

# A strategy for public procurement of food from the South East Region

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prepared for

**South East Food Group Partnership**

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## Summary

### The project

The public sector spends a lot of money on goods and services, including providing meals and catering services in a wide range of institutions. At the same time, farming, the starting point for food production, is under pressure and many producers need to find new markets.

In this report we looked at how our food systems might enable producers in the South East region to get their food onto plates in schools, hospitals and other establishments. It examined how public sector catering works at present, and the hurdles that face producers who consider selling in this way.

We also looked at the strategic context and rationale for making these connections work. Strong arguments can be made for supporting procurement from local businesses, in terms of the impact on local economies and the environment. In short, public procurement can offer a proactive approach to meeting some key objectives of sustainable development. Taking a fresh approach to public procurement could even save money.

This report will, we hope, clarify the constraints and opportunities and articulate what needs to be done by government departments, the regional development agency, buyers and other decision makers. It may also offer clarity or encouragement to producers and producer organisations in seeking new routes to market.

### What's wrong and what can be done about it

Whilst government policy on sustainable development has blossomed over the last few years, with lots of positive words about the benefits of pursuing more localised trading, not many procurement officers – the people who actually do the buying – feel empowered to do business in this way. Time after time we've heard that there is no practical encouragement for procurement officers to interpret 'value for money' in a broader way that may address sustainable development objectives.

Procurement officers are busy people and have a job to do. They need to work to budgets and provide a service. But the public sector has multiple aims, like helping areas to regenerate, and what seems to be missing is the awareness that

procurement practice is a tool in this bigger game. Procurement is not just about buying something. Or, as the National Procurement Strategy for Local Government has put it, the aim for public sector organisations is:

*'realising economic, social and environmental benefits for their communities through their procurement activities.'*

Lord Whitty, the Minister for Food, Farming and Sustainable Energy, put it clearly when he said that *'cutting budgets for the procurement of food and catering where this results in the provision of less healthy and nutritious food can result in more spending by the NHS.'* Unfortunately, this kind of joined-up thinking rarely gets addressed and common sense falls into the gap. Cross-sectoral strategies are needed.

There's also a lot of fear about doing something illegal or contractually different, or simply wasting time. Even those procurement officers who want to make changes are often unsure how to do it. Faced with clipped budgets and easy ways out, such as out-sourcing the problem to private sector contractors, they feel powerless. Their political and organisational masters need to be made aware of the arguments in favour of local procurement.

The legal context for public procurement is now better understood and good advice is available from the Office of Government Commerce and other sources. In brief, whilst it is not legal to specify that suppliers should be local, contract processes and supply systems can be tailored in many ways to offer local producers better opportunities to win tenders or become nominated suppliers.

The good news is that some people have made great efforts to source locally, and still have their jobs. All around the country, pilot projects, some of them quite large in scale and value, are showing that there are alternatives that get the objectives met, like feeding school children well, and at the same time re-circulating money back into local communities.

Public sector organisations are now charged with considering the whole life costs of their spending decisions. This means taking into account the cost of the procurement process itself, the value and longevity of the goods and services received, and the impact of their provision in terms of energy and materials used in production and other environmental impacts. New Regional Centres of Excellence are now addressing this requirement. It has become all the more critical that these processes are understood in the light of the government requirements to become more cost-effective – the Gershon recommendations – so that efficiency is not interpreted as just getting the lowest price.

One of the results of cost cutting and having to meet very tight budgets is that quality of food has suffered. Jamie Oliver's television exposé of school meals illustrated problems that many in the industry have known for a long time – that too much money has been lost from school meals (*£154 million has been lost from the school meals service each year for the last ten years, according to the Local Authority Catering Association*). Apart from the resultant impact on health and learning, many schools now have no kitchens, or de-motivated staff with few skills in the preparation of fresh food. Investment in physical infrastructure and training in many public sector kitchens will be needed.

There are new Government guidelines for school meals, which concern the nutritional standard and quality of the service and include the desirability for the use

of fresh and local produce. These may offer the astute producer the opportunity to fill a niche market.

However, from the producer's perspective, the public sector can appear to be a faceless, monolithic user of goods of all kinds, with all kinds of barriers between 'them and us', and unattractive trading terms. Why bother seeking this outlet for your produce, when contracts with independent shops and restaurants, and even supermarkets and wholesalers, are so much easier to understand? So local authorities and other buyers need to work hard, as they did in Northumberland, to create an attractive tendering process.

Yet food producers, unlike old dogs, are beginning to learn new tricks. Competition from world markets is a new reality – apples from China, meat from Poland, vegetables from Holland are all able to undercut UK farm produce significantly. Support for agricultural production will also change shortly with new EU grant structures. The producers who are going to survive are those who can respond creatively to new markets, by providing a service that meets customer needs. Being responsive and addressing sustainability criteria, as well as finding niche markets for quality produce, may allow regional producers to take advantage of the changing needs of the public sector and identify a profitable business strategy.

One of the surprises of our research was the relatively small scale of the public sector in relation to total production. For four products – apples, pork, potatoes and eggs – we found that demand in hospitals, schools, and the prison service amounted to between 2% and 6% of regional production. We found that the value of all produce reaching school meals services was about £25 million. Interpolating this figure against typical Defra findings, the whole public sector food requirement in the SE may constitute a marketplace worth about £150 million. The value of food ingredients for the NHS throughout Britain is about £300m, including spending by contract caterers, but this is not broken down by region so spending in the SE may be about one tenth of this, which would support the overall marketplace estimate. So, whilst the public sector will not in itself be the saviour of SE food producers, it offers a very significant opportunity to encourage more local trading and reap the benefits of local economic multiplier effects. This is particularly true when one considers that about 60-80% of our food production ends up with the big supermarkets and trade multiples, so if a large proportion of what is left is bought by the public sector, this is a significant marketplace to address.

A new reality in this business sector has been the growth of the food service sector. This comprises both the major 'delivered wholesalers', such as Brakes and 3663, which provide a comprehensive supply service, through to businesses that provide a complete service that may include provision of kitchens and staff. These large, often trans-national enterprises, like Compass, Initial and Aramark, make the job of procurement much easier. However, their systems tend to be centralised and operate without loyalty to regional or UK producers. Terms of business may often not suit smaller producers due to audit requirements or payment lags. However, the sector does offer a real opportunity for food producers who can gear their businesses to these requirements, and can get listed, with the potential to become nominated suppliers within larger contracts or downstream suppliers. Some of these companies are now recognising the drive by clients for more local sourcing, and are trying to find ways to accommodate this in their business practice.

Collaboration is a key tool to address many issues and exploit opportunities in this sector. All of the most interesting cases of successful local supply routes have had in common a series of negotiations and creative thinking, which have led to win-win solutions.

Collaboration is also likely to become a way forward at the macro scale, with authorities across geographical areas or provision sectors coming together to form larger buying consortia. Whilst these new bodies may offer great opportunities for creative new approaches, there is also a danger that bigger scale contracts may cut opportunities for more parochial, less formal supply arrangements that suit the smaller independent producers. The National Procurement Strategy stresses that the aim is *'operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including small firms, social enterprises, minority businesses and voluntary and community sector groups.'*

Great work by organisations, whether public sector agencies or independent and social enterprises, has been progressing already to try to find ways through the public procurement maze. The enabler role is a critical one that needs to be supported fully. Often the benefits that local food systems create are difficult to quantify, making most impact on social and human capital. It is important that in monitoring and justifying the impacts of enablers at all scales, suitable indicators and review processes are employed.

A largely undeveloped opportunity for local producers is the consideration of CO<sup>2</sup> emissions, which public bodies now need to find ways to reduce. The impact on emissions through the transport of food, especially by road within the UK, is considerable and recent indications are that this may offer another rationale for local sourcing as a potentially valid consideration in the initial stages of selection of potential contractors invited to bid.

## Strategic recommendations

A range of interventions by the public sector is required to address the issues and opportunities presented. In parallel, producers and their support organisations need to be more responsive to the changing needs of public sector customers.

We have identified seven areas where action is required, as defined below. In each case we have also identified relevant case studies where these kinds of issues have been addressed by organisations within or outside of the region (see section 3.2). The recommendations have been refined and augmented by the inputs of the Steering Group and other stakeholders at a workshop held in September. The following table summarises the action areas:

Strategy areas	Key action points	Key partners
Influencing decision makers	<ul style="list-style-type: none"> <li>• preparation of publication</li> <li>• top level seminars</li> <li>• conference presentations and exhibits</li> <li>• appoint a food champion or ambassador</li> <li>• encourage cross-sectoral dialogue</li> </ul>	GOSE, SEEDA, Centre of Excellence, County, District and Unitary Authorities

Practical ways forward for procurement officers	<ul style="list-style-type: none"> <li>• being pro-active in seeking local producers and developing local supply chains</li> <li>• training on use of DEFRA toolkit</li> <li>• training on use of LM3 and Five Capital Assets</li> <li>• support activities of third party honest brokers</li> <li>• create a networking facility</li> </ul>	DEFRA, GOSE, SEEDA, SEFGP
Training for chefs and kitchen staff	<ul style="list-style-type: none"> <li>• support use of the Better Hospital Food initiative</li> <li>• take advantage of training offered through the School Food Trust initiative</li> <li>• develop and promote training for public sector chefs at colleges</li> <li>• commission a chef with local knowledge to help with menu planning</li> </ul>	SEFGP, County Food Groups, Local Food link organisations
Product development and shortening the supply chain	<ul style="list-style-type: none"> <li>• product development workshops</li> <li>• hands-on help to producers in direct selling to the public sector</li> <li>• enable horizontal and vertical collaboration</li> <li>• support and enable the brokering of more direct supply contracts</li> </ul>	SEFGP, County Food Groups, Local Food link organisations, EFFF
Help with certification and audit schemes	<ul style="list-style-type: none"> <li>• support the work by the BRC in developing a simplified, universally acceptable certification system</li> <li>• enable cross-sectoral industry co-operation on certification systems</li> </ul>	DEFRA, SEEDA, BRC, other certification bodies
Supply and demand information and support agency	<ul style="list-style-type: none"> <li>• prepare a feasibility study for an information system and agency for producers</li> </ul>	SEEDA, SEFGP
New processing and distribution infrastructure	<ul style="list-style-type: none"> <li>• support development of new processing or distribution enterprises only if business case is sound</li> </ul>	SEEDA

The full report (61 pages) explores in detail how each strategy area can be developed. It also explores in detail the research into supply chains and issues for each player in the chain, as well as clarifying who needs to do what.

The strategy has been moved forward since its preparation in January 2006. A public procurement officer has been appointed, working from the SEFGP offices, and three supply chain facilitation project have been progressed by f3 with very positive results.