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ORIGINAL ARTICLE

Local government procurement costs and Community Wealth Building Initiatives in England

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We examine whether procuring locally leads to higher costs. Our study is motivated by the Community Wealth Building Initiatives adopted by Preston City Council in England in which social value to the local economy is considered in the procurement process. We compare contracts awarded to local and non-local suppliers, by Preston, a group of similar local authorities, and all lower tier local authorities in England. We find that local contracts are usually of lower cost. When examining all contracts supplied to local authorities in England, we find that contracts with local suppliers have lower total costs. In a linear model of award value per month, we find a small negative association between local contracts and procurement costs after controlling for the type of good/service being supplied, the local economic characteristics, and the characteristics of the supplier. Our results indicate that local procurement does not necessarily increase costs and might help support smaller local businesses.

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1 | INTRODUCTION

In a political climate which is becoming more ambivalent towards globalization, policies that emphasize local economies will become more significant. Examples of such policies are Community Wealth Building (CWB) Initiatives that aim to increase local communities' share of the wealth within local economies. One of the key pillars of CWB is to favour local procurement spending by local government and other institutions.¹ However, while local procurement might stimulate the local economy, a potential downside is that it could lead to higher procurements costs due to potentially reduced competitive forces in the procurement process.

CWB has been implemented in a growing number of areas, such as Cleveland, USA (for a discussion, see Dubb, 2016), Ontario, Canada (see Jamal & Scholten, 2024), and Scotland (see Redwood et al., 2022) over the past 15 years or so. The present study examines data from England where CWB Initiatives represent innovative place-based strategies aimed at addressing inequalities through multi-component programs led by Local Authorities (LAs) and supported by Anchor Institutions. These institutions, such as the National Health Service, the LAs themselves, universities, further education colleges, large housing associations, and the emergency services, aim to promote economic inclusion and well-being through various means, including changing procurement policies. LAs aim to use public procurement to award contracts to purchase goods and services that will generate local economic, social, or environmental benefits. One of the principles of the CWB is progressive procurement, meaning procurement that considers social as well as economic value, following the Public Services (Social Value) Act 2012 that required public sector commissioners in England to consider how they could improve the economic, environmental, and social well-being of their local areas through adjustments to procurement strategies. This is the strategy that forms the basis for encouraging Anchor Institutions to increase the share of spending that goes to local suppliers.

There is evidence to suggest that these initiatives might lead to improvements in well-being (Manley & Whyman, 2021) and economic outcomes (Rose et al., 2023). However, tensions persist between cost-based free market approaches and broader, social value, policy-driven use of public procurement. This debate is evident in both the academic literature and procurement documents in various economies (e.g., HM Government, 2023; NSW Treasury, 2021). The UK's central government, in 2013, tended to disassociate public procurement from broader policy goals, emphasizing a preference for maintaining a stripped-down approach focused on obtaining the best price (Public Administration Select Committee, 2013). Advocates argue that a cost-based model of public procurement, prioritizing cost-effectiveness, transparency, and unbiased tendering, is crucial for

¹ Aside from local procurement, advocates of CWB such as Guinan and O'Neill (2019) posit the other main pillars of CWB as: fairer employment practices; community use and ownership of land, property and other physical assets; inclusive ownership of local enterprises (e.g., multi-stakeholder co-operatives); and locally rooted finance.

achieving value for money and fostering economic growth through competition (Keulemans & Van De Walle, 2017; Robert & Muller, 2011).

However, at the local level, there has been more use of place-based procurement to drive secondary objectives (Centre for Local Economic Strategies, 2017; Rowe et al., 2017). More social value focused research purports to support the use of public procurement to develop domestic industries, stimulate the local economy, drive innovation, protect jobs and national champions, and safeguard national interests (Edquist & Zabala-Iturriagagoitia, 2012; Kattel & Lember, 2010; Morettini, 2011; Uyarra & Flanagan, 2010). Public procurement has evolved to become a collaborative process between bidders and tenderers, focusing on relative quality and lifetime cost assessment (Erridge & McIlroy, 2002; Smith, 2011). It has been recognized as a demand-side tool capable of generating stable levels of demand, fostering business activity, and supporting the diffusion of technology, innovation, and capabilities at a local level, especially in areas of high structural unemployment. In particular, it has the potential to foster city regeneration and the protection of locally significant small- and medium-sized businesses (Frenken, 2017; Georghiou et al., 2014; Raiteri, 2018).

While there is evidence that the introduction of CWB was associated with some improvements in wages, employment, and mental health (Rose et al., 2023) and that local authority procurement from local suppliers can boost local employment and wages, we do not know if there is an additional cost to policies that prioritize procurement from local suppliers. It is possible that procuring locally or procuring for social value increases costs more and reduces the value for money to the Anchor Institutions compared to more openly competitive procurement. This could be balanced against the arguments for social gain from local procurement, including any positive impacts on well-being and health in the local community. Others have highlighted that robust evaluative evidence is urgently needed to understand the full potential of public procurement as a policy tool (Grandia & Meehan, 2017).

To inform this debate, we analysed data on contracts awarded by lower tier local authorities between 2016 and 2023, collated by the Tussell database (Tussell, 2023), to compare contracts awarded to local suppliers to those awarded to more distant suppliers. First, we compare contracts awarded by Preston City Council (PCC) which introduced CWB in 2012, to a group of similar local authorities and to all lower tier local authorities in England to explore the characteristics of those contracts that may be related to social value. Second, we then estimated a linear model to explore whether the value of similar contracts differs when they are awarded to local compared to non-local suppliers after controlling for the type of good/service being supplied, the characteristics of the contracting local authority, and the characteristics of the supplier.

2 | CASE STUDY: SOCIAL VALUE POLICY IN PROCUREMENT FOR PCC

Preston, a city in the Northwest of England, has been at the forefront of this approach by introducing a social value procurement policy in 2012.

The Social Value (2012) Act requires social value to be considered in all public sector service procurement exercises over an agreed threshold (Preston City Council, 2012). Public authorities must 'regard to economic, social and environmental well-being'. The council's CWB strategy includes a commitment to develop a Social Value Procurement Framework for the delivery of public contracts or services.

This means that when suppliers bid on contracts, they are asked to demonstrate how they will contribute to supporting the local economy and fair employment, addressing the climate emergency, investing in training, and supporting the voluntary and community sector. PCC then makes its procurement decisions based on a price component and a social value component for all contracts valued of £75,000 and above.

Twenty percent of the overall assessment score for a procurement decision is allocated to social value. This is split evenly between Part A (Qualitative Social Value) and Part B (Quantitative Social Value) of the questions asked to suppliers. The first question (Part A) requires a qualitative response and will reward suppliers based on how their current practices align with the values and ambitions of the council. The second question (Part B) requires a quantitative response and asks suppliers to select from Preston's Social Value Procurement Framework (SVPF) the additional benefits that they will deliver as part of the contract. While this score does not explicitly consider if they are a local supplier, they will score highly if they utilize local supplier chains or employ local apprentices for example.

A report by PCC and the Centre for Local Economic Strategies (CLES) details the work each anchor institution undertook to change its procurement practices (Centre for Local Economic Strategies, 2019). In 2013, PCC and the CLES conducted an analysis showing that only 5% (£38 million) of anchor institution spending was spent with organizations based in Preston. Through a series of activities with officials and procurement leads, including workshops to identify the behaviours and patterns which influenced procurement, the anchor institutions agreed to utilize their influenceable spending for CWB. This led to a shift in their spending towards local and socially responsible suppliers. When the spending analysis was repeated in 2017, it was found that the spending of anchor institutions retained within Preston had increased to £74 million (CLES, 2019).

3 | METHODS

3.1 | Data sources and measurement

We examine data on 105,133 contracts issued by 248 lower tier local authorities (defined as district councils) in England between 2016 and 2023. We excluded contracts over £5 million from our analysis so that the results are not unduly affected by a small number of exceptionally large contracts. Using this dataset, we analyse the association between whether the contract was with a local supplier and the contract value, the contract duration in months, whether the supplier is a small- or medium-sized business, and a number of indicators Tussell acquired from Moody analytics about suppliers, including the estimated number of employees, the estimated annual turnover, estimate of pre-tax profits, and the supplier credit score. We identify local suppliers as those located in the same Nomenclature of Territorial Units for Statistics 2 (NUTS2) region as the contracting local authority, for example, the same county or group of counties.

Within this dataset, we identify PCC and a group of comparison LAs (Table A1 lists the comparison LAs and their NUTS2 region). Our first criterion for inclusion in the comparison group was that LAs be classified as 'Urban: City and Town', which is Preston's classification, under the Office for National Statistics (ONS) geographical classification system. Only 24% of the non-comparison group LAs have the same classification as Preston. However, 61% of the non-comparison group are a conurbation rather than a city or town. The remaining 15% of the non-comparison group are classified by ONS as rural or urban with rural areas.

Our second criterion for inclusion in the comparison group was that the LAs be located in the North or Midlands of England. For example, to compare Preston with an LA in Southeast England would be less valid given differences in council tax receipts and differences in the costs of goods and services arising from heterogeneity in local labour markets and access to logistics networks. Our final criterion for inclusion in the comparison group was that the LA was not already working with CLES on CWB initiatives. This ruled out seven LAs in the North or Midlands of England (Birmingham, Darlington, Leeds, Manchester, Salford, Wigan, and Wirral).

Table A2 compares Preston, the comparison group of LAs, and the other lower tier LAs in terms of key demographic variables that might affect the spending needs of the local authority. We can see from the table that while Preston has a larger population than the average of the comparison group, its population density is smaller. In some respects, Preston was more disadvantaged. It had a lower participation in economic activity, a higher unemployment rate, a higher percentage renting social housing, and a lower percentage without a dimension of household deprivation (as defined by the ONS in relation to education, housing, health, and disability and employment). On the other hand, relative to the comparison group, it had a lower disability rate, a similar rate of people without qualifications, and a larger percentage of the population of working age. However, none of the differences between the comparison group and Preston were statistically significant. Furthermore, there were also no statistically significant differences between Preston and the other lower tier LAs. However, it was still useful to demarcate this group from the comparison group as there were geographic differences that were likely to complicate comparisons with Preston.

In our multivariate model, discussed in the next section, in addition to the fixed effect of the contracting local authority, to account for differences in local economies that may influence the choice of local versus non-local procurement, we control for the Gross Value Added of the supplier industry sector in the contractor's local economy (Office for National Statistics, 2024b), median wages (Office for National Statistics, 2024), and the local employment rate. Table A3 is a description of the variables we used from the Tussell dataset. Details of missing data on each of the variables above are given in Table A4.

We control for the type of goods/services being procured using Common Procurement Vocabulary (CPV) codes. CPV codes were introduced in the European Union, which then included the United Kingdom, in 2006. Despite the United Kingdom voting to leave the European Union in 2016, the United Kingdom continues to use the codes. The codes were introduced as an attempt to create transparency and efficiency in public procurement.

The codes can provide a high degree of granularity in categorizing the contracts. The codes have eight/nine digits to categorize contracts. The first two digits of the code identify the core division of a procurement contract. For example, CPV codes beginning with 45 all relate to building work. From there, each subsequent digit represents a deeper level of categorization. The third digit of the code identifies the group. For example, codes beginning 454 relate to building completion work as distinct from building site preparation or from hire of building equipment. The fourth digit of the code identifies the class. So, continuing with our example, codes beginning 4542 relate to joinery and carpentry completion work. The fifth digit represents the category, and the final digits represent the item. So, for example, code 45421111 is the installation of door frames. However, in our data, the coding largely covers just the first four digits. In our data, the most common CPV code is for transportation services which account for 17% of the total number of contracts. These transportation services are largely with taxi companies.

TABLE 1 Characteristics of local and non-local contracts in Preston, comparator Local Authorities (LAs), and other lower tier English LAs.

	Preston		Comparator lower tier LAs		Other lower tier LAs	
	Non-local	Local	Non-local	Local	Non-local	Local
Number of contracts	28	10	1706	448	59,726	45,228
Mean award value (£000s)	502	203	234	223	274	188
Contract duration (months)	29	27	24	18	24	28
Mean award value per month (£000s)	184	20	21	30	30	19
Small medium enterprise %	11	40	51	76	58	66
Mean supplier no. employees	1145	40	1461	125	1186	140
Mean supplier turnover (million £)	167	4	135	27	102	15
Mean supplier pre-tax profits (£)	8	0	12	2	8	0
Mean supplier credit score	83	72	77	65	83	72

3.2 | Analysis

Initially, we provide descriptive statistics comparing local and non-local contracts awarded by PCC, to those awarded by a similar group of local authorities and to those awarded by all other lower tier local authorities. We compare local and non-local contracts across the metrics outlined above and plot the mean contract value per contract month, for local and non-local contracts within each Standard Industry Classification section. This provides an indication of the differences in contract value between local and non-local contracts, for similar groups of services.

To investigate if the value of local and non-local contracts differs, when accounting for differences in local economic conditions, we estimate a linear regression model. We model the contract value per month as a function of whether the contract was procured locally and a set of control variables, including controls at the contracting authority level and contract supplier level.

$$Y_{ij} = \beta_0 + \alpha Local_{ij} + \beta X_{ij} + \theta G_j + \varepsilon_{ij}, \quad (1)$$

where Y_{ij} is the natural logarithm of the award per month for contract i in the contracting authority j , α is the estimated effect of *Local*, β are the effects of controls at the contract level, θ are the effects of controls at the contracting local authority level j , and ε is the error term.

4 | RESULTS

Table 1 shows the characteristics of contracts issued during this period across Preston, comparator lower tier LAs located in the North or Midlands and classified as urban (city or town), and all other LAs. Table 1 shows that in general, across all types of LAs, far more contracts are issued to non-local suppliers. The average value of contracts issued to local suppliers tended to be of lower value relative to non-local suppliers, 60% lower in Preston, 5% lower in comparator lower tier LAs, and 32% lower in other lower tier LAs.

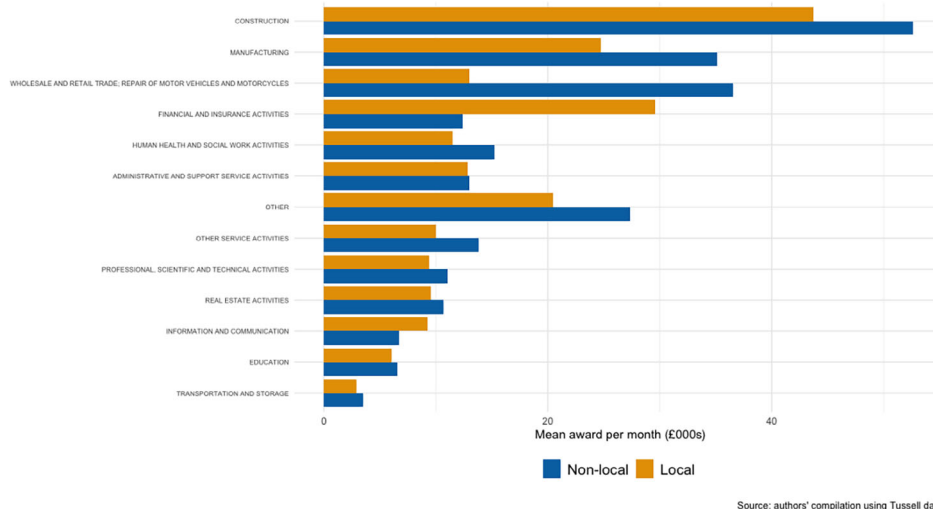


FIGURE 1 Average value per contract month for local and non-local contracts, by Standard Industrial Classification (SIC) sector: all lower tier LAs in England. [Colour figure can be viewed at wileyonlinelibrary.com]

Contract duration was similar for local and non-local contracts in all three groups. In Preston, however, this finding is mostly driven by one local contract with ‘Community Gateway Association’ that was 144 months long. Excluding that contract, the average contract length for local suppliers was around 14 months. This may reflect one of the strategies of the procurement policy in Preston to ‘cut up’ big tenders and contracts into several smaller contracts to enable smaller local companies to compete for tenders. Once the duration of the contract was accounted for, the mean value per month of the contract was also lower in Preston and other lower tier LAs but was 45% larger in the comparator LAs.

The remaining rows of Table 1 show that suppliers of local contracts tended to be smaller organizations than suppliers of non-local contracts. They were more likely to be small- and medium-sized enterprises and have fewer employees and lower turnover. On average, local suppliers reported lower profits. This may reflect the fact that local contracts are more likely to be with non-profit charitable organizations. Half of the local contracts in Preston were with charities, while only one of the non-local contracts were with charitable organizations. Suppliers of local contracts also on average exhibit a lower average credit score compared to non-local suppliers.

Table 1 suggests that local contracts are less costly than non-local contracts. However, Table 1 does account for local and non-local contracts being for different types of goods and services. To address the issues of heterogeneity in the type of good/service being supplied, we examined differences in cost across sector of the type of supplier. Figure 1 shows the mean value per contract month of local and non-local contracts across all lower tier LAs by the Standard Industrial Sector of the supplier. In general, across sectors, local contracts have a lower cost, except for financial and insurance activities and, to a smaller extent, information and communication services.

On the one hand, one might expect, a priori, non-local contracts to be of lower cost because of competitive forces. On the other hand, non-local contracts might involve greater transport costs. It is notable in Figure 1 that the sectors in which non-local contracts had lower costs, Financial and Insurance Services and IT Services are sectors where transport costs could be lower or even negligible because the services could be largely provided remotely.

TABLE 2 Ordinary least squares (OLS) estimates of linear model of contract value per month (UK£000s).

Variable	Estimate
Local procurement	-0.0014 (0.0514)
Log (GVA of supplier sector)	-0.0693* (0.0419)
Median income	0.0029 (0.0019)
Employment rate in Local Authority	0.0182* (0.0108)
Small medium enterprise	-0.4738*** (0.0339)
Year (Ref. cat. 2016)	
2017	0.0096 (0.1045)
2018	-0.2379 (0.1876)
2019	-0.2215 (0.1345)
2020	-0.2565 (0.1591)
2021	-0.3316* (0.1796)
2022	-0.4448* (0.2494)
2023	-0.2259 (0.2507)
Observations: total number of contracts	51,257
R^2	0.3846

Note: Standard errors are clustered at the level of the local authority. Estimated models also control for fixed effects of contracting local authority and Common Procurement Vocabulary code of the contracts, which are omitted from the table for brevity. Standard errors are shown in parentheses.

Abbreviation: GVA, Gross Value Added.

***, and * indicate statistical significance at 1% and 10% level, respectively.

To further isolate the cost differences between local and non-local contracts, we estimated a multivariate model controlling for the characteristics of the supplier and the local authority. These ordinary least squares estimates are shown in Table 2. We find local procurement being associated with a slightly lower contract cost per month that is not significant even at the 10% level. This suggests that the procurement from local suppliers by these local authorities is not generally more costly.

In relation to the other estimates, the fixed effects of the contracting local authorities are highly significant ($p < 0.0001$) as are the fixed effects of the CPV codes of the contracts ($p < 0.0001$). These are not shown in the table for the sake of brevity. However, the year fixed effects are jointly significant only at the 10% level ($p = 0.0941$). In relation to the economic conditions in the local

authority, median income did not have a significant effect. The coefficient on the local employment rate was positive but significant only at the 10% level. The log of the gross value added had a negative association, but again this was significant only at the 10% level. On the other hand, whether the supplier was a small medium enterprise had a large coefficient that was statistically significant at the 1% level.

5 | DISCUSSION AND CONCLUSION

We have highlighted the differences between the procurement strategies of Preston City Council and other comparable local authorities. Leveraging local suppliers may offer advantages such as stimulating the local economy, potential cost savings, and shorter contract durations, while also posing challenges related to a limited supplier pool, lower capacity, and occasional credit-worthiness concerns. Balancing these factors and conducting thorough evaluations of individual suppliers' capabilities and reliability is important for Preston City Council to try to optimize its procurement strategy and effectively meet its contractual requirements while supporting the local community.

More broadly, the results presented in this study show that there is no significant increase in the cost of procurement when the supplier is a local supplier, after controlling for contracting local authorities' characteristics, the characteristics of the goods/services being supplied, and the size of the supplier. This may be seen as a surprising result as one of the criticisms of procuring for social value is the potential higher costs to local government.

We consider it likely that the decision whether to procure locally or from further afield is endogenous. The decision to procure locally may be made based on supplier characteristics that cannot be observed in our data (Uyarra et al., 2014). For example, some LAs may have established better networks and relationships with international suppliers, or they may have better infrastructural connections that allow them to tap into non-local suppliers. These network effects and the quality and reputation of suppliers in the local area are unobserved characteristics in our dataset. Other local authorities may have a small local market or insufficient local supplier capacity for the goods or services they require. There also may be other considerations such as the use of technology by the supplier or environmental goals. To an extent, we have reduced potential bias in our estimates by controlling for the fixed characteristics of the local authority and the characteristics of the goods/services using CPV codes. However, we cannot completely rule out that endogeneity may be an issue in our estimates.

This study highlights the importance of considering the economic impact of Community WealthBuilding strategies on public policy. Policies of promoting greater local procurement by local government do not appear to increase costs and might help support smaller businesses. Further research is needed to understand the effects of such initiatives on efficiency and Value for Money for the local authority.

CONFLICT OF INTEREST STATEMENT

The authors declare no conflicts of interest.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the Tussell Database (third party). Restrictions apply to the availability of these data, which were used under license for this study. Data are available from <https://www.tussell.com> with the permission of Tussell.

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APPENDIX

TABLE A1 Nomenclature of Territorial Units for Statistics 2 (NUTS 2) classification of local authorities used as comparison group.

Local Authority	NUTS 2
Pendle Borough Council, Burnley Borough Council, Fylde Borough Council, Hyndburn Borough Council, Rossendale Borough Council, and South Ribble Borough Council	Lancashire
City of Lincoln Council	Lincolnshire
Chesterfield Borough Council, Ashfield District Council, Mansfield District Council, and Northeast Derbyshire District Council	Derbyshire and Nottinghamshire
Blaby District Council, Charnwood Borough Council, and Oadby & Wigston Borough Council	Leicestershire, Rutland, and Northamptonshire
Newcastle under Lyme Borough Council and Tamworth Borough Council	Staffordshire and Shropshire
Nuneaton & Bedworth Borough Council, Rugby Borough Council, Warwick District Council, Bromsgrove District Council, Redditch Borough Council, and Worcester City Council	Hertfordshire, Worcestershire, and Warwickshire

TABLE A2 Comparison of Local Authorities (LAs) by key demographics.

Variable	Preston	Comparator group of lower tier LAs	Difference (p-value)	Other lower tier LAs	Difference (p-value)
Total population	142,400	111,618 (24,777)	0.142	260,887 (179,957)	0.723
Population density (residents/km ²)	1039	1216 (183)	0.842	1752 (146)	0.781
% Economically active	55.30	57.80 (0.68)	0.450	58.54 (0.26)	0.465
% Unemployed	4.52	4.17 (0.15)	0.635	4.56 (0.08)	0.975
% Renting social housing	18.40	14.44 (0.85)	0.341	16.08 (0.35)	0.699
% Disabled	18.20	18.95 (0.49)	0.751	17.62 (0.19)	0.858
% No qualifications	19.4	19.38 (0.74)	0.995	17.81 (0.23)	0.695
% With no deprivation dimension	46.60	47.97 (0.99)	0.776	48.99 (0.31)	0.655
% Aged 19–65 years	60.10	57.28 (0.40)	0.152	57.73 (0.23)	0.551

Note: Standard deviations are given in parentheses.

Source: Office for National Statistics 2021 Census https://www.nomisweb.co.uk/sources/census_2021_ls.

TABLE A3 Description of variables from the Tussell dataset.

Variable	Definition
Total award value (UK£)	Total value of the contract to all suppliers over the lifetime of the contract
Award value per supplier	Value of the award to each individual supplier over the lifetime of the contract
Contract duration (months)	Number of months between the contract start date and end date
SME	Indicates whether the contract has been awarded to a small- or medium-sized business
Est. supplier employees	Estimate of the number of people employed by the supplier (source: Moody's Analytics)
Est. supplier turnover (UK£)	Estimate of the turnover of the supplier (source: Moody's Analytics)
Est. supplier pre-tax profits (UK£)	Estimate of the pre-tax profit of the supplier (source: Moody's Analytics)
Supplier credit score	Credit score of the supplier (source: Moody's Analytics)
Supplier Credit Indicator	Credit indicator of the supplier (source: Moody's Analytics)
Supplier Credit Limit (UK£)	Credit limit of the supplier (source: Moody's Analytics)
Contracting Local Authority Postcode & Supplier Postcode	Used to create indicators for the NUTS2 area of the LA and supplier to determine if the supplier is local or not local.

Abbreviations: LA, Local Authority; NUTS2, Nomenclature of Territorial Units for Statistics 2; SME, small- and medium-sized enterprise.

TABLE A4 Details of missing data.

Variable	Number of missing values	Percentage of missing values ^a
Local Authority	1440	1.37
Award value per month	27,632	26.29
Gross value added of supplier industry sector in contracting LA	21,664	20.61
Common procurement vocabulary code	15,757	14.99

Abbreviation: LA, Local Authority.

^aInitial sample of 105,133 contracts less than UK£5 million. Complete cases for local median income, local employment rate and indicator for small medium enterprise.