

MAKING SPEND MATTER

SME Engagement Case Study

Koszalin

Koszalin



INTRODUCTION

About Making Spend Matter

The **Making Spend Matter Transfer Network**¹ is one of 23 transfer networks funded through the **URBACT Programme**². Generally, the transfer networks are seeking to transfer an **URBACT identified piece of Good Practice**³ associated with integrated urban development to other cities across Europe.

In the case of Making Spend Matter, the identified good practice is around the process of public procurement and particularly a methodology called spend analysis which enables cities to measure where their procurement spend goes and subsequently work in cooperation with other partners and the market to progress the way in which they undertake procurement policy and practice.

The spend analysis good practice has been developed by the City of Preston in the United Kingdom over the course of the last seven years. Over the course of the last two and a half years as part of the transfer network, Preston has sought to transfer the principles and practice of the methodology to six other cities: Pamplona (Spain), Vila Nova De Famalicão (Portugal), Schaerbeek (Belgium), Kavala (Greece), Bistrița (Romania), and Koszalin (Poland).

About the Making Spend Matter Toolkit

The Making Spend Matter Toolkit (www.preston.gov.uk/makingspendmattertoolkit) brings together guidance and learning from the network to enable other public organisations and cities to start / continue their own strategic procurement journey.

The Toolkit comprises four parts:

- The first part explains how public organisations can take a more strategic approach to public procurement to help them deliver positive impact on their communities, economy and environment.
- The second part provides a spend analysis tool (produced by CLES, the Centre for Local Economic Strategies in the UK) and guide (produced by Making Spend Matter partners) to help cities analyse their procurement spend in terms of geography, sector and with different types of suppliers, and interpret their findings to help inform where changes can be made to procurement processes.

¹ www.urbact.eu/making-spend-matter

² www.urbact.eu/

³ www.urbact.eu/good-practices/home

- The third part provides tips and guidance through a series of Frequently Asked Questions (FAQs) and infographics on a range of topics from how to develop a strategic approach to public procurement, increase your engagement with SMEs, embed social and environmental criteria and measure the wider impact of your procurement activities.
- The fourth part provides practical examples on the topics highlighted in parts two and three and other activities which partners engaged in during the lifetime of the Transfer Network.

About these Case Studies

Each partner city has had the opportunity to participate in optional transfer activities in relation to the topics of advanced spend analysis, developing strategic procurement plans, business database development and SME engagement, and social and environmental criteria. These activities were either delivered through bilateral meetings between smaller groups of partners with the support of a Lead or Ad Hoc Expert, or bespoke one-to-one individual partner meetings with the support of the Lead Partner, Preston, and the Lead Expert. After these meetings each of the partners undertook further activities to implement what they had learned.

Each case study which follows here, covers one of the elements of the optional transfer which partners participated in according to their own contexts and needs. Engaging with Anchor Institutions⁴, the topic of one of the case studies, was not a separate activity in its own right, rather it was a golden thread running through the Transfer Network around the importance of engaging more widely with other institutions in order to maximise the impact of public procurement on place.

The case studies are designed to be practical in nature for cities who are undertaking their own procurement journey, whether they are just starting out or have already embarked on it. The case studies follow the same format, outlining the context of each city, why the activity is important to them, the barriers they faced, the activities they undertook, what worked well, what did not work so well, and lessons learned.

⁴ These are large, often public sector institutions, that are important because they spend a great deal of money buying goods and services, they employ lots of people, they own lots of land and assets, they often have democratic mandate, and they are unlikely to go anywhere.

Koszalin Context:

The City of Koszalin with over 107 thousand residents is the second largest urban centre in the West Pomeranian Province. It is located by the Baltic Sea coast in the north-west part of Poland. The City is an area of a sub-regional significance and it possesses a diversified economy with a special industrial economic zone, a well-developed sector of services and trade as well as companies with an export potential.

However, in spite of the low unemployment rate⁵, the level of wages, the purchasing power as well as the living standards of the residents of Koszalin still considerably and adversely differ from the level which is characteristic of the “old” European Union Member States, and this disparity is decreasing at an unsatisfactory pace.

Demographic changes due to low birth rates and a negative balance of migration (mainly of young people) resulting in the progressive ageing of the City’s population constitute a serious long-term threat. The prevention of depopulation is one of the greatest challenges in the coming years (according to the current forecast by the Central Statistical Office, Koszalin will have had merely ca. 89 thousand of residents by the year 2050 as compared to the present 107 thousand).

Further growth and economic attractiveness are both important to stem (and even reverse) this decline. One possibility is to harness the potential of public procurement, because of the important role it plays in the economy. Through increased awareness of to how to use public procurement to bring about wider economic and social benefits to both the City and SMEs, procurers can use this market to a greater extent than they currently do, which in turn will contribute to better living standards and a limitation on the current unfavorable demographic trends.



What follows reflects a five year journey⁶ to date in encouraging SMEs to engage further in public procurement in Koszalin, and it is not one which is finished yet. Many of the challenges and barriers identified are common across Europe no matter where the city is located and where that city is on its journey to better engage with SMEs. This case study seeks to act as an inspiration to others and provide information on what action Koszalin has taken and the lessons learned along the way.

⁵ The unemployment rate is currently rising due to the impact of COVID-19

⁶ This journey began in 2015 when the City of Koszalin became a partner in the URBACT EU funded Action Planning Network, Procure (also led by the City of Preston) and identified a number of barriers / challenges faced by SMEs in relation to accessing public procurement in Koszalin

Why Engage with SMEs:

Koszalin has employed exactly Preston's good practice methodology and exported all Municipality of Koszalin Office's non-salary expenditure in 2018 to MS Excel (about 5000 records, divided into 767 individual suppliers). Locality was determined based on contractors' addresses and postal codes.

To their positive surprise, it turned out that out of PLN 96 million (EUR 23 million) of the funds from the Municipality Office spent in the financial year, as much as 83% of the funds were used by local contractors, that is the money remained in Koszalin and its Functional Area. As many as 91% of city's suppliers were micro, small and medium sized enterprises.

The largest gaps in expenditure were identified in construction works, supplies regarding maintenance (e.g. IT, furniture, specialist equipment) as well as external expertise and consulting services.

Barriers / Challenges:

Through undertaking surveys with their businesses, maintaining an ongoing dialogue with business representative organisations, and discussions both internally and externally with other public sector organisations in Koszalin, the City has identified the following as the most common problems their businesses face:

Contract Price: Price is the dominating criterion; procurers engage in price-cutting wars which results in the lowering of contract values and consequently low salaries in the contract.

High requirements: High requirements in the specification, e.g. too high financial guarantees or experience (at least three years, or five in the case of construction contracts) and contract scale often mean that large businesses are favoured over SMEs because they are better placed to provide these.

Non-price criteria: In order to meet the legal requirement regarding non-price criteria, artificial criteria are often used, e.g. the contract delivery date or the warranty term. There is a lack of experience across all businesses (large or small) in the use of social or environmental criteria which would benefit the local economy.

Other problems experienced by businesses include:

- The lack of an IT system to inform entrepreneurs about bidding opportunities in the region;
- The low statutory threshold for contracts in the sector of construction works;
- Unwillingness to use statutory negotiating forms (e.g. pre-procurement engagement);
- Insufficient awareness of local businesses of the possibility of participating in local public contracts;
- The lack of potential of local businesses to form consortia to win larger contracts (e.g. especially construction companies);
- The low competitiveness of the local business due to the small scale of their activities.



Actions taken / changes made:

Over the last five years the City of Koszalin has undertaken a number of actions which include:

- Bringing together local stakeholders, both public procurers, and private enterprises, in one group to learn from one another about the barriers faced by both;
- Developing the use of non-price criteria including social criteria;
- Increasing awareness among their SME base regarding local public procurement opportunities;
- Increasing the capacity of SMEs e.g. through training (see below);
- Raising awareness among public procurers of the existing SME base through the Internet Local Business Catalogue (set up in 2006 by the Innovation and Enterprise Centre Foundation and regularly updated);
- Planning on how to use the opportunities offered by the new public procurement law instruments which will come into force on January 1st, 2021 to support participation in the public procurement process on the part of micro, small and medium sized companies.

Capacity Building Training for SMEs:

As mentioned above, as part of the actions to increase SME engagement in public procurement, training has been undertaken to build the capacity of the SME base.

Whilst the City of Koszalin has provided a number of capacity building sessions to both public procurers and SMEs since 2015, two training sessions have been undertaken in the framework of the Making Spend Matter Network, the first of these was in October 2019 and the second in November 2019.

The first session was organised by the City of Koszalin, Koszalin Chamber of Industry and Commerce and the Foundation for Innovation and Entrepreneurship (all stakeholder group members) and focused on sharing the City of Koszalin's spend analysis and Making Spend Matter Network findings: sharing good examples of Koszalin companies (e.g. construction and stationery suppliers) who have successfully bid for and won Koszalin-based tenders (to encourage greater engagement in the market); and discussing common barriers and possible solutions.



The second training session was organised by the Foundation for Innovation and Entrepreneurship and conducted by a legal company specialising in public procurement law in order to increase SME knowledge about Polish public procurement law and skills in the area of bidding for tender opportunities.

A further session is being planned on the topic of the new Public Procurement Law which, as mentioned above, comes into force on January 1st, 2021, in order to train and prepare public procurers. The new legislation includes a comprehensive package of tools, for example:

- streamlining procedures and lessens bureaucracy;
- catalogue of prohibited abusive clauses;
- compulsory price indexation for contracts that exceed a period of one year;
- advance payments;
- conciliatory procedures to settle disputes.

What worked well:

- fruitful cooperation with identified key stakeholders;
- integrated approach and complex action plan tailored to local context;
- raising SMEs awareness and strengthening their competences.

What worked less well:

- hard to innovate in meticulously regulated area;
- increasing the number of stakeholders involved;
- sustaining momentum weakened by Covid-19 pandemic outbreak.

Lessons learned:

- Change takes time - it is an ongoing process;
- Relationships take time to build;
- There is no right or wrong way to engage with SMEs;
- Pushing boundaries is good but there are some things you don't have control over, e.g. the law, and you have to learn to work with what you are able to.



Making Spend Matter is a network of 7 European cities, funded through the URBACT III Programme and the European Regional Development Fund, exploring how spend analysis can be used as an evidence base to improve public procurement and deliver wider benefits to communities and places.