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# Public Procurement and Regional Development in the UK: Challenges and Opportunities in a New Policy Landscape

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# Executive Summary

The UK's persistent underinvestment problem – ranking in the bottom 10% of OECD countries for overall investment intensity – creates an urgent need to leverage public procurement more effectively for regional development. Recent policy developments, including the National Procurement Policy Statement and the Procurement Act 2023, recognize procurement's potential role in addressing this challenge, particularly at the local level where investment gaps are most pronounced.

However, realizing this potential requires addressing several key challenges: building local institutional capacity; resolving tensions between efficiency and broader economic development objectives; improving data quality and transparency; and developing mechanisms to support innovation.

As metro mayors gain new powers in England, there is an opportunity to make procurement work better for regional development. This requires moving beyond simple SME participation targets toward strategic approaches that strengthen local supply chains, foster innovation, and harness tools like pre-market engagement to address local challenges and opportunities.

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# Introduction

Public procurement, accounting for approximately 12% of GDP in OECD countries, has increasingly been recognized as a powerful policy tool for fostering innovation and addressing societal challenges<sup>1</sup>. Studies have shown that public procurement can be particularly effective in supporting regional development, with evidence suggesting stronger impacts on innovation for smaller firms and in economically lagging regions<sup>2</sup>.

The way procurement is structured and implemented can significantly influence the resilience and dynamism of regional business ecosystems<sup>3</sup>. For instance, deliberately sourcing from a diverse range of suppliers can promote competition and support local businesses, while restrictive practices may limit participation and stifle market growth. Furthermore, procurement can create markets for innovative solutions and support existing or emerging industrial clusters<sup>4</sup>. Cities and regions, given their responsibility over public service delivery and proximity to citizens, are also uniquely positioned to support the development of novel solutions to societal challenges<sup>5</sup>.

Despite its significant spatial footprint and influence on local economies, the geographical dimensions of public procurement remain insufficiently explored, particularly in the UK context. Recent analysis suggests that the post-COVID-19 and post-Brexit environment may present new opportunities to utilise public procurement as a tool for strengthening economically weaker regions<sup>6</sup>. However, realising this potential would require enhanced financial capacity, policy discretion, and convening power among subnational governance bodies - capabilities that remain notably weak, particularly in England.

To better understand these challenges, in this brief we examine the current state of public investment and procurement in the UK, and how recent policy developments might affect its future trajectory.

## Public Investment and Procurement in the UK

The recent Industrial Strategy Green Paper<sup>7</sup> referred to analysis showing how the UK has since at least the 1990s routinely ranked in the bottom 10% of OECD countries for overall investment intensity, due to both low levels of private sector investment and low public sector investment (3% GDP against an OECD average of 3.6% GDP). Public investment in infrastructure, skills, and innovation capacity has the potential to stimulate private investment by creating market opportunities and reducing risks for firms.

Public sector underinvestment is mainly driven by very low levels of local government investment (0.8% GDP against an OECD average of 1.4%). The English Devolution White Paper<sup>8</sup>, published in December 2024, noted that if subnational investment matched the OECD average rate, it would generate an additional £19bn per year (0.6% of GDP) and elevate the UK into the top 50% of OECD countries for total public investment. This investment gap therefore suggests a significant missed opportunity to catalyse industrial clusters and innovation ecosystems.

A large share of public sector spending is accounted for by public procurement. UK public procurement spending reached £393 billion in 2022/23, representing approximately one-third of all public expenditure and 15% of GDP<sup>9</sup>. However, its distribution is notably centralised: in contrast to OECD countries where on average 64% of procurement occurs at the sub-national level, the UK's central government accounts for about two-thirds (66%) of total procurement spending, significantly higher than the OECD average of less than 40%. Only Ireland, Greece, Israel, and Hungary have a lower share of sub-national procurement.

This centralisation has intensified over the last decade and a half. This can be explained by

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cuts in government grants to local authorities of 40% in real terms between 2009/10 and 2019/20, which severely constrained local government budgets and spending capacity, including procurement. It is also the result of centralisation of certain functions and responsibilities that were previously handled locally, as well as the combined impact of Brexit-related preparations, for instance related to border controls and customs, and Covid response<sup>10</sup>. A significant amount of such recent spend was with consulting firms, which increased by 57% between the financial years 19/20 and 23/24, according to Tussell<sup>11</sup>.

Alongside centralisation of procurement, a parallel trend since 2010 in the UK has been to prioritise efficiency and cost savings through favouring large, aggregated contracts. Francis Maude, the then Minister for the Cabinet Office told the House of Commons in 2013 that 'you should not load procurement with values and requirements other than getting what you want at the best price'<sup>12</sup>. The use of 'framework agreements' has significantly increased in recent years: According to the National Audit Office<sup>13</sup>, the proportion of central government contracts awarded via a framework grew from 43% in 2018/19 to 72% in 2021/22, while the number of contracts awarded through open procedure decreased from 25% to 14%. While frameworks may help streamline procurement processes, they may also reduce transparency and exclude smaller suppliers from bidding.

This efficiency agenda has led to increased concentration of spending among a smaller number of large strategic suppliers. Despite efforts to increase participation of small and medium-sized enterprises (SMEs) in public procurement, these are often underrepresented. For instance, SMEs accounted for only 20% of direct public sector procurement spend in the UK in 2023, a percentage that has remained largely unchanged since 2018 (18%)<sup>14</sup>. SMEs face specific challenges in public procurement, such as complex processes, resource constraints, and difficulties in meeting certain requirements. The situation is particularly acute for scale-up firms (defined as fast-growing firms), with the Scale Up Institute

estimating that only 4% of contracts went to such firms and noting that access to markets has consistently ranked among the top three growth challenges for scale-up leaders<sup>15</sup>.

Another effect is greater geographical concentration of procurement spend, with firms located in London and the South-East benefiting the most. For instance, analysis by Tussell found that, in 2020, suppliers in the South of England (South-West, South-East and London) received 70% of Central Government's spending on procurement. This means that public procurement may be aggravating existing spatial inequalities, as public spending flows disproportionately to already prosperous regions.

This concentration has led to calls for a more spatially sensitive approach to public spending by large government departments<sup>16</sup>. Recent policy proposals have suggested that procurement should be given an explicit spatial dimension, with local needs factored into design and delivery<sup>17</sup>. The Centre for Social Justice proposed a controlled devolution of procurement decision-making, suggesting that local authorities could apply to the Cabinet Office for authority to award central government contracts themselves<sup>18</sup>.

The popularity of the so-called Preston model of 'progressive procurement' has also brought the debate about local sourcing to the political timeline, and several councils have followed Preston in embracing community wealth building activities, through the promotion of local supply chains, the development of worker cooperatives, and the use of anchor institutions in supporting the local economy<sup>19</sup>. Local authorities differ in the extent to which they source locally. For instance, analysis by Eckersley et al. found that the percentage of contracts awarded (between 2015 and 2019) by English councils to suppliers in their own region averaged 56%, and that local councils in Scotland, Wales and Northern Ireland were more likely to select suppliers within their region than local councils in England<sup>20</sup>. They also found that councils with an explicit regional sourcing policy were more likely to rely on suppliers within their territories.

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Combined authorities, such as the WMCA, are getting better at buying from local suppliers<sup>21</sup>, through initiatives such as simplifying procurement processes for smaller contracts and fostering direct connections between anchor institutions and local businesses<sup>22</sup>.

However, it is important to focus on quality and the transformative nature of procurement to support innovation and supply chain diversification rather than quantity of spend. Further, the impact of procurement on local development will remain modest unless a more devolved and spatially sensible approach is adopted.

## Recent Policy Developments

Recent changes in English devolution and the election of 'metro mayors' are likely to boost the use of procurement to engage local supply chains and drive innovation within their regions. The English Devolution White Paper proposes a framework for transferring more decision-making authority and resources from the central government to local leaders, particularly in areas such as economic development, transport, and skills. It also outlines the expansion of directly elected mayors for combined authorities. Under this plan, Local Growth Plans will be developed by Mayors and local leaders to identify and prioritise regional growth opportunities that help inform resource allocation decisions. However, it is noteworthy that the White Paper does not explicitly position procurement as a key policy lever. The Industrial Strategy Green Paper does make a brief reference to procurement as a policy tool, suggesting that the government will consider 'crowding in investment' as part of fostering a pro-business environment, however it does not elaborate on how procurement could be used strategically to support local economic development.

An important policy development articulating the use of procurement as a policy lever is the National Procurement Policy Statement (NPPS)<sup>23</sup>, which is coming into effect on February 24, 2025, alongside the commencement of the Procurement Act 2023. The NPPS outlines key priorities for contracting authorities, emphasizing the need

to deliver value for money while considering broader socio-economic and environmental benefits. It calls for driving economic growth by maximising spend with SMEs and voluntary, community and social enterprises (VCSEs), ensuring fair working conditions, and fostering innovation. The statement encourages alignment with national missions and Local Growth Plans, promoting collaboration across organisational boundaries. It stresses the importance of building commercial capability, applying best practices, and considering wider impacts such as supporting the transition to net zero and addressing skills gaps. Transparency in procurement processes is also highlighted as crucial for driving value and enabling benchmarking.

## The National Procurement Policy Statement: Opportunities and Challenges

The NPPS aims to balance the pursuit of value for money with support for SMEs and innovation in public procurement. It explicitly calls for contracting authorities to maximise procurement spend with SMEs and VCSEs. It establishes specific targets, requiring government departments and arm's length bodies to set three-year targets for direct spend with SMEs. It also announced that a new Register of Framework agreements will be produced, 'shining a light on those rip-off frameworks from third party providers that are profiting off our local councils and NHS, taking money away from front line services'.

However, the NPPS lacks clear guidance on how contracting authorities can actively nurture local supply chains while managing competing priorities, for instance between aggregating demand for efficiency and supporting diverse local supply ecosystems. While it mentions using collaborative procurement agreements 'where appropriate', it doesn't provide guidance on balancing these competing objectives. Contracting authorities may need more specific direction on how to leverage their procurement to build resilient local business ecosystems while still achieving value for money.

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The NPPS acknowledges the role of procurement in driving innovation, acknowledging that 'procuring innovative solutions can both improve public sector performance whether they enable better, cheaper, quicker, greener or other public policy outcomes and provide revenue for innovative UK companies by supporting the pull-through and adoption of new technologies'. The distinction between development and adoption matters because adoption - the widespread implementation of innovations across supply chains and public services - is more likely to drive productivity gains than early-stage technology development.

However, the NPPS would benefit from adopting a broader understanding of innovation that recognizes the value of incremental and process improvements, particularly in service delivery. While the Industrial Strategy focuses on eight 'growth-driving sectors', procurement's innovative potential extends far beyond high-tech industries to include the foundational economy - sectors like food, retail, and social care that are crucial to local economies. Realizing this potential requires engaging beyond Technology or Engineering teams to work with service delivery and operational units across public organizations, helping to improve public services, encourage social innovation, and promote sustainable practices.

The NPPS encourages contracting authorities to develop a 'pro-innovation mindset' and engage early with the market, particularly through better visibility of future procurement pipelines. This needs to start by having a clear approach to pre-market engagement that can diversify the supplier base through engaging SMEs and new entrants, while fostering buyer-supplier collaboration and refining requirements early in the process<sup>24</sup>. This could also involve greater use of Contracts for Innovation (formerly Small Business Research Initiative or SBRI), which enable public sector organizations to work with innovative businesses on developing solutions to complex challenges. While this instrument has demonstrated significant benefits for both firm growth and public sector innovation, its use remains relatively limited outside central

government<sup>25</sup>.

Further, the NPPS acknowledges the role of public procurement in supporting the delivery of the Government's missions. Adopting a mission-oriented approach requires a problem-based rather than a sector focus. In this sense the recent announcement by the Cabinet Office and the research minister, Lord Patrick Vallance, of the launch of a new procurement innovation hub to solicit more creative ideas from the market is very welcome. Rather than issuing 'highly specified' demands, it has been argued that the hub will produce 'problem statements' that give private-sector contractors greater flexibility to come up with solutions<sup>26</sup>. However, it is unclear how these problem statements will be articulated and how contracting authorities can identify and address local challenges through procurement. While NPPS mentions broad national missions, it doesn't explicitly recognize the importance of addressing more mundane, everyday problems that often have a significant impact on local communities. Contracting authorities may need more specific guidance on how to use procurement strategically to address local needs and balancing these priorities with broader national missions. An example of where this approach was successfully applied was by Transport for London (TfL), who used the Innovative Partnership Procedure (IPP) by setting out a clearly defined problem statement bringing together TfL, London Boroughs and the utility companies<sup>27</sup>. The New Procurement Act 2023 brings in the Competitive Flexible Procedure which will work in a similar manner to the IPP.

Finally, the emphasis on greater transparency is welcomed, particularly in terms of future pipelines and individual contract performance. Analysis of procurement spend (including contracting with SMEs) and outcomes has so far been hampered by the government's poor data publication quality and regularity. The new central digital platform should help provide a source of data on procurement activity as well as contract performance for higher value contracts. However, better evidence is needed on the level of spend on innovation, impact of public procurement on innovation

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performance, public and private sector productivity and spillover effects through supply chains.

The Innovation Procurement Empowerment Centre (IPEC) is actively working to address these evidence gaps through commissioned research that supports accountability, transparency and inform policy reform.

## **Conclusion**

Public procurement in the UK is at a critical juncture. While recent policy developments, including the Procurement Act 2023 and the National Procurement Policy Statement, recognise procurement's role in supporting regional development, significant challenges remain. The centralisation of procurement spending, an overemphasis on efficiency over broader socio-economic benefits, and a lack of institutional capacity at the local level may continue to limit procurement's transformative potential.

To harness procurement as a driver of regional economic growth, a shift is needed towards more spatially aware, innovation-led, and locally empowered procurement. This means moving beyond simple SME participation targets and embedding procurement within broader local growth strategies, ensuring it strengthens local supply chains, fosters innovation, and delivers long-term economic and social value. The evolving role of metro mayors and devolved authorities offers an opportunity to experiment with more place-sensitive procurement approaches, but without further financial and policy discretion at the subnational level, progress may remain limited.

The growing emphasis on innovation procurement, alongside mechanisms like pre-market engagement and Contracts for Innovation, signals a positive shift, but greater coordination, capability-building, and evidence-driven policymaking will be required to sustain momentum.

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