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Practising Innovation in Public Sector Procurement: Working with the Anchor Institutions

(Part 1)

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Executive Summary

Conrad Parke, from Centre for Local Economic Strategies (CLES), examines how anchor institutions like universities, hospitals, and local councils can use procurement to strengthen local economies and support community wealth building. Focusing on Birmingham, the brief outlines how even small shifts in spending toward local businesses could create substantial economic and social benefits. However, challenges such as rigid compliance rules and a focus on cost savings often limit local business involvement. The new Procurement Act is seen as a pathway to encourage innovative procurement, and the Birmingham Anchor Network is working collaboratively to harness its potential, aiming for a procurement system that fosters local growth and broader community resilience

Introduction

The Centre for Local Economic Strategies (CLES). is a national organisation that develops progressive economics for people, planet and place. It works on social justice, effective public services and building stronger, more resilient local economies through community wealth building. Community wealth building is an approach to community economic development that changes the way our economy's function, retaining more wealth and opportunity for the benefit of local people.

At the heart of community wealth building is the principal of the '[Anchor Institutions](#)' (see Bond, 2024). The term 'anchor institutions' is used to refer to organisations which are often overlooked as economic assets but are nevertheless large-scale employers, significant purchasers of goods and services in a locality and owners of land and physical assets. In other words, organisations that have the potential to have a greater local economic impact if supported. Examples include local authorities, NHS trusts, universities, colleges, trade unions, large local businesses, the combined activities of the community and voluntary sector and housing associations. I am the Co-ordinator of the Birmingham Anchor Institution Network, at CLES, which currently includes Birmingham City Council, University Hospitals Birmingham NHS Trust, Aston University, University of Birmingham and two Housing Associations: Pioneer and Bournville Village Trust. They collectively represent over 40,000 jobs and over £2 billion in annual spending (CLES, 2024).

For the purposes of this Brief, I need to stress that I am not a public procurement academic, a legal expert on procurement or a procurement professional. Rather, my background is in community and local economic regeneration.

This Brief is based on my experience over the past four years of using this community and economic experience to work with procurement practitioners to implement more progressive procurement practices for the benefit of Birmingham.

Birmingham Anchor Network – how it works; opportunities and challenges

At present, approximately 50% of the Birmingham Anchor Network's procurement spending already goes to businesses based in Birmingham. However, just a 1% shift in this spending would mean an extra £20m for the city's economy, which could mean up to 500 more jobs for Birmingham residents. This means that the potential prize is huge. For the past four years, I have been working with the procurement leads from the Birmingham Anchor Network partners to try to achieve this by introducing more progressive procurement practices. In particular, we have been looking at smaller contracts and how to open them up to local Small and Medium Enterprises (SMEs) and social enterprises as it is these types of businesses that are likely to contribute more to a local economy by employing local people and utilising local supply chains.

In this Research Brief, I will look at the 'bigger picture' of how I think public sector procurement needs to change and, in particular, innovate if the potential of public sector spend is to be truly unlocked for greater economic benefit. In the partner piece to this Brief, '***Mobilising the Power of Local Spending - East Birmingham Inclusive Growth Strategy***' (Research Brief no. 11/2024 – 4), I will discuss the practical barriers to achieving this and some of the progressive procurement approaches we are now trying to introduce.

The starting point for this is the word 'innovation' itself. Since I became involved with procurement, I have come across the term 'innovation' in two separate conversations. The first is *'the procurement OF innovation'*. In other words, how do we use the power of procurement to encourage the development of more innovative goods and services – goods and services that could, perhaps, help us deliver more effective public services. This is covered in depth in the excellent IPEC publication, ['The Art of the Possible'](#) (IPEC, 2023). Then there is *'innovation IN procurement'*. In this case, innovative approaches to procurement could help deliver greater social benefits from public sector spending. For the sake of clarity, it is the latter I am interested in in this article: **How do we procure more innovatively?**

From the work I have done with the Birmingham Anchor Network and the public procurement officers, it is clear they are severally limited by the systems they operate within in their ambition to deliver greater local spend, for example:

- Being driven by compliance with legislation rather than using legislation as an opportunity to innovate, which, in turn, appears to create systems that exclude small businesses and favour the big ones.
- Being driven by cost saving rather than social value.
- Not having the resources to develop the relationships and trust with local businesses so, instead, relying on nationals and multi-nationals as they are seen as 'safer'.

In the next Research Brief, I will discuss some of the practical approaches we will implement to try and overcome these barriers, but here I want to discuss a broader approach we are taking which is being driven by the new Procurement Act.

In the aforementioned report, ['The Art of the Possible'](#) (IPEC, 2023), the power of the Procurement Act 2023 is depicted as “empowering anyone engaged in making and executing public investment in new products and services to define creative and innovative strategies, while maintaining full compliance”. For those unfamiliar with the new Act, at its very heart is the ambition to:

“Shake up our outdated procurement system, so that every public pound goes further for our communities and public services”.

And:

“More effectively open up public procurement to new entrants such as small businesses and social enterprises so that they can compete for and win more public contracts”.

Music to my ears! Then, more specifically, the Act contains the duty for commissioning institutions to:

“Have regard to the particular barriers facing SMEs, and to consider what can be done to overcome them”.

In other words, it provides the very opportunity in legislation that the Birmingham Anchor Network procurement officers are looking for to help open up their spend to local small businesses. Or to put it another way, a licence to innovate!

But not so fast. The wording of the duty is so vague it has already raised concerns that, at best, it will lead to different institutions interpreting it differently, thereby confusing the market even further. At worst, it could lead to institutions choosing to interpret it as 'we don't need to do anything'.

Which is why in Birmingham, in partnership with Anthony Collins Solicitors and CLES, we are looking to develop a collective response to the Act that can be agreed upon and adopted

by all Network members and can, therefore, be delivered through a single local procurement ecosystem that local businesses can understand and simply engage within a consistent, uniform way. So, for example, where the Act states 'must give regard to the barriers to small businesses', we aim to agree on what these barriers are and how we will collectively respond to them.

Conclusion

Take aways – lessons for other places and ways forward

I think one of the lessons to take away from this comes from the original Public Services Social Value Act in 2012, another act aimed at encouraging greater innovation in public sector procurement, generate greater social benefit from public sector spend. From my experience, the Act did an amazing job of putting 'social value' on the map and embedding social value in procurement thinking such that it is accepted as mainstream practice today. However, and also from my experience, because the Act was left open to different interpretations by different institutions, it has unintentionally resulted in creating a 'social value market' that can actually work against businesses, such as social enterprises, that have social value built into their core purpose (please see my other Research brief no. 11/2024 – 4).

This is why we are attempting to come up with a collective response to the new Procurement Act here in Birmingham. But in doing so we are starting to see other benefits from adopting such a collective approach:

- This means that the procurement officers will have the backing of the whole network if they are challenged on their interpretation of the Act and how they implement it.
- It will make it easier to build a procurement ecosystem around the Anchor Network Institutions to enable greater local spend if all have agreed on the barriers facing small businesses and how to overcome them.
- It has the potential to create a 'one front door' opportunity for local businesses whereby they only have to go through one

qualification process to gain access to opportunities with all six network institutions.

Having said all of this, it is all still hypothetical. The Birmingham Anchor Network has started to be ready for the new Act in February 2025. We will keep you updated with any progress.

References

Bond, L., (2024) [Five things to know about anchor networks](#) last accessed 15 November 2024

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