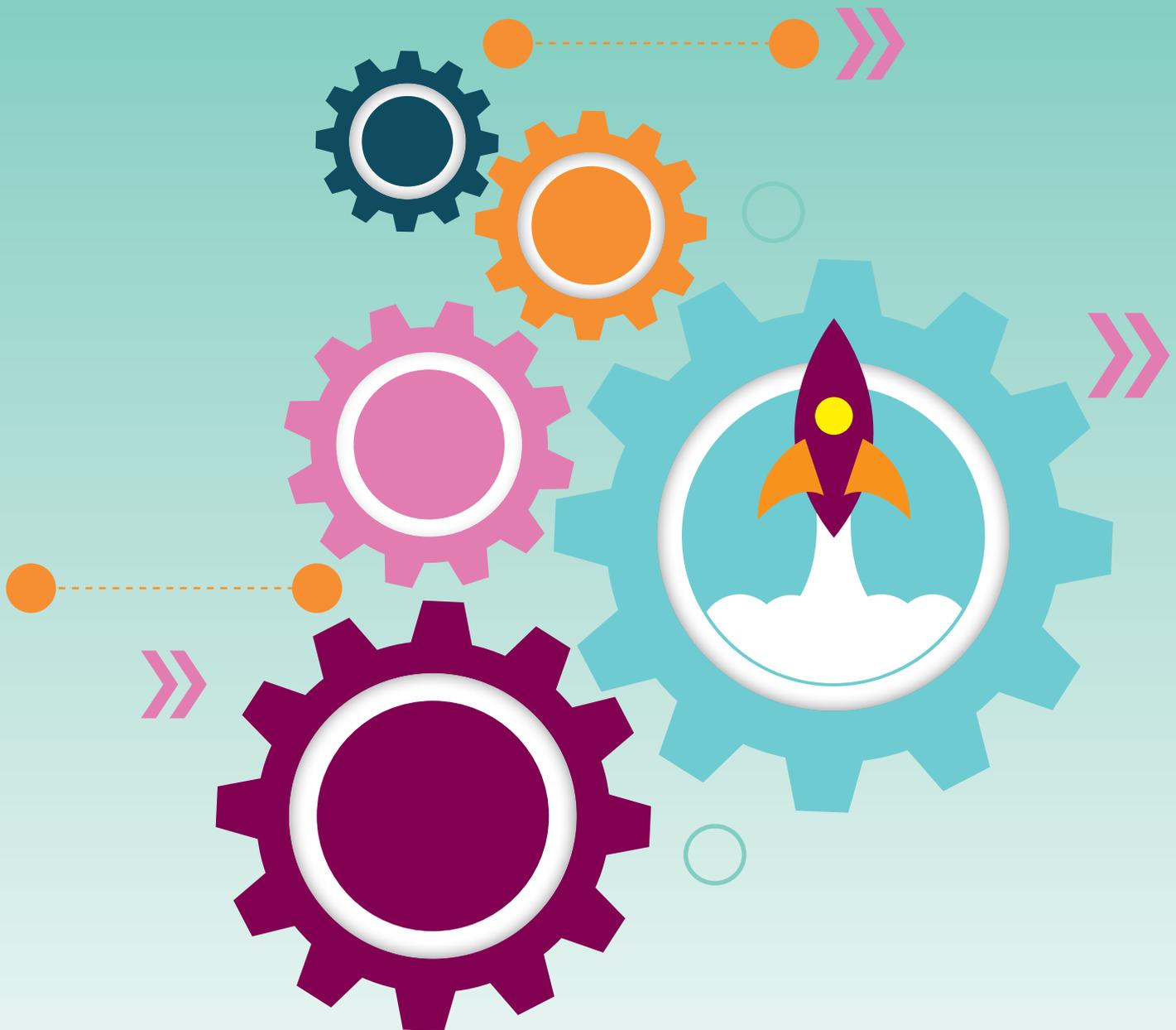




# Encouraging innovation in local government procurement

National Advisory Group report



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# Introduction

## The drivers for the LGA initiative

The Local Government Association (LGA) is the national voice of local government in England and Wales. Its wide ranging remit includes procurement policy guidance, best practice and training, led by its National Advisory Group (NAG) for local government procurement. It has promoted the role of strategic procurement in reshaping and transforming service delivery, as well as ensuring value for money and making a positive impact on local, regional and national businesses and jobs. In 2014 it published its advice in a national procurement strategy, which is now being revised for a relaunch in 2018.

For LGA members, reduced budgets, high user expectations and demand issues are well rehearsed and there is a growing recognition of the role of procurement in encouraging innovative responses to meet these challenges. Since 2000, there have been new policy instruments and innovation project funding from the EU and the UK. The Small Business Research Initiative (SBRI), run by Innovate UK, is recognised as one of the leading programmes. The 2014 reforms of EU procurement rules, transposed in the UK into the public contract regulations 2015 (PCR), include new elements that encourage procurers and commissioners to promote more innovative approaches.

In this environment, NAG agreed, at the beginning of 2016, to establish a working group (Group) to make recommendations on the policies and practices that local government could follow to encourage

innovative procurement. The review would cover goods and services, and also examine the innovative aspects of integrating social value into procurement.

A specific task was to examine the impact of the changes launched in the 2015 PCR. NAG wished to find out if these new aspects had achieved any impact in practice, and if the rule makers had achieved their intended results. As well as recommendations to the LGA and its members, the Group would also suggest ways in which governments, suppliers and other stakeholders could facilitate innovative solutions.

This was a timely initiative. Since the LGA study was launched, the UK government announced a full scale review of the SBRI programme, which will lead to recommendations on improving its effectiveness. The Industrial Strategy Green Paper, announced January 2017, includes a chapter on procurement, highlighting its potential as an innovation driver. The European Commission released a large scale study on Innovation in July 2016, including a chapter on Public Procurement of Innovation (PPI). During the development of this report, the group have contributed ideas to the LGA response to the green paper, the BEIS review of SBRI, and the Commission report.

## Remit and organisation of the Group

The project team started work in spring 2016. It comprised eight members of NAG with extensive procurement experience, including Liz Welton, Chair of the Society of Procurement Officers in Local Government (SOPO).

Malcolm Harbour CBE was invited to become Chairman. In his previous role as an MEP, he was Chairman of the European Parliament Committee that negotiated and agreed the 2014 EU Public Procurement Directives. His committee was a leading advocate of the new innovation provisions. The full membership of the Group is shown in [Annex 1](#).

NAG gave the group a wide ranging remit to look at all aspects of the procurement of more innovative solutions. The full project objectives are shown in [Annex 2](#). The overarching task was to capture the interest of political and executive leadership in adopting innovative procurement methods. The difficulties in managing the balance between opportunities and risks was to be recognised. There was to be a strong focus on practical recommendations, including selection criteria for deploying new procurement methods. The treatment of intellectual property, generated by new solutions, was to be considered. New skills would be identified, with ideas for their development. The study would point to sources of funding and expertise, and best practice examples. It would conclude with proposals for dissemination and capacity building.

The study findings drew on the expertise of the Group members, combined with evidence gathered from a wide ranging interview programme. These covered procurement teams, suppliers and policy makers in the UK and the EU. A full list of the 17 interviews and two visits is shown in [Annex 3](#). The interviews used a common question format, as shown in [Annex 4](#).

Malcolm Harbour was asked to write the draft report, and edited the final text to include many contributions from Group members. The report is supported by all the Group members.

The research for this study is largely based on qualitative information. There is very scant data available about the deployment of innovative procurement methods. The study findings highlight this lack of data and suggest that plans are made to remedy it.

The team are very grateful to all the experts who gave their time freely to share their ideas. In the report that follows, we have included unattributed quotes from the interviews which are **highlighted in bold text**.

The ideas and conclusions from the report are shared by all the participants. All members of the group participated in an individual capacity and they do not necessarily represent the views of the organisations for whom they work.

# Summary of key findings and recommendations

## Innovation in meeting citizens' expectations

Council leaders see that new ways of working are indispensable for sustaining the quality and scope of service delivery in a climate of constrained budgets and ever more demanding users. This requires the adoption of innovative solutions, coupled with the deployment of new technology. However, their intellectual and organisational capacity for developing and deploying innovative solutions is tightly stretched.

Few councils have a recognised innovation 'champion' and new ideas are often developed by the passion of individuals rather than as a matter of process. Councils often have passionate innovators in their economic development functions, who could encourage innovative suppliers. The more ambitious localities could develop centres targeted at those suppliers, and encourage interaction with service commissioners. These could even evolve into larger scale 'urban labs'.

Strong 'top down' leadership is needed to overcome risk aversion, reject the comfort of existing solutions and embrace innovative opportunities. There are operational and political gains to be made by adopting new technologies or solutions. Citizens with smart devices would like to have public services delivered by methods that exploit their connected technology. This can provide encouragement for council teams to develop more ambitious proposals. Suppliers hope for more authorities with an innovative ethos, or a clear internal champion for deploying innovative solutions, who are willing to take up these opportunities.

### Recommendations:

- Political and executive leadership should develop an internal culture that welcomes innovation and encourages new ideas.
- Designated innovation leaders should act as a focal point for change.
- Rethinking procurement should be considered as a catalyst to develop more innovative approaches
- Economic development teams, working to encourage investment by innovators, should be deployed to help internal culture change.
- The operational and political gains from adopting new technologies should be promoted internally and externally.
- Smart, citizen focused services could be promoted to encourage a less risk averse culture.

## Innovation and social value

Many local authorities have already demonstrated their capabilities to change procurement culture by embracing a social value ethos set out in the Public Services (Social Value) Act 2012, in many cases this has involved new and innovative practices. However, the encouragement of innovative suppliers has not been well integrated into the social value imperative even though the Act was intended to encourage a more holistic approach to commissioning.

Adding an innovative dimension would encourage providers to generate more social

value in their responses. The market shaping requirements of the Care Act 2014 adds a further innovative procurement dimension that councils must address.

#### **Recommendations:**

- Social value should be embraced in a more holistic approach to commissioning.
- Innovative procurement practices could be better integrated into social value delivery with specific social value outcomes and measures
- Sharing best practice and collaborating will achieve greater social value regionally
- Where relevant, councils could use the market shaping duties in the Care Act as an innovative opportunity

## **Mainstreaming innovation**

Innovative ideas and approaches need to be integrated into all aspects of the commissioning cycle. Procurement plans must engage innovative thinking from the start, opening early dialogue with potential suppliers and mapping new technologies.

There are a number of new procedures now available to promote ambitious application of new technologies. But for many procurements, deployment of existing technologies in new ways is often the appropriate solution. Instruments such as competitive dialogue and competitive procedure with negotiation can be very effective when appropriately applied, in delivering custom-made solutions. Initiatives to improve procurement must embrace all facets of the procedures, including the 'light touch' regime, and not just the new and more complex tools that are now available.

#### **Recommendations:**

- Innovation should be embedded into decision making from the start of the commissioning cycle.
- Procurement teams should be part of

the decision making process, and all the innovative possibilities offered by a wide range of instruments should be evaluated.

- Frequent mapping of existing technology and prospective new developments should be undertaken.
- Engaging early with suppliers and encouraging ideas will help councils to exploit new technologies.

## **Moving to outcomes based procurement**

Innovative solutions in procurement are driven by asking open questions. Defining unmet needs, and specifying challenging outcomes, will attract innovative suppliers. Commissioners must avoid prescribing solutions and closing off technology options. Service commissioning must be fully embraced in the search for innovative ideas.

External advice can be very valuable in challenging existing presumptions and defining key performance indicators. There are opportunities to include citizens and local businesses in identifying unmet needs - especially in services - and in helping to shape the priorities for innovative providers.

#### **Recommendations:**

- Desired outcomes and unmet needs should be defined in the most open way possible.
- Potential suppliers should not be constrained by implied solutions or technologies.
- Consider wide consultations involving citizens and stakeholders in defining unmet needs.

## Driving innovation by market making

Public authorities can lead customers, by working with suppliers to evaluate, refine and develop ideas into fully working solutions. By setting challenging problems, organising technology contests and providing opportunities for demonstrators, their investment boosts innovation and helps new companies become established. This market-making role also encourages small enterprises with new ideas and reduces the risks of a new technology start-up.

Councils can become promoters of innovation by using Pre-Competitive Procurement (PCP). This has been deployed in the US since the 1980s, and since the 2000s across the EU, although the concept is not strongly used in the UK local government sector. The UK has been a leader through the Small Business Research Initiative (SBRI), run by Innovate UK. Their interventions have been primarily in health, defence and energy sectors. There are few SBRI projects in local authorities and there is low awareness of PCP as a market-making tool.

Encouraging wider adoption of PCP requires coordinated policies embracing funding, capacity building and promotion to prospective suppliers. SBRI needs to be better integrated into mainstream commissioning.

### Recommendations:

- Consider the opportunities to become a market maker, as a leader or a partner.
- Evaluate PCP as a tool to launch technology challenges.
- Consult Innovate UK, exploit their PCP expertise and advice on external funding.

## Success factors for pre-commercial procurements

At the heart of a successful PCP is the establishment of a technology contest between suppliers, based on the solid definition of unmet needs. At the first stage, the most promising concepts are evaluated for their ability to deliver the desired outcomes. Those that progress to the second stage are funded to produce working demonstrators. The funds must encourage the best solution providers and enable them to develop viable solutions suitable for widespread adoption by the customer.

Advance investment in challenge funds, and the acquisition for new skills and external advice, is clearly problematic for many councils. We consider that the economic value of innovation in procurement requires the UK to evaluate new funding instruments and support for developing PCP expertise.

Policy documents and a toolkit to help design PCP and PPI strategies is available here <http://eafip.eu>

### Recommendations:

- Consider best practice guidelines from across the EU in designing and implementing a PCP.
- Treat PCPs as longer term strategic projects and ensure that the local economic growth potential is exploited.
- NAG should promote the case for more of the UK's planned innovation funding to be directed to PCP activities in councils.

## Innovation partnerships

Innovation partnerships have been introduced as part of the PCR 2015 reforms. They are intended to overcome the current discontinuity between ideas developed in a PCP contract, based on a research and development procurement, and full scale deployment of the developed solution with a commercial contract.

In theory innovation partnerships appear to offer a promising opportunity for encouraging innovative procurement. In practice they remain untested, although some councils are clearly considering this route. Initial research by the group did not reveal any English councils using the innovation partnership process.

Recent EU state aid guidelines have also cast severe doubt on its applicability for most procurements involving a research and development component.

### Recommendations:

- Comprehensive guidelines, briefing and experience sharing on the innovative partnership, and assured legal certainty, are needed.
- NAG should work with Crown Commercial Services and Innovate UK to identify the cases where innovative partnerships can be applied effectively, clarifying the state aid issues.

## Managing intellectual property

In an innovative procurement the protection of the resulting intellectual property should be addressed at the beginning of the contracting process. The guidance given by Innovate UK, incorporated in their model contracts, is that the intellectual property should remain with the supplier as it encourages the company to continue supporting and developing the innovation, helping them to grow their business. Procurers can negotiate royalty free access

to the technology and ensure that, if a supplier failed before completing its obligations, then ownership of the intellectual property should revert to them.

As more procurements involving intellectual property agreements evolve, it would be helpful for these cases to be monitored and advice provided to assist procurement teams. This is an area where law firms might be encouraged to establish a best practice forum.

### Recommendations:

- Procurers should take intellectual property issues into account early in the contracting process, and draw on a significant body of experience and model contracts already available
- NAG could encourage specialist lawyers to form a best practice network for intellectual property issues in procurement

## Supplier responses to smarter customers

Many prospective suppliers do not see the public sector as being their natural customers. Technology contests and more outcome based tenders can attract responses from a much wider range of companies. Participation in PCPs should be particularly attractive to small innovators. Traditional processes can discourage suppliers who feel that they cannot break into an established relationship.

All enterprises need to review their approaches to the public sector and contribute more innovative solutions within different contractual structures, embodying partnership working. There is a role for councils to facilitate collaboration between small and large enterprises.

### Recommendation:

Councils should be encouraged to promote technology contests and outcome based tenders to widest possible range of suppliers

## Sharing best practice

Experience sharing attenuates the risk aversion that inhibits more innovative procurement approaches. But the innovative procurement strand is weakly developed in the UK. In contrast there are extensive EU best practice networks, publications and training courses. The dedicated SBRI team at Innovate UK are an important resource for PCPs and share the results of completed projects. But there is currently no dedicated network for UK local authorities to share their ideas and seek advice on market making and pre-commercial initiatives.

### Recommendations:

- NAG should consider ways of boosting sharing of data and best practice within UK authorities in all aspects of innovative procurement.
- Councils should exploit advice and training available from EU funded networks for innovative procurers.

## Partnership working

Case studies show that best practice deployments of local government PCP projects are in devolved regions. In English councils, shared procurement would spread contracting costs and might attract Innovate UK, or other agencies, to invest in support programmes on a larger scale.

This is a possible role for combined authority structures, and local enterprise partnerships could become involved. The industrial strategy green paper mentions the idea of dedicated regional innovation budgets which could be deployed to support innovative procurement.

### Recommendations:

- English councils should identify common needs where they could benefit from innovative solutions and where shared solutions would allow more resources to be deployed and risks reduced.

- Joint development and implementation of innovation challenges to fulfil those needs should be encouraged.
- Local Enterprise Partnerships could be more closely engaged in partnership procurement initiatives.

## Adequacy of policy frameworks

PCR 2015 are not inhibiting innovative practices. The main issues to be overcome are those of culture, procedure, and processes. The innovative procurement tools embedded into PCR 2015 are relatively unknown, although pre-commercial procurement and the work of Innovate UK is becoming recognised.

Public procurement is not currently perceived as a coherent, dynamic, and effective policy instrument for encouraging innovative solutions. A deeper and more comprehensive commitment to change perceptions across the public sector is needed, given the volume and value of spending it covers.

### Recommendations:

- NAG should work with Crown Commercial Service (CCS) to promote public procurement as an efficient and effective means of generating innovation for the benefit of the whole UK economy
- NAG should closely engage with government to build on the procurement aspirations advocated in the industrial strategy green paper and ensure that local government is deeply engaged
- NAG should promote a joint initiative with CCS and Innovate UK to collect data on innovative procurement activities and help direct practitioners to the optimum contract and organisational structures

# Encouraging innovation

## Innovation in meeting citizens' expectations

Our interview programme, and shared expertise from the Group members, confirm that local council leaders see that new ways of working are indispensable for sustaining the quality and scope of service delivery in a climate of austerity. This requires the adoption of innovative solutions, coupled with the deployment of new technology. However, their intellectual and organisational capacity for developing and deploying innovative solutions is tightly stretched.

Supplier perspectives in our interviews confirm the weakness of innovative capacity. Only a minority of councils are seen to have a strong innovation culture, and are directly supporting innovative projects through procurement processes. There appears to be little best practice sharing and co-ordination of approaches. Few have an innovation leader to provide a focal point for priming innovation in service delivery. Innovation is developed by the passion of individuals, often outside established procedures. As one council contributor noted: **“There is a lack of awareness in local government of the opportunities that exist in innovation”**.

Paradoxically, many councils have passionate innovators in their economic development functions, promoting innovative businesses and providing facilities and support for them. But the opportunity is rarely taken to translate this passion into their own internal functions. Indeed, a drive to procure innovative solutions could become a pillar of an economic development strategy. Their localities could become innovation centres or ‘urban labs’ to

draw organisations, large and small, to their area and encourage collaborative working.

Many council leaders accept that adopting different procurement approaches would be a big step towards promoting innovation in their organisations. This means overcoming risk aversion, which is the biggest obstacle to working with new suppliers offering ‘cutting edge’ solutions. One respondent told us **“All council members and senior decision makers need to create a culture for innovation, accepting that failure is ok”**. With very tight budgets and the need to avoid abortive costs, teams are reluctant to take on uncertain, complex and potentially risky projects. It is felt to be safer to procure a proven solution from an existing supplier, where the tendering process is felt to be straightforward and easy to complete **“because it was the same as last time”**.

In this environment potential suppliers are frustrated. They see the possibilities of deploying innovation that could achieve significant improvements in the quality and efficiency of service delivery, and to make cost reductions. They understand the issues of risk aversion. But as they see service deliverers struggling to sustain acceptable quality with fewer resources, they think that the risk ‘gaps’ are being reduced. As one pointedly noted: **“The risk of trying a new thing, through an innovative process, is small compared to maintaining the same ineffectual approach”**.

Our study findings have been based largely on input from executive teams. However we have also tried to probe the concerns of elected members, and their willingness to consider more innovative solutions. Politicians

are understandably sensitive to potential risks, particularly poor public acceptance of new models of service delivery. There will always be some resistance to changing 'tried and tested' solutions. 'Fear of change' can be a potent obstacle to overcome. On the other hand, if elected leaders agree on the strategy of making their authorities more innovative, they can create a climate of public support for more 'go ahead' ideas. Citizens with smart devices would like to have public services delivered by methods that exploit their connected technology. This can provide encouragement for council teams to develop more ambitious proposals.

As one of our supplier respondents suggested: **“Citizens will obtain more customised solutions which will bind them emotionally to their local authority, and make them feel more connected.”**

## Innovation and social value

The adoption of social value criteria clearly shows that public sector procurement organisations are capable of embracing change in long established procedures, and have been bringing 'non-price' factors to the forefront in the tendering process. This trend has been reinforced by the adoption of the Public Services (Social Value Act) in 2013, and was also a key element of the PCR 2015 reforms. An examination of social value delivery was not included in the original study remit but we received many inputs. However, we received many inputs that highlighted the need for us to examine the impact of innovation practice that it has brought about.

The two year review of the Social Value Act, published in February 2015, noted a **“mixed picture of awareness and take up”** but confirmed that councils were among the best exploiters. It reported generally positive outcomes where the act was being used effectively. It set out areas of good practice for commissioners and providers. Many of these correspond with our findings on best practice for innovative procurement.

Lord Young's foreword to the review highlights the role of innovative approaches to delivering all aspects of social value enhancement.

**“The first thing to note about the Act is that, where it has been taken up, it has had a positive effect, encouraging a more holistic approach to commissioning which seeks to achieve an optimal combination of quality and best value. In the two years that it has been in force, the Act has made a good start in this respect, encouraging commissioners to think about securing value through procurement in highly innovative ways which have generated significant cost savings and demonstrated a much more responsive way of delivering better services.”** [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/403748/Social\\_Value\\_Act\\_review\\_report\\_150212.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/403748/Social_Value_Act_review_report_150212.pdf)

Among the recommendations is an exhortation for commissioners to **“think about adopting new and creative solutions for the challenges they are facing”** and to embrace more open pre-procurement and market testing procedures. As we will set out later, these approaches are at the core of an innovative procurement approach.

A number of our study respondents considered that the introduction of the Act was a missed opportunity to promote the benefits and processes of innovative procurement. A detailed examination of the 2015 review endorses this view. There is no mention at all about the possible tools, such as pre-commercial procurement, which could be used to develop social value enhancing solutions. There is also no mention of the resources available in expert support and finance from the Innovate UK programmes and also from EU sources.

We think that council leaders could build on the more flexible approaches to procurement already brought about by social value considerations to embed innovative cultures more deeply. They are already encouraging service commissioners to evaluate their requirements against a wider set of standards and performance criteria. This should open

opportunities for more innovative approaches, including delivery of environmental or other benefits to local people.

We were informed that some suppliers would like to be told where to target social value commitments, and would develop innovative ideas if they knew where to direct them for best impact. For more strategic relationships, the provider can be involved in researching local needs and addressing them within their proposals.

There are market shaping requirements for service commissioning embedded in their duties under the Care Act 2014. A full examination of the specialist needs of this sector is outside the scope of this study, however, service market shaping is a counterpart to the pre commercial procurement procedures examined in this report. It would be possible to deploy innovative procurement tools in developing and acquiring new systems and procedures that evolved from a market shaping study. This adds further weight to our call for a more integrated approach, embracing social value and innovation.

## Mainstreaming innovation

One of the triggers for commissioning this study was the availability of new procedures, alongside the application of existing tools, to encourage the offering and the uptake of more innovative solutions. However, the Group wished to ensure that the need to encourage innovation across all aspects of commissioning and procurement was recognised. Innovative ideas and approaches must not be confined to areas where more wide-ranging and radical applications of technology can be applied. It must also be considered in established services such as delivering social care, or waste collection. It is essential that innovation is embedded into decision making at all levels in commissioning organisations and that procurement teams are part of the decision making partnership.

We noted the encouragement for supplier consultation and dialogue as represented in the widely disseminated commissioning cycle chart opposite.

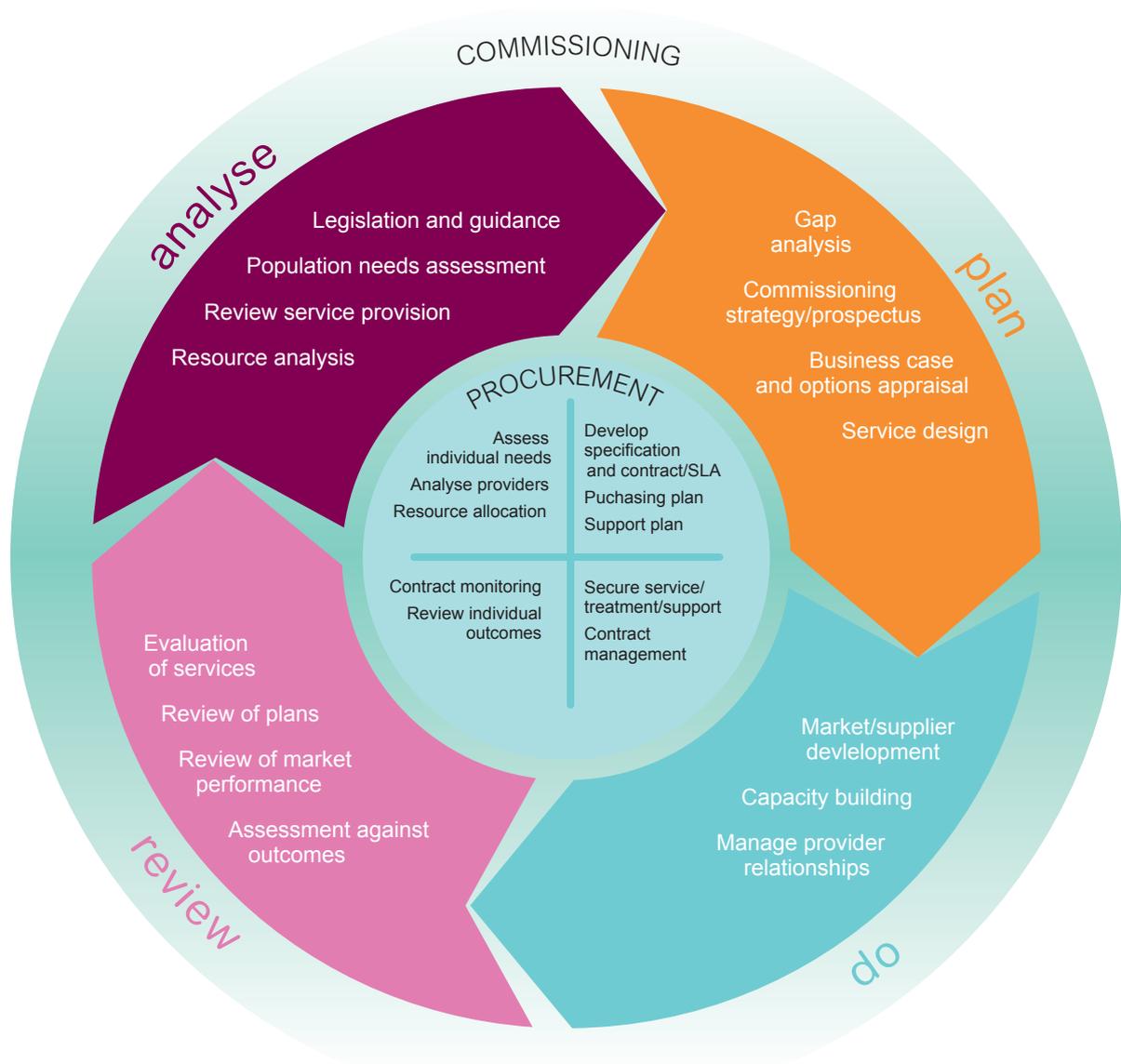
Many respondents emphasised the importance of procurement experts working with commissioners to design a procurement process that will deliver optimum results. **“The innovative thinking needs to start at the beginning of the commissioning cycle”** said a procurement professional. There is a lingering perception that procurement processes can be bureaucratic and legalistic; that they are undertaken solely by ‘experts’ and inhibit innovative ideas. There are also concerns that supplier engagement is seen to be unnecessarily constrained.

Our findings clearly show that, where properly understood and applied, the rules do not inhibit innovation. **“Procurement is an immensely collaborative process”** emphasised a respondent. We should **“use regulation as a spring board rather than a straitjacket”** said another.

We heard that procurement leaders are already being much tougher on repeat order proposals. The accelerating pace of technologies means that repeating a standard solution is likely to miss out on the benefits of progress. There was a general view that, in an innovative organisation, all procurement decisions need to be mapped against the technologies available, or becoming available. However, being innovative does not automatically lead to the deployment of untested or untried solutions. A more thorough checking of solutions already available elsewhere could be the optimum route. As one respondent said **“innovation in public procurement is as much about fast adoption as it is about new invention”**. As another put it very succinctly **“local authorities want to innovate, but not to be innovators”**.

Many procurements can only be fulfilled by a custom-made solution, one that is not predetermined. PCR 2015 now encourages more competitive dialogue, to enable suppliers to develop optimised solutions

## Commissioning Cycle



during the tendering process. Suppliers can be encouraged to offer variants incorporating innovative ideas to match the tender requirements. We talked to a number of commissioners who reported that the well managed competitive dialogues or competitive procedures with negotiation, now embedded in the new PCR, has produced good results. New IT systems and new buildings are areas where solutions clearly have to be custom-made, and where good results were reported. Some respondents, both commissioners and suppliers, noted that in previous policy exhortations, the use of competitive dialogue had been discouraged. Council leadership teams need to make sure that this residual antagonism towards

competitive dialogue is overcome. Whatever instrument is chosen, good practice needs to be encouraged.

## Moving to outcomes based procurement

Experienced participants emphasised that the foundation for a successful innovative procurement was to establish challenging open questions to the potential solution providers, based on desired outcomes rather than pre-determined solutions. 'Outcome based procurement' is widely accepted as a theoretical 'best practice'. **“The key to good procurement is to ask better questions”**

said a supplier. Another told us **“If you procure against outcomes and the supplier delivers them, you have achieved a great result. If you procure against ‘outputs’ the chances of getting the optimum outcome are much lower”**.

The challenges in achieving ‘outcome based procurement’ in practice are significant. In purchasing environments that have been dominated by a rules-based structure for many years, it can be a daunting challenge to define outcomes in a much freer environment. One contributor’s perception **“There is no curiosity to explore new things”** was widely shared. In many cases we identified, external advice was used to help trigger these competitive challenges.

Our interviews also emphasised the need to embrace services within the innovative procurement process. **“No service or area should be closed off, and commissioners should lead the overall process by integrating innovation naturally”**, a supplier told us. Further challenge for suppliers is to avoid constraining the procurement by focusing on specific technologies which may already be known or understood. ‘Foresight’ studies, produced with expert assistance, help project teams assess the range of future technologies that might be available to solve their needs. A technology company summed it up: **“commissioners shouldn’t specify technology in a way that constrains the procurement but rather specify the outcomes”**.

There are very good opportunities to engage citizens and local businesses in identifying their most pressing unmet needs. In a particularly interesting example in Durham, there was a consultation process involving the public and social service providers to ask them what they considered were the biggest healthcare causes and consequences of social isolation. An SBRI project has just been launched with the invitation to submit new solutions to the problems that have been identified. (See case study 1).

### Case study 1

#### Tackling social isolation alongside economic development

Durham County Council has just placed the first pre-procurement contracts in its Smart County programme. This ambitious project integrates economic development with meeting local societal needs. The projects to be tackled were identified by a wide ranging consultation involving local citizens, third sector and business. Companies participating in phase one will develop solutions to alleviate the healthcare causes and consequences of social isolation. The County’s economic development arm Business Durham will work closely with the companies participating in phase one, and will also help those whose ideas do not proceed to a phase two (demonstrator) stage to find alternative customers.

This idea of widespread consultation on unmet needs has been elaborated still further in a European project on health. In this case, a substantial report has been produced which consolidates a whole range of unmet needs to help stimulate procurement authorities when they are planning PCP challenges. (See case study 2).

### Case study 2

#### Collaboration in defining unmet needs

In the EPP e-Health project, seven European hospitals, health care providers and service suppliers are building, with European Commission funding, a public procurement of innovation network focusing on e-health solutions. They have identified the definition of unmet needs that e-health technologies might meet, as a prime area of collaboration. The result is a comprehensive report on unmet needs that service commissioners across the network can consult. For the next phase of the project, the participants plan to use these shared needs and develop joint PCP projects to develop new e-health solutions. The unmet needs report is

publicly available, so they hope that new consortium participants can assess their own needs and become collaborators.  
<http://innovationhospitals.com>

## Driving innovation by market making

The adoption of social value criteria, more critical approaches to repeat ordering and the embracing of more competitive dialogue indicate that public procurement is already becoming more innovative. But public sector commissioners are uniquely equipped to play a much wider role in promoting innovation in the wider economy.

In 2016, a major European Commission report on the policies needed to make the EU more innovative clearly identified the potential of public procurement as a driver of innovation. It noted: **“Its exploitation in public contracts has more power to produce sustainable results across the real economy than any other innovation incentive. At the heart of innovative public procurement is the encouragement for customers (as contracting authorities) to set demanding outcomes and technology challenges for prospective suppliers, either fully or co-funded, in order to generate the best results”**.

The EU study also highlighted the potential for engaging small innovative companies in public tenders: **“For small and medium enterprises (SMEs) in particular, participation can be particularly attractive. Tendering should encourage SMEs to work with the public sector. The prospect of a significant contract from a public authority makes it easier for SMEs to raise capital from outside sources. If they are appointed as a lead contractor, their company becomes much more attractive and a much less risky proposition for investors”**.

Pre-competitive procurement (PCP) is an accepted and proven methodology which can be deployed outside the EU procurement instruments. PCP enables public authorities

to exploit their role as market making, or ‘lead’ customers, working with potential suppliers to evaluate, refine and develop ideas into fully working solutions. PCP can be used to procure goods, services or a combination of both (a service delivery solution integrating a new IT application or device, for example).

PCP is well established in the USA, which has exploited public investments to promote innovation since the 1970s. The Small Business Innovation Research (SBIR) programme, first established in 1982, requires that all Federal agencies spend a defined percentage of their external R&D budgets with small businesses. Since its creation SBIR has awarded 100% funded R&D contracts worth nearly \$40 billion.

The UK has been among the EU leaders in promoting PCPs. The Small Business Research Initiative (SBRI) was launched in 2004 by the Technology Strategy Board. Now run by its successor, Innovate UK, SBRI is the leading UK promoter of PCPs in the UK, providing advice across government departments and offering some challenge funding. While the UK programme is particularly focused on small business, joint projects with larger concerns are also supported. More than 2,900 SBRI contracts valued at over £430 million have been awarded since April 2009. They have generated new business opportunities for many companies and benefitted more than 80 Government organisations.

At EU level, it was not until 2008 that guidelines produced by the Commission made it clear to contracting authorities that PCP contracts could be drawn up within the existing EU legal framework. EU funding for PCP projects and ‘best practice networks’ has been available since 2009, with a strong focus on the digital economy (see <http://ec.europa.eu/research/participants/portal/desktop/en/home.html>). The 2014 public procurement reforms further encouraged the use of PCPs.

The Group was particularly grateful to Innovate UK for their strong inputs into the task force, with both permanent membership

of the group and a special workshop at the Future Cities Catapult. They also pointed us to case studies of successful SBRI projects carried out by local authorities. Innovate UK told us that most of their project support was widely spread, with health being a major beneficiary. English councils were very small participants, but engagement had been more successful with devolved administrations.

PCP programmes are widespread across the EU. Many of them are well documented through networks and web sites. The Finnish Innovation Agency TEKES is widely regarded as deploying best practice in PCPs. Their Director told a recent conference in Brussels that **“public procurement is our most effective innovation programme”**. The Group has looked at a number of case studies in Finland, Sweden, Denmark, Holland, Belgium and Italy.

Despite this level of UK and international PCP activity, local government participants in our survey confessed that they had little knowledge about them, and were not active participants. However, there was caution expressed about the high profile of PCPs compared to delivering innovative solutions in other ways. An expert in the European Commission commented **“PCP is not a universal tool. It needs to be deployed selectively. Only players with the resources and the right attitude can really run a full PCP”**.

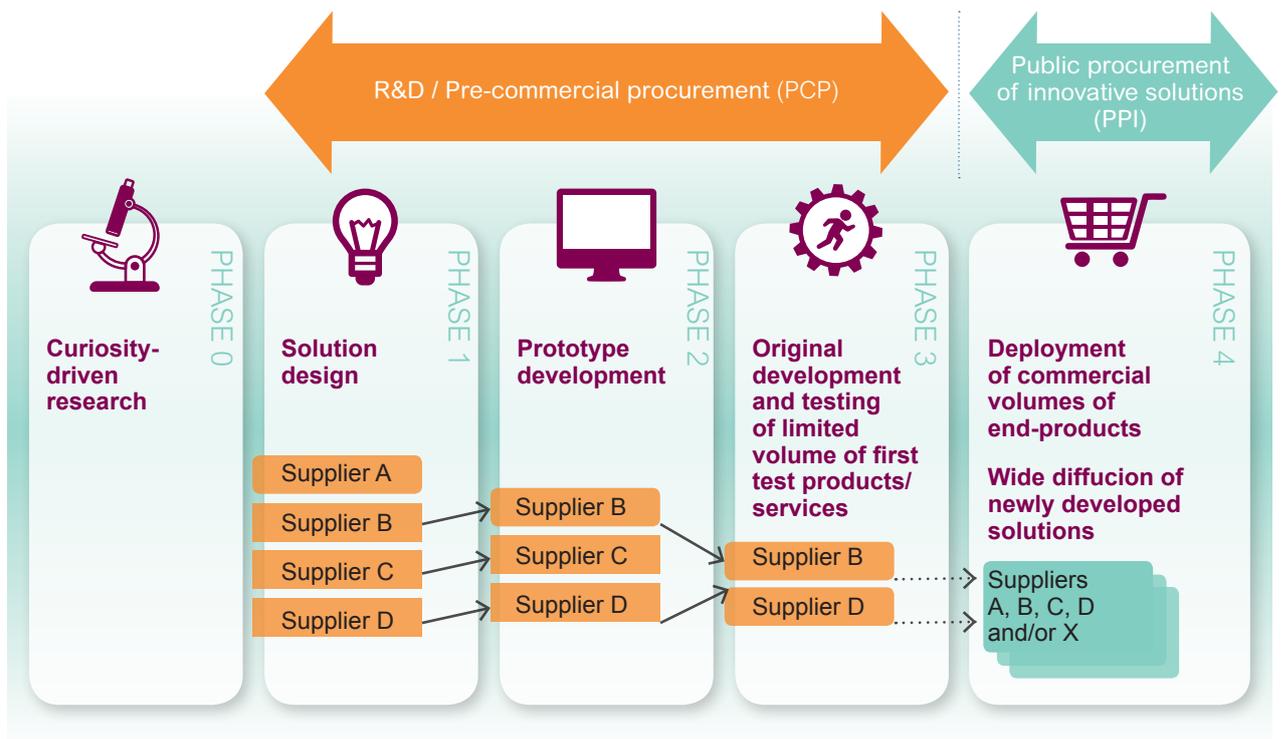
## Success factors for pre-commercial procurements

The heart of a successful PCP is active competition and the prospect of a major long term contract to generate new thinking.

**“There needs to be more research and challenge based exploration in procurement”** said a supplier with extensive PCP experience. In setting up the challenge it is clearly important to do a market scoping exercise and ensure that the opening of the PCP is promoted to the widest number of potential suppliers. It will be important to reach out to suppliers who would not normally consider engaging with the public sector, especially innovative small enterprises.

Depending on the budget available, the first stage of the technology challenge would fund the winning prospects to deliver a proposal that demonstrates a feasible application of their ideas. Ideally, there would be a range of contenders offering ideas embodying different technologies or concepts. We observed cases with two to five initial competitors, but it can be many more.

The second stage would then fund one or more contenders to produce a demonstrator application or product incorporating the innovative ideas. The funding offered needs to be sufficient to enable the supplier to design, develop, produce and test the proposed solution. The customer needs to work with the provider and service users to set a criteria that will clearly demonstrate the ability of the solution to meet the identified needs. The diagram below, produced by the European Commission, illustrates the tendering process for a PCP.



It is evident that successful PCP contests require procurement teams to develop a range of additional skills. The contract structure and project management may follow unconventional paths. The ability to source and use external experts is essential.

In assessing the results of the challenge it is clearly necessary to bring in assessors with the necessary technical skills to work alongside the customer teams who will deploy the solutions. They can help make decisions on the tenders to be progressed. These need to be based on the inherent robustness of the proposed solutions, combined with the technical strengths and resources of the solution, for developers to move the project to a new development level.

In making the contests compelling for the best and most innovative suppliers, the funding available needs to be sufficiently attractive. Suppliers will not expect to do more than break even on their first round proposals. But they must be funded to develop their ideas to a sufficient level of detail, and show their capability to develop prototypes or demonstrators. Funding set too low will

discourage small innovators and favour larger companies who can afford to invest some of their own resources in the hope of getting a larger contractor later. The second stage funding must be sufficient to ensure that a functional demonstrator is delivered, so that the customer gets real value from having a prototype to evaluate. Sufficient funding and expert resources must be available to make the development and testing of the preferred solutions worthwhile and comprehensive. (See case study 3)

### Case study 3

#### Data analytics boosting rate revenue

Belfast City Council wanted to cut the level of uncollected business rates. It saw the potential for data analytics, mining existing public sector data to identify businesses escaping rate payments or paying lower rates than appropriate. With Innovate UK, the Department of Finance and the Future Cities Catapult, it set up a pre-commercial procurement with a budget of

£130k. Four phase one awards of £5,000 each were made for proofs of concept. Two companies proceeded to phase two were awarded £55,000 for prototypes, including two weeks of field testing which immediately identified significant additional revenue opportunities. The council is now exploring options for procuring a full blown solution.

In times of budget constraints, the need for advance funding to launch a PCP competition is clearly a discouraging aspect for many local authorities. The case studies that we reviewed suggested that meeting a high proportion of the contest costs from external funding has been critical in getting these new practices off the ground. The Welsh Government PCP projects were funded from their own resources and with one third contributed from Innovate UK. The SBRI project which resulted was then promoted to Welsh local authorities. The council concerned told us that the availability of this funding was critical to their decision to embark on an SBRI programme. Innovate UK regarded the Welsh programme as a very good model for SBRI deployment. They told us that **“the projects have been managed with enthusiasm, professionalism and leadership”**. (See case study 4)

#### Case study 4

### Enhancing energy efficiency of heritage buildings

Cardiff Council is actively engaged in a range of pre-commercial procurements, taking advantage of a funding package offered by the Welsh Government and Innovate UK. They are focused on improving energy efficiency and meeting climate change targets. As 34 per cent of buildings in Wales are over 100 years old, a PCP contest was run to invite innovations to improve heritage buildings. Out of 30 proposals submitted, six were chosen for phase one support and three progressed to phase two demonstrator stage. The variety

of solutions illustrates the range of ideas generated by an outcome driven tender: a novel thermostatic radiator valve; a new formulation of quick drying lime mortar to overcome damp problems; a robot system to apply insulation in otherwise inaccessible spaces. The robot system is now in active use. Cardiff's legal team used the templates supplied by SBRI as a basis for their contracts and paid specific attention to intellectual property issues.

In current circumstances, there will obviously be resistance to the widespread adoption of fully funded activities. But we argue that promoting innovative procurement combines two central public policy objectives, namely delivering better quality public services more efficiently and at lower cost, and developing sustainable innovative companies. Therefore, all possibilities for leveraging financial support for PPI should be examined.

In the US, a target based approach is deployed with federal agencies being required to place part of their procurement budgets within innovative suppliers. This approach was also observed in EU case studies. Indeed one of our respondents from a European city observed that there were many examples of **“innovative procurement driven by high-level pushing”**. We also observed cases where a small levy was made on successful PPI projects to recycle funding into new innovative projects.

## Innovation partnerships

A PCP contest is a procurement of research and development services. But the most valued prize for the successful innovator is to achieve a significant contract for deploying their innovation at a fully working scale. However, the PCP contractual arrangement concludes at the end of the demonstration phase. Even if an optimum result is achieved and a supplier and a customer jointly develop a solution that delivers acceptable results, and meets expectations on price and delivery, a new tendering procedure

needs to be opened. The developed solution is not guaranteed to win and be deployed at scale. If the proposed solution has a complete set of unique characteristics and key performance requirements then these would obviously be reflected into an open tender. But this is clearly a discontinuity in the legal framework which inhibits the full scale commercial deployment of the jointly developed solution.

In an attempt to overcome this discontinuity, the EU Directive of 2014 introduced a new procedure, the innovative partnership procurement, which has been fully incorporated in the PCR 2015 as the 'Innovation Partnership'. This allows a customer to integrate the PCP phase into a long term contract for deployment and delivery. The contracting parties can incorporate key review points and performance benchmarks into the development and supply process. In theory, this allows the necessary flexibility within the contract to deal with the unforeseen circumstances that inevitably arise over the development cycle of a new technology or concept.

In practice, guidance from the EU has raised a series of issues over potential infringement of the 2014 state aid framework rules if there is no open contest for the purchase of the end product or service. It is suggested that in most cases a PCP for the research and development followed by an open procedure or competitive dialogue for the final contract would be appropriate. The guidance states that the innovation partnership procedure 'should only be used in exceptional circumstances that concern the procurement of unique specialised products'. However, its application to the commissioning of a unique service offering is unclear.

NAG asked the task force to examine the value of this new procedure, awareness of its potential among innovative procurers and experience of its deployment. We consider that, without the uncertainty of the state aid rules, it might have potential as a tool to encourage innovation and benefit suppliers.

However, the level of awareness of the new tool is very low, even among procurers who are interested in deploying innovative procedures. Furthermore, research for this report by NAG team at the LGA failed to find a single example of its use in English councils.

Our interviews clearly showed that deploying a new and untested legal instrument merely added to the risks already associated with an innovative procurement. This is compounded by the latest state aid guidelines. As we emphasised in the earlier sections of the report, innovative public procurement remains a minority activity in a risk averse climate. We interviewed a law firm who had proceeded some way down the road to structuring an innovation partnership procedure for a potential client, but in the end other solutions were chosen. They told us **“the authority did not feel that it was comfortable to use an untried procedure”**.

There clearly needs to be better awareness of the potential of the innovation partnership and commissioners need guidance and reassurance about its use. As a council leader said: **“we need clarity on what is possible and where it has worked before”**. During our investigations, Crown Commercial Service has introduced a guidance note on the deployment of the innovation partnership. However, we believe they should work with NAG to provide more comprehensive guidance, integrated into wider advice on PCP technology challenges.

## Managing intellectual property

Successful PCPs would be expected to generate intellectual property from the development of new solutions. The protection of this intellectual property and the royalties from its extended use in a broad customer base, outside the original commissioner, needs to be addressed in any PCP or innovation partnership. NAG specifically asked us to address this issue in our report.

There is limited guidance or legal requirements on intellectual property embedded in the PCP or innovation partnership rules. But it is clearly a matter that the contracting parties need to incorporate in their agreements. The general guidance given by Innovate UK in establishing PCPs is that, as a general rule, the intellectual property should remain with the innovative supplier. There is a clear rationale for this from the Innovate UK perspective, ownership by the supplier could be a significant factor in their future ability to attract investment to expand and grow their business. It also means the innovation is more likely to be developed and supported at little or no further cost to the PCP procurer.

Our interviews supported the Innovate UK advice. It was suggested that contracting councils may wish to negotiate a royalty-free access to the technology for their own internal use which would give them a clear advantage as the original promoter of the PCP. One further aspect was raised with us during interviews, a team that had set up a PCP contract suggested that if a supplier failed before completing its obligations, then ownership of the intellectual property should revert to them. The legal department of the authority concerned drafted this as a 'back stop' provision.

Innovate UK maintain a complete pack of model documents to set up a PCP, which includes a draft contract covering intellectual property issues. As more procurements involving intellectual property agreements evolve, it would be helpful for cases to be monitored and guidance given to assist procurement teams. This is an area where law firms might be encouraged to establish a best practice forum.

## Supplier responses to smarter customers

At a meeting at Innovation Birmingham (the City's enterprise incubator), innovative companies were invited to share views about supplying to local authorities. One participant had a clear opinion "**public procurement**

**is designed to buy old stuff"**. Many prospective suppliers, particularly from small innovative companies, do not see the public sector as being their natural customers. For Britain's economic future, we have to harness all the talents available.

Technology contests can significantly enlarge the range of suppliers to the public sector. But there may be many small companies who have concerns over entering the public sector markets. In the UK, much has been achieved in recent years by simplifying pre-qualification formalities, making contract engagement simpler and offering prompt payments although the ambition of the EU reforms to further improve SME access still requires attention.

One respondent reminded us that "**large and small companies could and should work together**" and there is a role for councils to facilitate this collaboration. All enterprises need to review their approaches to the public sector and to be prepared to contribute more innovative solutions within different contractual structures that they may have used hitherto. As one of our European respondents pointed out: "**suppliers must develop the strategic and organisational frameworks to respond with newer and better solutions**" (see case study 5).

These new frameworks require potential suppliers to match their responses to more outcome based calls for tenders, and to develop approaches to fulfilling unmet needs. There is evidence from our case studies that more widely promoted, outcome based tenders can attract responses from a much wider range of suppliers. Traditional processes can discourage suppliers who feel that they cannot break into established relationships.

The public sector is already very aware of the benefits of combining tenders for shared requirements. The 'Open Data' initiative is making the development of shared solutions more viable. There are clear opportunities for PCP and innovation partnerships involving multiple authorities, which could be very attractive to potential suppliers. They will need to be well-positioned for partnership working.

## Case study 5

### Active supplier engagement

Before commencing a new innovation procurement challenge, commissioners will want to ensure that there are no existing solutions that might meet their needs. Engaging supplier experience can be valuable. The Innovative Solutions Catalogue is an internal tool of Ferrovial Services that contains tried and tested, 'best in class' solutions, applicable to urban services contracts, such as waste collection or road maintenance. It has been designed to share best practice examples internationally so their country teams can learn from what others have done without requiring the time to research the market or deploy a test project. By setting out experiences in meeting outcome based challenges such as congestion, the need to increase recycling and deliver operational efficiency improvements to current services, the catalogue is well aligned with innovative procurement planning.

Ferrovial Services and Madrid City Government are working together to improve street cleaning approaches in the city using levers for innovation such as citizen involvement, data analytics and new technologies, more details can be found here [www.ferrovial.com/en/projects/street-cleaning-in-madrid-citizenric/](http://www.ferrovial.com/en/projects/street-cleaning-in-madrid-citizenric/)

## Sharing best practice

A number of respondents highlighted the lack of any PPI experience sharing networks among UK local authorities. It was noted that far more case study experience was documented through EU funded networks. Experience sharing could be a powerful tool in deploying more innovative procurement approaches. It helps to attenuate some of the risk aversion that inhibits the adoption of new ideas and processes. In areas of contract development it is certainly helpful for legal advisers to share interpretation of the rules and the ways in which more complex knowledge sharing schemes have been

established. One respondent told us that a draft PCP contract had been through 30 drafts before final approval.

This should not be necessary, innovative procurers are not on their own. There are extensive EU best practice networks, publications and training courses. (See case study 6) The dedicated SBRI team at Innovate UK are an important source of advice to councils contemplating PCPs [www.gov.uk/government/organisations/innovate-uk](http://www.gov.uk/government/organisations/innovate-uk) and [www.gov.uk/government/collections/sbri-the-small-business-research-initiative](http://www.gov.uk/government/collections/sbri-the-small-business-research-initiative). They offer template documentation for organising competitions and model contracts that have already been checked for full compliance with the regulations. However, they told us that running a more structured knowledge sharing network was not a specific part of their remit but that the results of competed projects were available to be shared.

A number of respondents also felt that very positive outcomes could be generated by more collaborative procurement between authorities. There are no formal mechanisms for councils to promote their market scoping and pre-tendering work to other authorities albeit that many councils undertake this work informally. Combined working could encourage better responses from potential suppliers and also encourage the dispersion of innovative techniques more widely. Best practice would be disseminated much more quickly by identifying 'best practice' authorities with experience of PPI, who would be linked to authorities who wish to learn from their experience. If councils join together to create a single common shared procurement, then the cost to each council becomes more affordable.

## Case study 6

### Comprehensive innovation networks

European Commission funding has supported two comprehensive networks linking commissioners, suppliers, and researchers engaged in public procurement of innovation. The networks are EAFIP (European Assistance for Innovative Procurement) and the Procurement of Innovation Platform. Both platforms encourage exchanges of best practice through information sharing tools, with news feeds on contract opportunities. They also offer comprehensive guidance on innovative procurement practice, backed by training packages. EAFIP offers practical support to selected projects. For more information see <http://eafip.eu/about/>

contracting costs and attract suppliers with the prospect of larger and more attractive customers. Large scale applications for new technologies would reduce deployment costs and encourage more ambitious offers. Government, working through Innovate UK or other agencies, would find it more efficient and effective to invest in support programmes on a larger scale. This is a possible role for combined authority structures, which would be effective in encouraging participation, sharing knowledge and monitoring outcomes. Local enterprise partnerships could become involved in innovative public procurement hubs. The Industrial Strategy Green Paper [www.gov.uk/government/consultations/building-our-industrial-strategy](http://www.gov.uk/government/consultations/building-our-industrial-strategy) mentions the idea of dedicated regional innovation budgets which could be deployed to support innovative procurement challenges. English regional 'innovation platforms' could be used to provide the funding coordination and promotion achieved by the devolved administrations.

## Partnership working

Our case study work has shown that some of the best practice deployments of local government PCP projects are in Wales, Northern Ireland and Scotland. In Europe, Tuscany and Flanders are cited as best practice beacons. In these cases, a regional innovation team has promoted innovative procurement to local municipalities or service providers, and supported them with expertise and funding in developing PCP competitions.

In Tuscany, the regional health service managers set targets for innovative activities and followed them through. In Flanders, the region set up 'an integrated procurement process covering the complete path starting from the political ambitions to the final commercial procurement'. An 'innovation platform' was established to act as a focal point for market scoping and technology foresight. This platform was then used to coordinate pre-commercial procurements within local authorities.

(See case study 7)

In English councils, sharing procurement challenges between authorities would spread

## Case study 7

### Innovation platforms to integrate PPI into regional policy goals

The Flemish Government launched its first programme to promote innovative public procurement in 2008, followed by a second, more ambitious programme in 2016. As part of its overall goals for competitiveness and enhanced public services, the Government is promoting PCP and PPI as a mainstream policy instrument. It has identified key sectors where it wants to see public authorities deploy more innovative solutions. In those areas, open market consultations will facilitate market interactions with user and provider. The resulting priority projects, where public authorities could work together will be offered funding to validate innovative solutions (via PPI) or to launch new PCPs. The programme will support procurers with launch planning, building contract management capabilities and will monitor outcomes.

## Adequacy of policy frameworks

In our interviews we encouraged respondents to share their views about the legal framework in which public procurement operated and whether it was an inhibitor or an encouragement for innovation. A majority of responses did not identify legal restrictions that inhibited innovative practices. The main issues to be overcome were those of culture, procedure, and processes, as identified in the earlier chapters.

While this may seem to be encouraging news for policymakers, it was disappointing to find that the procedures available to encourage more innovative procurement were relatively unknown. PCP and the work of Innovate UK has certainly had some traction. However the fact that the encouragement of innovation was embedded into PCR 2015 has not been extensively recognised, and the Innovative Partnership, the one really new tool, remains largely neglected. The new instrument also appears to have very rigid criteria that severely limit its use.

In contrast, the Public Services (Social Value) Act was widely recognised and understood. But the deployment of innovation as a policy and procedure to deliver social value outcomes is barely mentioned as a beneficial outcome.

The responses to our policy questions confirm the conclusions that we had drawn from examining all the various policy instruments. Public procurement is not perceived as a coherent, dynamic, and effective policy instrument for encouraging innovative solutions and competitive suppliers. The inclusion of a procurement chapter in the Industrial Strategy Green Paper is a welcome start to changing this perception.

A significant problem for policy-making in innovative public procurement is the lack of data on innovative activities and no quantified information to direct practitioners to the optimum contract and organisational structures.

# Next steps

We have made a number of recommendations and follow up actions for NAG and for councils, especially in the areas of best practice and information sharing. We would be pleased to contribute to any initiatives following on from this report.

We noted the lack of quantitative data on the deployment of innovation in public procurement, and suggest that this be followed up urgently.

We plan to produce more practical guidance for councils in 2018, and will ensure innovation is a major part of the new national procurement strategy planned for then.

We hope that a future report, benefiting from more data and cases studies, may show that innovative solutions are being widely deployed in local authorities, and that citizens are benefiting from more efficient and more effective services.

The group will follow up on the recommendations from this report by:

- promoting the role of local government in setting out a robust policy framework
- developing project leadership and advocacy by active innovative procurement practitioners, and
- promoting innovative approaches to raise awareness of the issues and benefits of embracing innovative commissioning/ procurement approaches and tools to promote best practice.

## Annex 1

### Membership of the group

Malcolm Harbour CBE	Independent Chair of the Group
Mark Saunders	Ferrovial Services
Ian Millard	Innovate UK
Haydn Brown	Birmingham City Council
Jackie Homan	Birmingham City Council
Liz Welton	Coventry City Council and
Darren Knowd	Durham County Council
Terry Brewer	London Boroughs of Harrow and Brent
Martin Strawson	Oxfordshire County Council
Peter Schofield	Association of Greater Manchester Authorities
Wayne Welsby	Wiltshire County Council
Phillip Hodgson	Crown Commercial Service
Peter Bennett	Cabinet Office
Tina Holland	Local Government Association
Sadie Duffell	Local Government Association

## Annex 2

### Project objectives

- To examine the challenges that are presented in the procurement of innovative solutions
- To capture the interest at leadership level of the opportunities for public procurement of innovation (PPI)
- To consider how the new procedures, working alongside pre commercial procurement set out in the Public Contracts Regulations 2015, can offer a catalyst to the promotion of innovative solutions for councils
- To identify and promote the benefits of PPI as a methodology over and above traditional processes to deliver products or services that can offer real advances in service provision
- To map the potential external partners and funding sources that may be available for authorities wishing to consider a PPI approach
- To set out the opportunities and risks of the Innovation Partnerships process compared to a conventional procurement, and the characteristics of projects for which it is best suited
- To identify any obstacles and find ways of overcoming these
- To examine the intellectual property implications and where shared intellectual property for jointly developed innovations could yield future income to the contacting authority
- To consider practical examples or scenarios of where PPI can be applied and work through the scenarios
- To consider what additional skills might be needed for practitioners
- To publish the findings for wider learning
- To identify a real opportunities to be tracked using PPI

### Project outputs

- Summary report/findings reflecting different functions, with an executive summary aimed at Chief Executive/leaders
- Consider innovative way of distributing the learnings/findings – video, infographics etc.
- Roadshow or variety of delivery channels inside and external to LGA
- Identification of next steps

## Annex 3

### List of interviews and visits

Organisation	Point of contact	Role	Task and Finish team contact
<b>Business Services Association (BSA)</b>	Peter Campbell	Policy Advisor	Tina Holland
<b>Future Cities Catapult</b>	Scott Cain	Chief Business Officer	Ian Millard
<b>Amey</b>	Andy Milner	CEO	Mark Saunders
<b>Sheffield City Council</b>	Marianne Betts	Head of Commercial Services	Liz Welton
<b>Greater London Authority</b>	Andrew Gollinge	Assistant Director, Intelligence and Analysis	Mark Saunders
<b>Ferrovial Services</b>	Iñigo Jodra	Director, Centre of Excellence for Cities	Mark Saunders
<b>Citymart</b>	Sascha Haselmeyer	CEO	Mark Saunders
<b>BT</b>	Mark Harrop	Business Development Director	Mark Saunders
<b>Manchester City Council</b>	Stephen Turner	Head of Future Cities	Mark Saunders
<b>Coventry City Council</b>	Dr Martin Reeves	Chief Executive. LGA Procurement sponsor	Liz Welton
<b>European Commission</b>	Various		Malcolm Harbour
<b>Balfour Beatty</b>	Mike Reade	Director	Tina Holland
<b>Trowers and Hamlyn</b>			Malcolm Harbour
<b>University of Birmingham</b>	Jonathan Jones	Assistant Director Finance (Procurement and Insurance)	Haydn Brown/ Malcolm Harbour
<b>Catapult Projects</b>	Various		Ian Millard
<b>Crown Commercial Service</b>	Malcolm Harrison and Sam Rowbury	CEO and Head of Policy	Malcolm Harbour/ Tina Holland
<b>Encraft</b>	Matthew Rhodes		Malcolm Harbour
<b>Durham County Council</b>	Catherine Johns	Innovation and Business Growth Director	Malcolm Harbour/ Tina Holland
<b>Cardiff City Council</b>	Gareth Harcombe	Operations Manager, Energy and Sustainability	Malcolm Harbour
<b>Arup</b>	Peter Cooper and Steve Turner	Research Engineer/ Associate	Mark Saunders

# Annex 4

## Interview questions

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### 1. Councils and procurement/ commissioning

In this section we were looking to understand the current perception of innovative practices.

- Do you think local authorities are innovative?
- What do you think is the role/purpose of innovation in public procurement?
- What would be your definition of innovation in the context of public procurement?
- What do you think is the role of public procurement in enabling organisations to be more innovative?
- How can commissioners promote greater innovation to achieve outcomes?
- In your opinion, has there been a trend for councils seeking more/same/less innovation in the last 5 years?

#### Additional questions for councils

- How is service delivery structured in this council? For example, would you say your council is a 'commissioning council' do you focus on 'commercial' thinking?
- What are the key objectives for your procurement function this year?
- Do they include the encouragement of innovation?
- In your market shaping or market development activities, how is innovation taken into account?

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### 2. Innovation

This section sought to explore what makes something innovative and how can greater innovation be enabled

- Does innovation bring risk/opportunity/both
- Which contracts/spend areas that councils manage should innovation apply to?
- Whose responsibility is it to lead on innovation? Commissioners, procurers, tenderers, contractors, Members, other stakeholders?
- To what degree would you say that specifications are still input based, or is there a clear shift to procuring for outcomes?
- What, in your opinion, are the barriers to demanding innovation in service procurements?
- How would you encourage councils to embrace innovation as a key tool?

#### Additional questions for councils

- Is innovation seen as an integral requirement of the process or an added extra/luxury?
- To what extent do the financial pressures necessitate innovative thinking, or present difficulties eg is innovation seen as a risk in adding or reducing cost?

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### 3. EU regulations/directives

This section ought to clarify the understanding and impact of the Public Contract Regulations 2015.

- Are you aware of the updated regulations for EU procurement? In particular are you aware of any councils or wider public sector bodies who are looking to use the Innovation Partnerships procedure?
- Do you consider the new rules are adequately understood or considered by council procurers and commissioners?

- Have you noticed any new practices or behaviours relating to innovation since the Public Contracts Regulations 2015 came out?
- Have you made any changes in your own behaviour since PCR2015 came into effect?

#### Additional questions for councils – competitive dialogue and PCP

- EU procurement legislation has enabled innovation in procurement for many years. For example through the PPI route or through pre-commercial procurement (PCP)
- Are you encouraging more use of competitive dialogue under the new rules?
- Does the use of competitive dialogue encourage more innovative solutions?
- Are the rules for the application of non-price factors clear, or are more guidelines and standards needed?
- Would you consider pre-commercial procurement involving competing technology providers?
- Does competitive dialogue enable you to work more closely with your internal customer in delivering optimum solutions?

#### Additional questions for councils – innovation partnerships

- Are you aware of the Innovation Partnerships tool in the new directives?
- Have you ever used IP?
- What encouraged/will encourage you to use IP or what has stopped you using IP?
- What, in your opinion, would encourage further use of IP or do you not support it?

#### 5. Additional questions for councils – capacity, skills and resources

- Do your procurement specialists or your customers have the knowledge and skills needed to generate and procure more innovative solutions?
- What skills are needed and how should they be developed?
- Are you aware of any external sources of expertise and funding?
- Are you working with any external partners, such as universities or innovation agencies?
- Is innovative procurement an area in which you would consider partnerships within the UK or within the EU?

#### 6. Other

- Are there any additional comments you would like to make?
- Are there people that you would advise we talk to in our project?

## Glossary of terms

A number of abbreviations are used throughout the report, and a number of organisations are referred to by their 'acronyms'. To assist the reader, these are summarised here.

### **Commissioning**

the process of ensuring that outcomes identified in a needs analysis, are delivered through the right service, and the right models of delivery (whether public, private or other sectors through voluntary service sector, or through social enterprises)

### **Industrial Strategy Green Paper**

the UK Government Green Paper, 'Building our Industrial Strategy' published in January 2017. Comments were invited up to April 2017. The conclusions are expected to be published later in 2017. The paper included a chapter on 'Improving Procurement'

### **Innovate UK**

Innovate UK is the UK's innovation agency. It works with people, companies and partner organisations to find and drive the science and technology innovations that will grow the UK economy.

### **Innovation Partnership**

The Innovative Procurement Partnership as transcribed into the Public Contract Regulations 2015

### **Innovative Procurement Partnership**

A new procurement procedure introduced in the 2014 EU Procurement Directive. It enables a contracting authority to agree a staged contact with a prospective supplier, covering proof of concept, demonstration and deployment of an innovative solution.

### **LGA**

Local Government Association

### **NAG**

National Advisory Group for Local Government Procurement

### **PCP**

Pre-commercial procurement, the procedure that enables a contracting authority to organise a competitive technology challenge. Prospective suppliers submit ideas to meet defined needs, and the winners are invited to develop their concepts into demonstrators.

### **PCR 2015**

Public Contracts Regulations 2015

### **PPI**

Public Procurement of Innovation. Processes specifically designed to prioritise the innovative content of proposals, above all other criteria.

### **Procurement**

the process of acquiring goods, works and services. It includes acquisition from third parties and also from in-house providers. The process spans the whole cycle from identification of needs, through to the end of a service contract or the end of a useful life of an asset. It involves early stakeholder engagement, assessing the impact on relationships and linkages with services internally and externally, options appraisal and the critical 'make or buy' decision and determining the appropriate procurement strategy and route to market.

### **SBIR**

Small Business Innovation Research, the pre-commercial procurement programme operated by the US Federal Government

### **SBRI**

Small Business Research Initiative, the UK pre-commercial procurement support programme operated by Innovate UK

### **Social Value Act**

Public Services (Social Value) Act that requires organisations who commission public services to consider how they can also secure wider social, economic and environmental benefits

### **SOPO**

Society of Procurement Officers





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