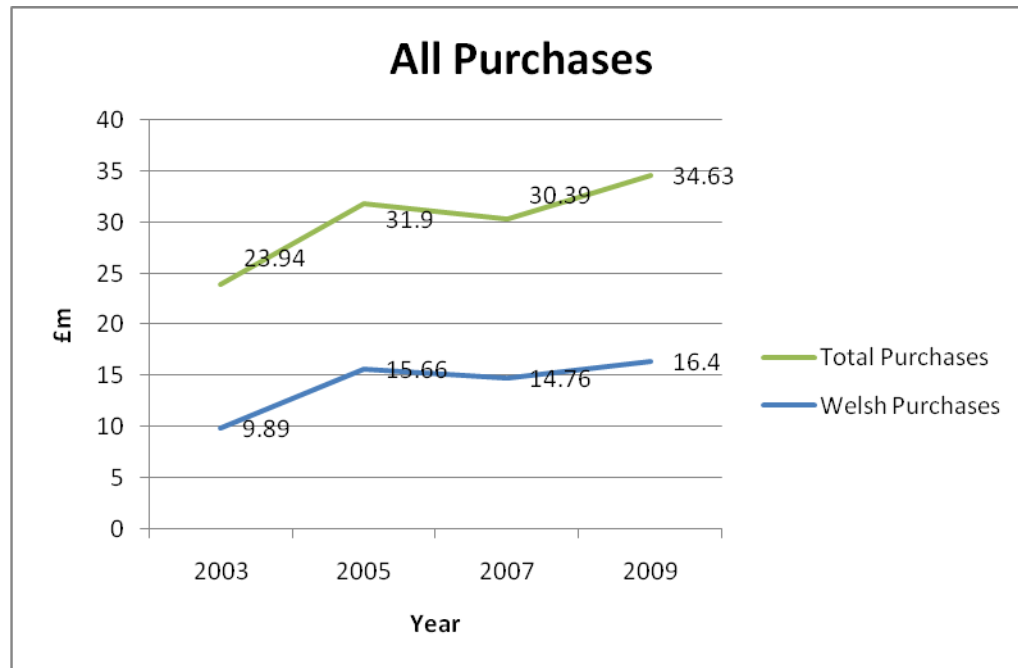


# Sectoral examples - food procurement

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- ❑ Local food is a component of a sustainable food system, but the latter is not reducible to the former
- ❑ Public sector spends some £60m on food annually (£20m on fresh food) and caters for the most vulnerable people
- ❑ Policy focused on key categories (bread, milk, fruit/veg, ready meals, soft drinks, water, dairy products)
- ❑ Key product sales up by 44.6% between 2003/09, Welsh origin products up by 65.8%
- ❑ Welsh origin products accounted for 47.4% in 2009

# Food purchasing trends



# Sectoral examples - green energy

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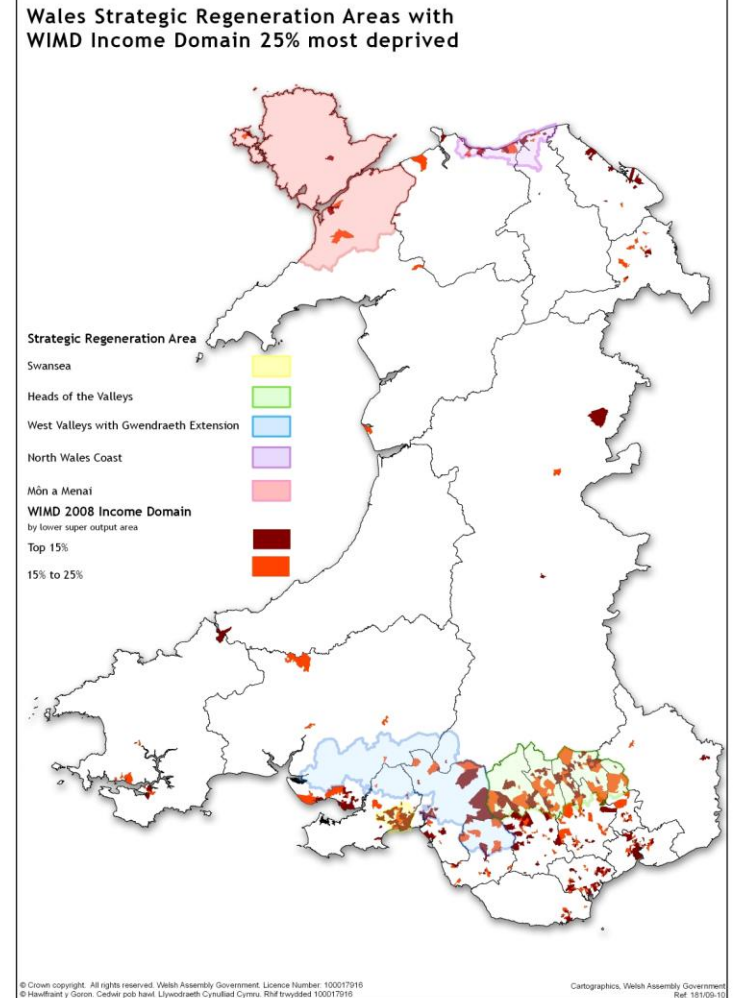
- A green energy scheme, Arbed has 3 aims
  - To reduce fuel poverty
    - Cutting fuel bills for the poorest households
  - To reduce carbon footprints
    - Promoting energy efficiency
  - To nurture a renewables supply chain
    - Building inter-firm linkages in the green energy sector
- Arbed offers a suite of services from basic insulation to solar PV

# Geography of Arbed

## □ Strategic Regeneration Areas

- Swansea
- Western Valleys
- Heads of the Valleys
- North Wales Coast
- Mon a Menai
- Aberystwyth (New)
- Barry (New)
  
- + Projects leveraging CESP money

Number of projects = 28



# Outputs of Arbed

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- Delivery of strategic objectives
  - Fuel poverty reductions
  - Tonnes of CO2 saved
  - Estimated economic benefits
  
- Supply chain development
  - Number of local contractors / jobs created
  - Meet the buyer/contractor events
  - Job match / 156 training weeks per £1m
  
- Leveraged funds from other programmes
  - WHQS
  - CERT
  - CESP

# Conclusions

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- The **Power of Purchase** has been neglected because of:
  - **its low political status**
  - **its poor skills/metrics/governance**
- With leadership and skills, the power of purchase could be a powerful driver of eco-innovation
- Food and green energy highlight the potential of the power of purchase
- But the **Age of Austerity** could wipe out the little victories of recent years if low (upfront) cost is once again allowed to masquerade as best value

# Key references

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- ❑ Value Wales ([www.wales.gov.uk/valuwales](http://www.wales.gov.uk/valuwales))