



Putting sense into public spending and creating partnerships with the private sector

by Piotr Wołkowiński



Executive summary

The “click” came, when a public procurement¹ officer realised that her decisions could influence what her daughter ate at lunchtime in the school canteen.

Public procurement is most often seen as a boring strenuous effort to buy a service or a product, which is linked to legal questions and is strictly controlled by price. Whereas successful spending in the area of urban regeneration must concern efficiency, linked to speedy reactivity and visibility of the decision-making processes, but above all of the results. Thus, the whole chain of persons involved must have the feeling of the common sense needed to buy and produce what is really necessary, of good quality while all the time being respectful of the environment and social and economic considerations. Elsewhere this is called [integrated policy making and management](#).

The [Urban Regeneration Mix URBACT](#) transfer network was created around the Lodz (PL) URBACT recognised Good Practice. The network zooms in on three main aspects of regeneration:

- ❖ face to face relations with inhabitants,
- ❖ adaptation of city management to regeneration realities,
- ❖ the relationship between the public and private sectors, concerning buying of services and goods as well as their delivery, including new ways to fund and share risk.

At the same time the [Urban Agenda partnership on public procurement](#) came into being through the initiative of the Dutch presidency and the Pact of Amsterdam. The partners, comprising 8 cities, one national government and European institutions and associations, developed an Action Plan, in which several innovatory ideas are put forward so as to harness the 2 000 billion euros (2017) spent by public institutions in the EU, which are all trying to find their place in the [Sustainable Development Goals](#) of the United Nations. This should result in an environmentally better planet, and maybe even more importantly, support the efforts of every public commissioner in her/his efforts to buy and obtain what is really good for the city, the economy, the inhabitants and the planet. Our politicians would certainly gain points from such a clarity.

1. Fulfilling strategic goals through public procurement (the sexiest aspects of public procurement)

Many cities are facing very tough financial realities, due to high levels of borrowing, increased expenses on obligatory spending (eg. education) and reduced incomes, due to lower levels of development or even changes in national policies.

Public procurement and other methods of spending public money are often not seen as part and parcel of municipal or regional strategies. They are simply a burden to bear. However the work of two

¹ Public procurement refers to the process by which public authorities, such as government departments, regional and local authorities or bodies governed by public law, purchase works, goods or services from companies. (EU)

URBACT networks, [PROCURE](#) and [MAKING SPEND MATTER](#) led by the very pioneering city of Preston (UK) and [Matthew Jackson](#) the lead expert, prove that this is not necessarily the case. This is indeed supported strongly by the Public Procurement Partnership of the Urban Agenda (where M. Jackson represents URBACT), which shows how public spending can in fact stimulate innovation, growth, partnerships and local development, whilst remaining within the rules of public procurement of the European Union and national legislations.

Public spending can and should be exciting and fulfilling, as it is a buying process, which like all others leads to satisfaction and good use of the products and services acquired.

This article aims to show that cities:

- have more scope in financial possibilities due to creative partnerships with the private sector,
- can understand how innovative and circular procurement help them achieve their sustainable development goals,
- can reduce risk with big investments by sharing it,
- should use procurement spending as a core to putting into place their strategies and in particular realise social and environmental goals,
- assist their civil servants in appreciating the “good sense” of what they do,
- can give an added political value to spending for politicians through responsible public procurement.

2. EU regulations create a wide scope of potential to be tried out; PPP! GPP! PPI! PCP! and IP!

These abbreviations are fantastic and exciting! They indicate the experimentation and awesome potential of the EU public procurement regulations, that we should all know and use especially in medium and long-term planning and buying, as it is in that scale that these possibilities find their real relevance. As declares the EU Commission in the Procurement Directive:

“Research and innovation, including eco-innovation and social innovation, are among the main drivers of future growth and have been put at the centre of the Europe 2020 strategy for smart, sustainable and inclusive growth [Procurement directive (47)].”

The above abbreviations hide behind them how to innovate, how to experiment and how to bring unusual partners to the table legally, opening the door to completely new solutions.

PPP – Public Private Partnerships are now a well-known coined phrase, which hide behind them a whole series of national legislations, based on the Public Procurement Directives, which substantially change the relationships between the buying institutions and the suppliers of goods and services.

GPP – Green Public Procurement is defined by the EU as “a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be

procured” (COM (2008) pg. 400 “Public procurement for a better environment”). In its brochure on circular economy the EU underlines that “to procure in an environmentally-friendly way involves looking beyond short-term needs and considering the longer-term impacts of each purchase. This includes questioning whether a purchase should be made at all.”

PPI - Public Procurement of Innovative solutions happens when the public sector uses its purchasing power to act as early adopter of innovative solutions which are not yet available on large scale commercial basis. It allows the purchaser and suppliers to work together on the best solutions within a given legal framework.

PCP - Pre-Commercial Procurement is used to procure research and development services, up to the prototyping or first test production stages. It therefore may precede or accompany PPI or other processes.

IP – Innovation Partnership: as states the Procurement Directive: “this latter procedure allows contracting authorities to establish a long-term innovation partnership for the development and subsequent purchase of a new, innovative product, service or works. The innovation partnership can be structured in a way that it can provide the necessary ‘demand-pull’, incentivising the development of an innovative solution without foreclosing the market [Procurement directive (49)].”

Circular Procurement can be defined as the process by which public authorities purchase works, goods or services that seek to contribute to closed energy and material loops within supply chains, whilst minimising, and in the best case avoiding, negative environmental impacts and waste creation across their whole life-cycle. This corresponds to [Kate Raworth’s](#) idea of a doughnut economy, respectful of the planet’s grounding and ceilings.

The European Commission fully realises, that it may be very complicated, especially for small and medium sized towns and cities to use all these methods, which are described with concrete examples and tools to help in their use. Therefore, the role of procurement brokers, as specialist persons accompanying public institutions is proposed:

“An innovation procurement broker can be considered as an actual engine for innovative solutions. A broker knows the market and its (im)possibilities. A broker will have knowledge of the existing solutions and will be able to identify the way the market is heading, be it the demand, the supply or the processes².”

Such a broker can be employed by a single public institution, or by a group of smaller ones, in order to save costs and gain in efficiency. This type of broker already exists in France: mainly associations evolved from Local Plans for Integration (PLIE)³ have taken on this role, and in the case of [Strasbourg](#) manage over 60 public institutions and 250 companies, helping unemployed persons to get into the job market, social enterprises to become partners in bidding etc. Poland has been observing this process in

² https://ec.europa.eu/environment/gpp/pdf/Public_procurement_circular_economy_brochure.pdf

³ Plan Local d’Insertion par l’Economie

the context of [a national programme](#) and is experimenting the scheme in some areas through an adapted form of Social Economy Support Structures⁴.

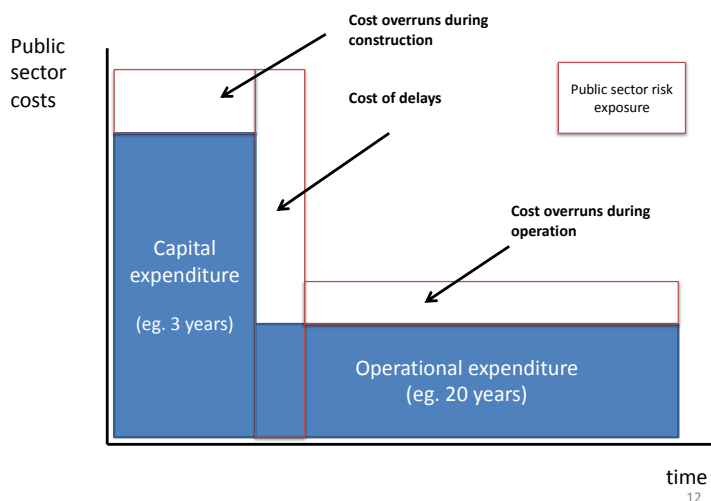
3. The experiences of Croatia and Toulouse (FR) on PPP

The regeneration of a whole part of a city, putting life back into brownfields in the centre of the city, conducting participative processes, to keep neighbours informed, changing the role and function of urban areas: all these aspects require highly skilled and competent civil servants, who work with the best service and product providers. The initial challenges lie in the key: who to choose and how, with the additional constraint of legal rules and regulations.

In Croatia, the Urban Regeneration Mix transfer network was challenged by a representative of the Ministry of Economy, Domagoj Dodig⁵ to think about public spending in a completely new way, by underlining that Public Private Partnerships should not produce a feeling of fear, or even worse add a fourth "P" for Procurator. No, they must be seen as a procurement method for delivering public infrastructure which is exciting. Indeed, they permit a win-win situation, which is achieved by thinking out of the box and having a new approach to sharing risk.

In a traditional situation it is the public institution which bears all the risks involved in big investments, whereas in a PPP the regulations are the responsibility of both the public institution and the private partner, but the risks (see below) are devolved from the public institution to the private partner.

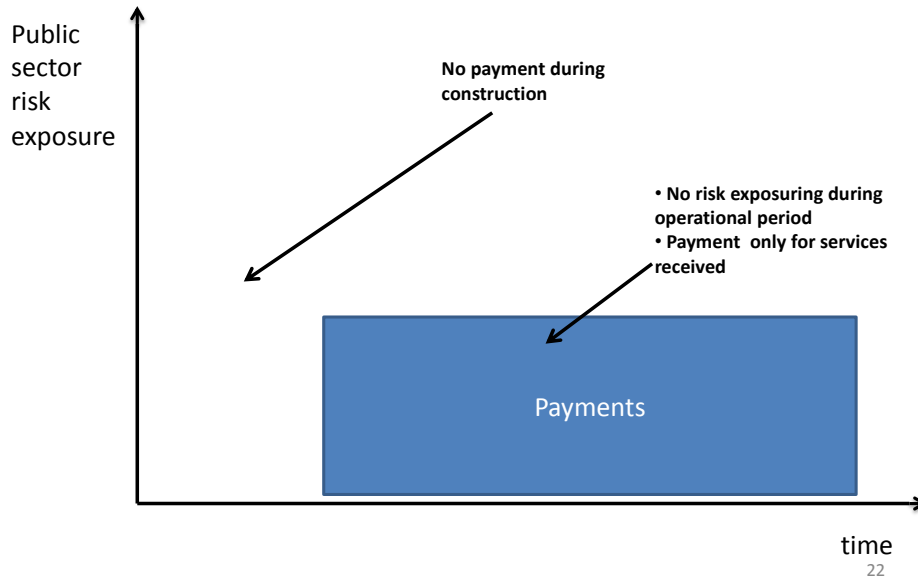
Traditional model – risk exposure



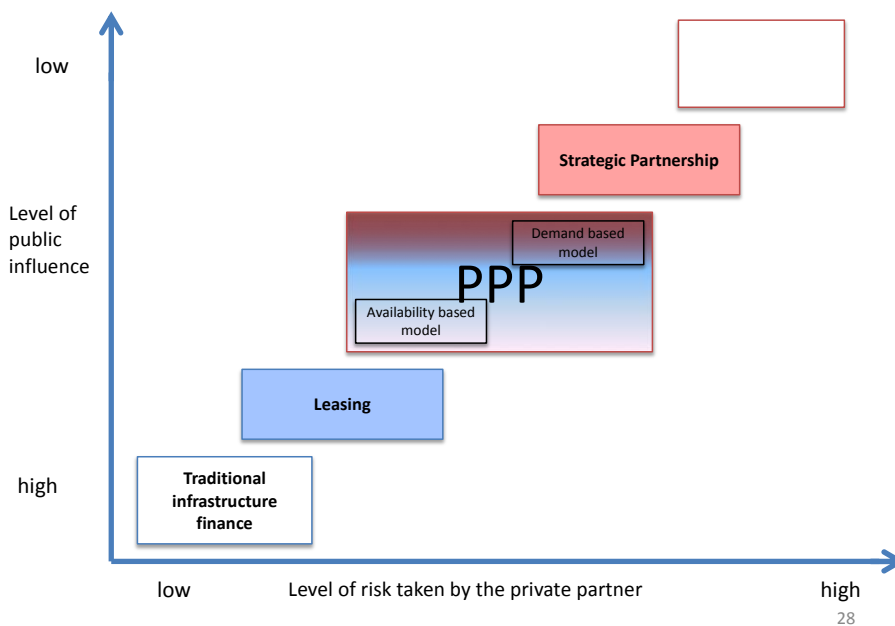
⁴ Ośrodek Wsparcia Ekonomii Społecznej

⁵ Head of Division for approving and monitoring PPP projects

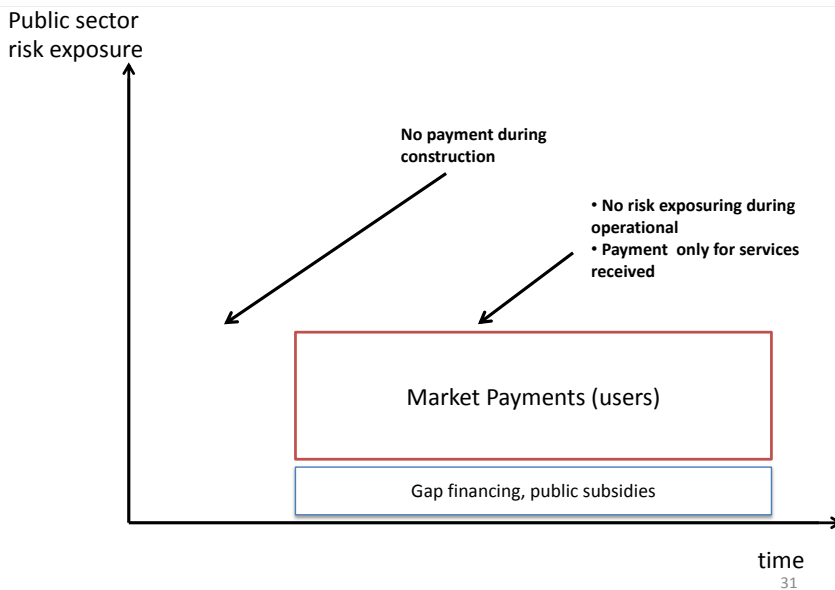
The basic PPP financing structure – risk exposure



PPP & Risk



Public sector Risk Exposure – Demand based model (Concession model)



D. Dodig's slides show clearly that in a PPP situation the risks for the public institution are reduced, as during the building process no funds are transferred and the whole negotiation turns around the services rendered, for which there is an agreed payment based in this case on the concession model. The quality of the partnership (slide 3) is very high, meaning that the public institution and the private partner have to come to an agreement on the terms and conditions of their collaboration, but must also "feel" the collaboration, which will entail difficulties and conflicts, which can be overcome, if the global aims and challenges between them are shared appropriately. It is very interesting to note that Croatia uses a form of broker structure, which is only involved in the given investment, protecting the public body from difficulties of the private partner and coordinating the works to be done. It is called a Special Purpose Vehicle (SVP) and is particularly close to the EU idea of an innovation broker.

In 2018 there were 17 PPP projects in the operational phase in Croatia for a total sum of 340 million euros. The projects concerned among others schools, a sports hall, a bus terminal and Zagreb airport.



In Toulouse Metropole the Urban Regeneration Mix partners were presented with two main tools used in the agglomeration, which are the concession agreement and an urban partnership project agreement. The latter appears to be a very useful support in public projects, as it is a financial tool which allows private developers to participate in the funding of the public infrastructure required under the provisions of the building project they

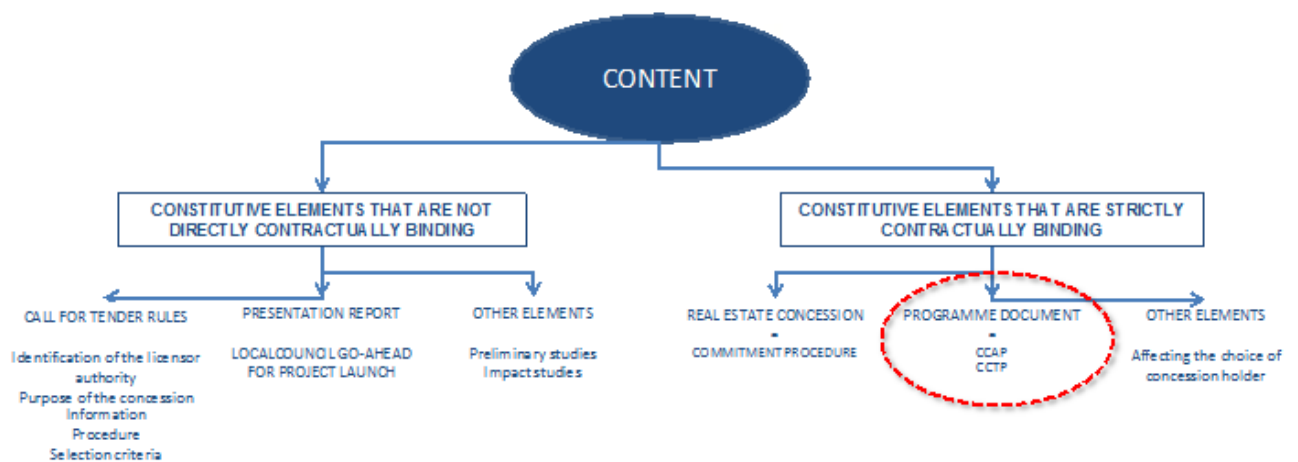
plan to undertake (eg. grids – water etc.) but it cannot be used, in accordance with the law, to improve the quality of the global project.

The real estate concession agreement concerning the Guillaumet project (an enormous portion of the town which is being transformed from a military and research use, into housing, shopping, work, leisure and sports activities – see map on the left) shows the practical ways in which suitably adapted methodologies of public procurement can efficiently manage a long-term project, with a very central participation of inhabitants funded by the chosen developer, with a real effort to guarantee the quality of the project.

The concession agreement is a **delegated contract** from the public body which initiates the operation to a **quasi-public or private developer** who will do the studies and realisation. More than just participating in the funding, the private developer will also have to do the public works (infrastructures, equipment's, roads, wet and dry networks...). Throughout the duration of the contract, there is a close partnership/supervision by the local authority which upholds the general coordination and efficient management of the whole development. Notwithstanding this type of agreement does not resolve completely the question of the management and costs of the investment, when it returns to the public authority that initiated it, after a certain number of years.

▪ **CALLS FOR TENDER AIMED AT PROPERTY DEVELOPERS**

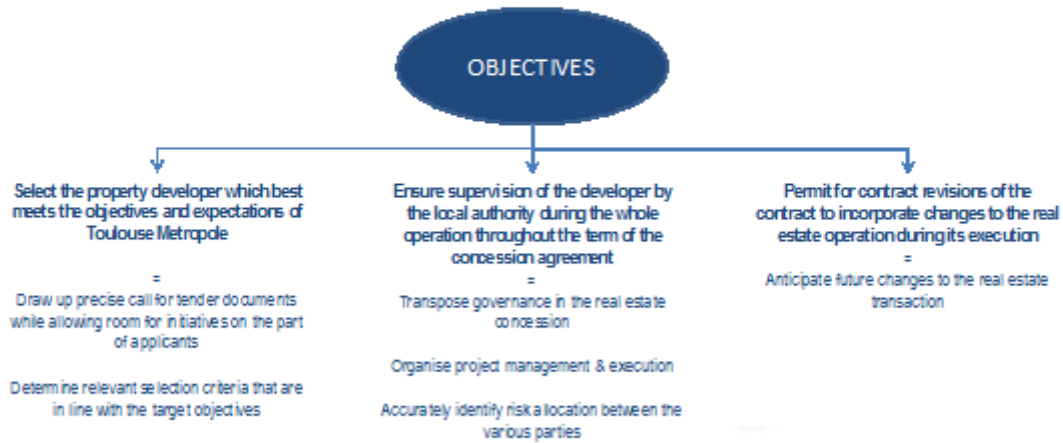
The tender documents must include all the information required to enable applicants to put together their proposal, clearly describing the tasks incumbent on them and the risks for which they will be liable.



As can be seen in the figure above, the tasks between the local authority and the developer are shared. In the first stage, as mentioned above, the city chooses a developer with the appropriate competences, but also with a philosophy fitting that of the public sector structure. The second stage is the most critical, as it involves cooperation between both partners for the duration of the project: in this case several years. The third part allows for safeguards between both partners on the basis of the expectation that not everything can be planned and that unexpected challenges will have to be resolved together.

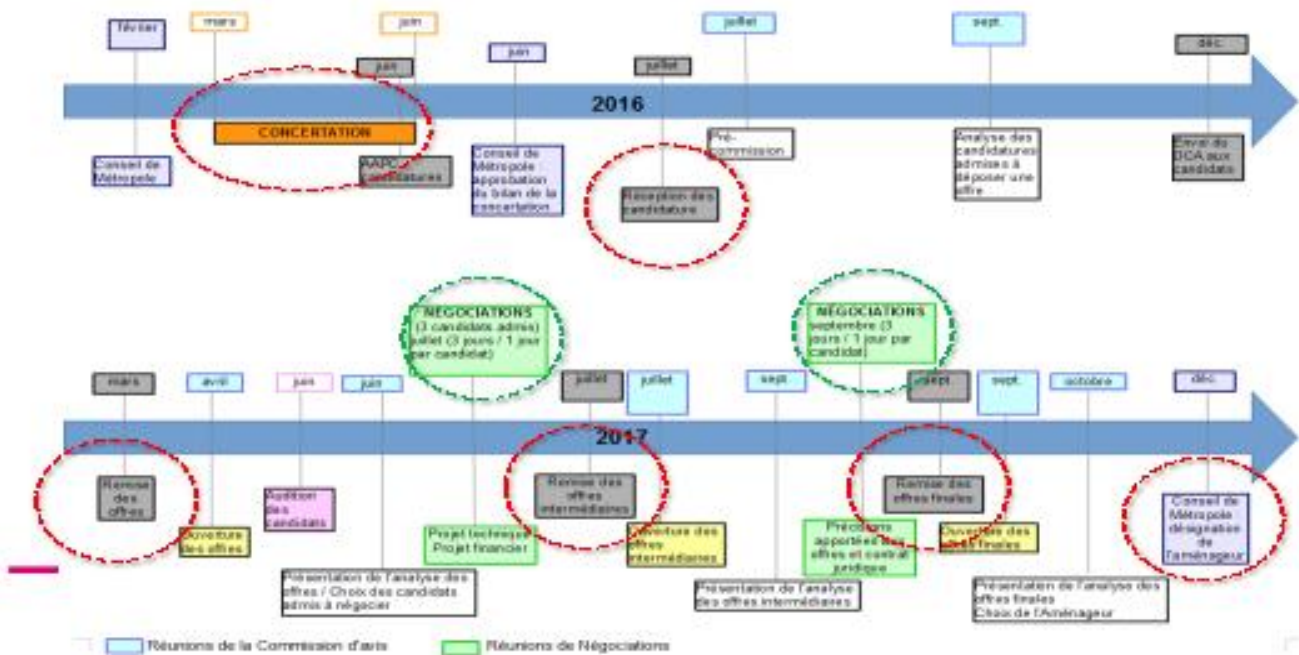
The slide on above shows in what detail the call for tender for the property developer is prepared, separating what is obligatory from non-binding elements.

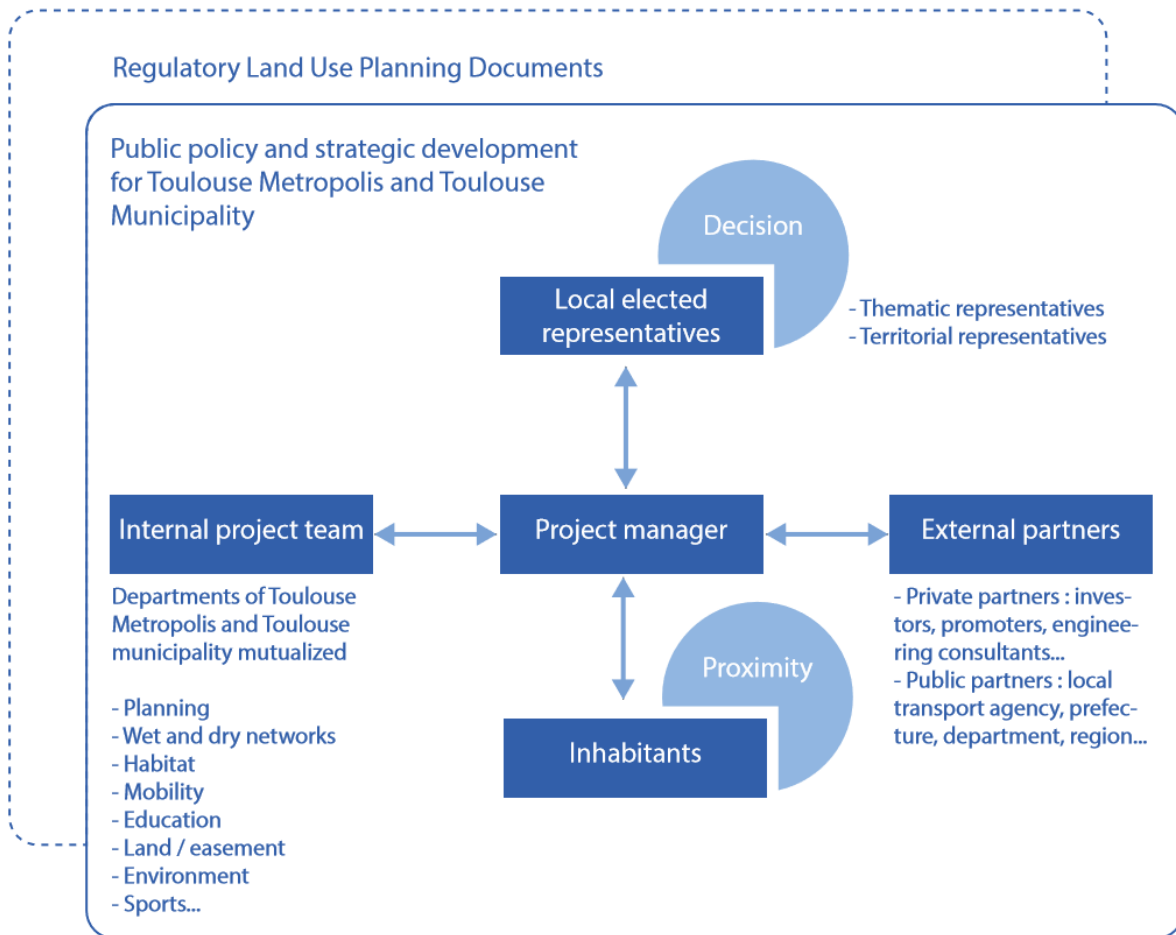
TARGET OBJECTIVES OF THE LOCAL AUTHORITY



Finally, below we find the calendar of the proceedings (in French) which outlines the duration of the preparation of the project, the consultations done with the inhabitants and the main contractualisation steps undertaken to cement the partnership. Note that this process, initialising the whole project, has taken 2 years.

STAGES OF THE PROCEDURE : Example in Toulouse: Guillaumet project





Coordination and partnership are the key concepts of this development. It implies constant contacts between the two partners, and requires a permanent coordinator on the side of Toulouse Metropole, who is called a **project manager** (see scheme on left). This person does not dispose of any staff, but is required to make all the departments of the local authority collaborate adequately with the developer. Meetings are held every week. The project manager is placed high in the administrative structure directly under the general secretary, which facilitates contacts on all sides and has direct or indirect access to political decision makers. Toulouse Metropole has over 20 such coordinators, who have very elastic personalities, an intimate knowledge of the functioning of the administration and personal capacities of clarity and empathy, to make sure that such huge investments go forward as well as they can. They work in a complex environment, which is managed in an integrated fashion, as can be seen from the slide above: putting the project manager in the centre of this scheme shows not only her/his importance in the local authority administration, but how these persons can accomplish their professional responsibilities, through organising the steering and monitoring committees, fine tuning the technical questions through the technical committee, organising constant public meetings and reviewing the whole process regularly.

It is precisely this model of management which has strongly inspired the Lodz Good Practice team, but other cities of the Urban Regeneration Mix network, underlining the high level of competence and autonomy, the strong level of reactivity and efficiency of the model.

4. The 7 conclusions of the Urban Agenda partnership

The pictograms speak for themselves, but some comments are necessary.

URBAN AGENDA FOR THE EU Urban Agenda Innovative and Responsible Public Procurement

Action Building Procurement Strategy

Challenge 1

How to build Procurement Strategy?

- The need to link procurement strategy with a city's goals and policies
- Building procurement strategy needs expertise and capacity

Solution

Guidance with building blocks

- ✓ Guidance on how to build Procurement Strategy
- ✓ Best practices / success stories
- ✓ Practical building blocks on how to build Procurement Strategy

Action Circular Procurement

Challenge 2

Triggering Circular Procurement

- Ambitions to procure circularly at least 50% in 2030
- Circular procurement needs to be triggered
- Circular procurement needs expertise and knowledge

Solution

Training on Circular Procurement

- ✓ Better knowledge
- ✓ Best practices
- ✓ Practical guidelines and tools

Action Local Competence Centre

Challenge 3

How to set up a Competence Centre?

- Local knowledge exchange can be organized with effort and capacity
- Small and medium-sized cities need bigger cities as support

Solution

Guidance on Local Competence Centre

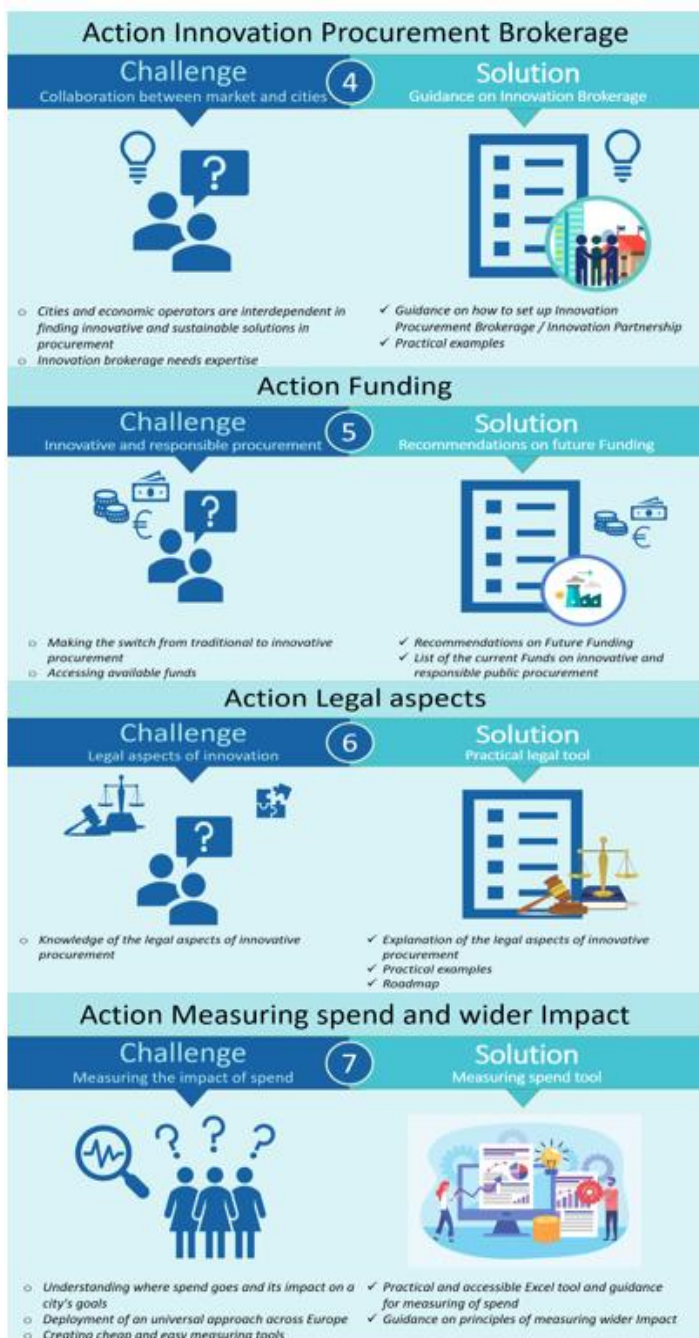
- ✓ Guidance on how to set up Local Competence Centre
- ✓ Practical building blocks
- ✓ Management summary

Challenge 1: public institutions should link in automatically their buying power to their strategies (aims and operational programmes). The Urban Agenda partnership rightly underlines this as the first conclusion adding that this requires expertise and capacity.

Challenge 2: all procurement should go in the direction of the circular economy, reusing materials, globalising the costs at source and basing the buying power on a circular and not a one-off linear logic.

Challenge 3: to put these actions into practice it is not enough to name them. Public institutions need appropriate competence centres, maybe linked to larger cities with more capacities, in order to support all the commissioners and the decision makers in their work.⁶

⁶ Many thanks to M. Draoli from the Italian government and the Public Procurement Partnership for these illustrations.



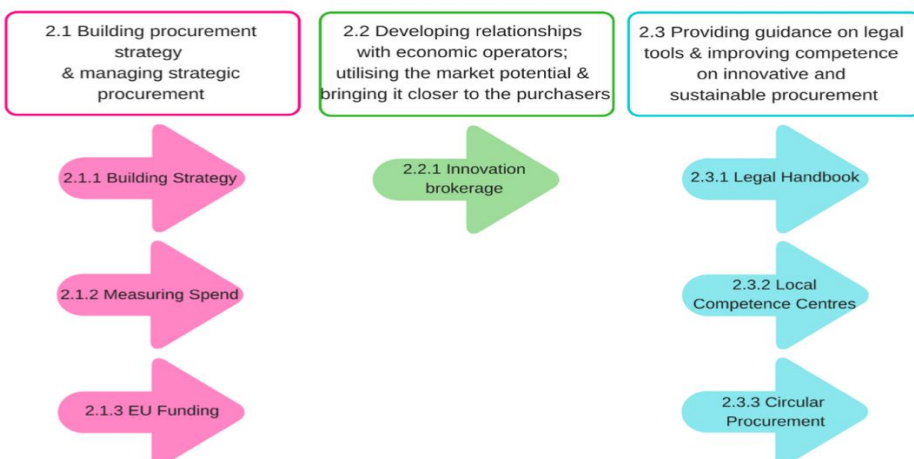
Challenge 4: the EU puts the key question: should the product or service be bought at all? This questions habits and “we’ve always done it this way” and permits reflexion on the best way to obtain IT equipment for example, which may be not to buy it. Such ideas are innovative and require **experts in brokerage**, who for example know what the market can propose in the way of services.

Challenge 5: new funds are available, but need to be accessed. **Innovative ideas have particular funds** and the list mentioned in the Action Plan will help to identify them.

Challenge 6: innovation is very often hampered by **legal aspects**, which sometimes simply eliminate it, thereby reducing the risks. The existing possibilities need to be well known and shared.

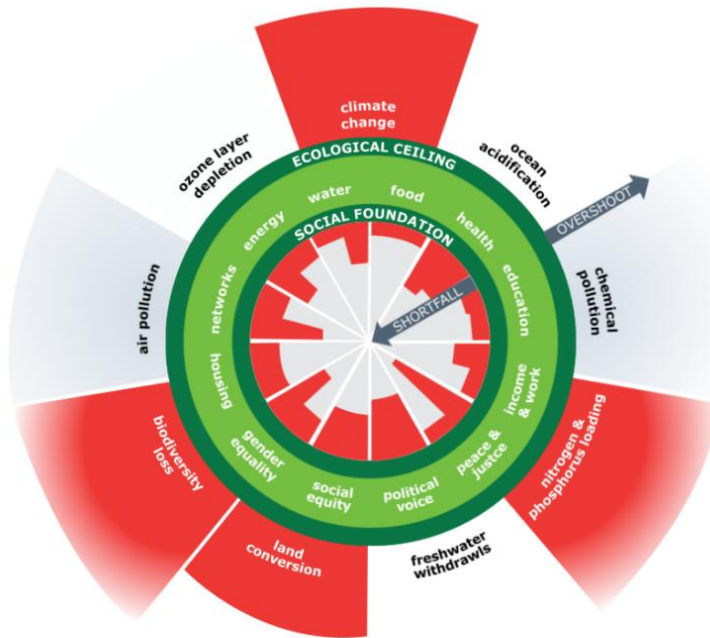
Challenge 7: knowing where the spent money goes and how it transits the territory concerned is a new feature and can seriously make a change in the **vision of the impact** of what a public institution brings to a given territory.

The schema on the right shows the way in which these 7 challenges and solutions are linked and could work, for a large city or metropolis, but also for a group of smaller ones, coming together to try and integrate the innovative process and cycle.



5. From the XX to the XXI

Growth was seen in the XX century as the panacea of all actions. As long as it existed everything would go well, which explains the dominant position of such measurement systems as the GDP.



The XXI century is a different moment in time. The plans, that the planet would be a fairer more sharing space have not come to be, even though poverty has been combatted in many cases. The climate changes, the using up of primary sources, the civilisation diseases, the aging of a part of the planet’s population force us to reflect on what we do every day in new ways. Economists are working on new more appropriate models of understanding what the planet needs. One of them, already mentioned earlier, Kate Raworth has produced a “doughnut” economic model, as mentioned by [E. Adams in his article on the Warsaw Urban Hub](#)

on integrated management. [Raworth](#) in her TED talk states clearly, that:

“We need to create economies that are regenerative and distributive by design... Create economies that work with and within the cycles of the living world so that resources are never used up, but are used again and again”.

She indicates in the model shown above, that the planet doughnut has a social foundation on the inside, but an ecological ceiling on the outside. The red dovetails show the spaces where these limits have been exceeded. Raworth stresses that our generation is perhaps **the one**, which can do something about this situation creating what she calls “a sweet spot for humanity” – for future generations it may be too late.

6. Bigger successes in regeneration

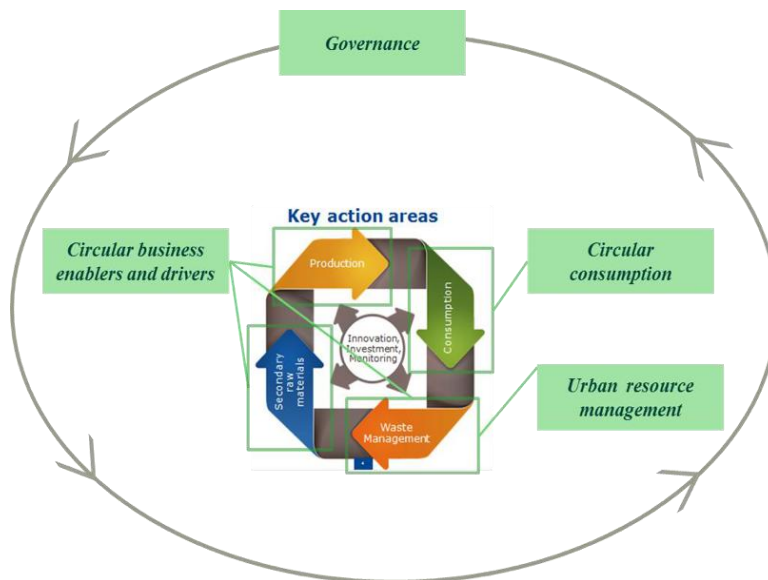
European Union texts incite everyone to work on the circularity question, be it in the economies, in public procurement or in other areas: “Elements of procurement practices that require a change of thinking in order to shift to circular models and practices include:

- ❖ Considering a service instead of buying a product
- ❖ Focus on product design, its use phase and end-of- life (using buy-sell back, buy-resell and Product Service Systems)

❖ Engaging with suppliers and the wider market to identify circular solutions

Often what is needed is not a specific product, but the function it provides. Product service systems allow suppliers to pool products to satisfy more customer needs with fewer units, thereby reducing the environmental impacts of production. They can incentivise suppliers to increase efficiency, in order to reduce operating costs. And they can incentivise users to decrease usage, in order to save costs”.

The [Urban Agenda Partnership on Circular Economy](#) has also produced very interesting materials, and below is presented their schema of the circular economy:



The URBACT Urban Regeneration Mix transfer network is going in this direction, finding new ways to achieve the satisfaction of innovating and knowing what the results are in the regeneration policies. This works through a new deeper approach to face to face relations with inhabitants, by adapting accordingly the management and decision-making processes and **by linking in the private sector**, not just as an operator of strategic decisions, but as an invested partner, who also wants areas of the urban areas to function as well as possible.

The quadruple helix reminds us that the participation of inhabitants in all urban processes is key and constitutes a permanent reminder of why such complex articulations are necessary to improve the wellbeing of all. The critical added value of this is the political leverage, which such integrated strategies should deliver for decision makers.

As finance is such a critical question for public authorities, as it is systematically lacking, it would be interesting for Urban Regeneration Mix cities, as well as others, to look at their public spending much more closely. This can be done, by following the inspiration and methodology of the [Making Spend Matter](#) network, through 5 themes:

Theme 1. Governance and Strategy - spending should be driven politically, strategically and operationally, by developing it on the basis of strategies based on social value⁷ (not just compliance

⁷ [The U.K. Social Value Act](#) proposes social, economic and environmental keys to sustainable procurement.

with legislation), by creating indicators and measures which relate to social value and by appropriate training of professionals.

Theme 2. Commissioning – all those elements which can be thought about before going to tendering and the market; engaging citizens and service users in the co-design of goods and services (especially in health and well-being), sharing the responsibility of procurement beyond the procurement officers to other departments of the city (e.g. economic department), developing early market engagement through more effective relations with the market prior to the tender process (this includes seeking innovation from the market, through pre-procurement engagement and buying for outcomes rather than products), lotting and installing thresholds (favouring access for smaller companies and social economy structures), weighting the social value (e.g. up to 20%) in decision making.

Theme 3. Pre-procurement – helping potential suppliers to become aware of procurement possibilities; information provision (with an emphasis on social value provision), meet the market events (facilitating sub-contracting for example, such as the participation of social economy structures).

Theme 4. Procurement and decision-making – asking specific questions in the calls, as part of the tender process around social value and adopting innovative approaches to evaluate tender responses.

Theme 5. Delivery – being more robust about how social value commitments are detailed in contracts (an expected condition with monitoring and penalties for non-compliance), social value brokerage with employment and apprenticeship providers or voluntary and community sector organizations, monitoring towards a perspective of the wider impact of social value activities, supplier networks focused around social value (sharing practice and learnings).

7. Post scriptum:

The Making Spend Matter URBACT transfer network has devised ten arguments showing why it is worth knowing and managing what happens to public monies, especially for politicians:

- It makes sense to understand where money goes and its wider impact;
- It enables them to understand in depth where public money is going in terms of geography of suppliers and employees, sectors of suppliers, and the types of suppliers spending is being undertaken with;
- It gives them a promotional figure for how much they are spending in their local economy. This is particularly important for developing an evidence base of how a City is contributing to its local economy directly through procurement;
- It enables them to be transparent to citizens as to how public money is being spent. Citizens pay taxes both nationally and locally and have a democratic right to require Municipalities, in particular, to be accountable;
- It will give political representatives an advantage over other parties as it shows a commitment to the local economy (how procurement contributes to this) and citizens;
- It gives them an evidence base which can inform new policies and practices which are both beneficial to local businesses and citizens;

- Many cities are exploring their procurement spend, but from an efficiency point of view. Interpretation enables them to go further;
- Procurement is increasingly being viewed as a lever to addressing societal and environmental challenges – it could enable them to be at the forefront of a new approach to public procurement across Europe;
- It will enable them to change the way in which Procurement and Human Resources Officers think, with a particular emphasis upon the generation of social, environmental and local economic outcomes;
- It will enable them to challenge orthodox approaches to Economic Development and particularly that of trickle-down. Interpreting spend will enable them to become more progressive in procurement and economic development.