

Shortening supply chains

Roads to regional
resilience



Executive Summary

When we began researching food supply chains in 2018, we recognised that the overwhelming economic imperative driving developments for many years had been price reduction. So effective had this been, that food in the UK had never been, in relative terms, cheaper (just 8.2% of household expenditure in 2017 according to Eurostat); and in global terms, UK food prices were amongst the cheapest in the world. Whilst short supply chains for sustainably produced, regionally sourced food had also been developed, they could not compete on price with the dominant model of global sourcing and centralised processing and distribution. These regional, shorter supply chains have come to be seen as niche markets, unlikely to move into the mainstream. However, suddenly two crises have arisen each presenting a huge systemic challenge to this orthodoxy.

The impact of the COVID-19 pandemic, has been to highlight the fragility of long supply chains, and, suddenly and alarmingly, demonstrated fundamental weaknesses in the assumptions underpinning them (- more actors and stages in the chain provide more opportunities for things to go wrong). The likely consequences of the pandemic could and should include a recognition of the need for greater connection to sustainable and regional food producers, even if that means slightly higher prices in exchange for greater food security. Professor Tim Lang, of London City University, has calculated that eight companies control 90% of UK food supply,

and states that 'the British state is failing us by not de-centralising'¹.

Secondly, the declaration of a climate emergency by Parliament, coupled with the raising of awareness of climate change by initiatives such as Extinction Rebellion in recent months, which was already changing consumer attitudes to food and farming systems. Online sales from UK organic farms grew at over 11% between 2018 – 2019 and suppliers are now struggling to accommodate demand as a result of the current crisis.

The potential for growth for shorter supply chains through direct sales of food is enormous, with large online retailers moving into the sector. However, we have identified small UK businesses actively innovating in this area too, but in a way that allows small scale, regional and sustainable production to flourish. These businesses could hold the key to establishing strong connections between food producers and consumers in ways which empower both, and which could, with public policy support, revitalise regional food production, national resilience, and reverse the impact of the food sector on climate change and biodiversity.

There is a significant role for the public sector to play in growing the regional and sustainable food sector. Sourcing food from this sector will contribute to climate change mitigation in supply chains, and also bolster local economic resilience (as much as £3 in

social, economic and environmental value for each £1 spent)¹.

Expanding public procurement of sustainable and regional food will lead to greater opportunities for the development of local infrastructure, though there is a further challenge to develop appropriate processing infrastructure and sector

Introduction

This report, funded by Friends Provident, highlights businesses and organisations that have developed innovative short supply chains to provide communities with more affordable access to regional and sustainable food whilst enhancing return to producers and increasing local economic resilience.

Focusing on both public sector and home retail markets, this report identifies supply chain innovations that have the potential to increase the affordable availability of sustainable and regional food to all sectors of society.

Using examples of their endeavors the report makes the following recommendations to support the upscale, and development of, short sustainable supply chains:

capacity. Local Authority and National Planning Policy has a role here. Innovations in supply chain aggregation, through IT and improved communication networks, can now make public procurement contracts easier for small businesses to fulfill, as well as supporting local businesses to access retail and home delivery markets through regional food hubs.

1) National and Local Governments incentivise sustainable food sourcing and the development of short food supply chains in the public sector

2) Government recognises and pays for the 'public goods' delivered by sustainable and regional food production

3) Local government supports the development of regional food supply infrastructure as part of its climate change mitigation strategy

4) Investment is made in facilitating the co-ordination and mapping of local food producers in pilot areas, where public procurement bodies are willing to prioritise procurement of local, sustainably produced foods

5) Local food hubs are supported to improve IT and logistics capability

Public sector supply chains: innovation in action

Innovations in procurement practice are creating new opportunities for short supply chains and sustainable sourcing in the public sector. These include the introduction of new Dynamic Purchasing Systems (DPS) - see page 5 - and voluntary standard schemes. Our findings suggest that the success of these schemes are dependent upon local advocacy and political support, stakeholder and market engagement and the development of closer relationships between food procurers and regional producers.

Public procurement of food in the UK is worth around £2bn per year³, of which approximately 75% is food eaten in schools, hospitals, care homes and the wider social care sector. The procurement of more regional and sustainably produced food by the public sector has the potential to offer more sustainable food to a full range of socio-economic groups, supporting communities who are often some of the most vulnerable in our society. This will stimulate investment in regional supply chain infrastructure to increase the volume of food going through shorter supply chains; increase food security; and create regional markets for small and medium producers and other supply chain actors.

Challenges in public sector supply chains

Public sector food supply chains are complex and are associated with the following challenges that can affect the

procurement of regional and sustainably produced food:

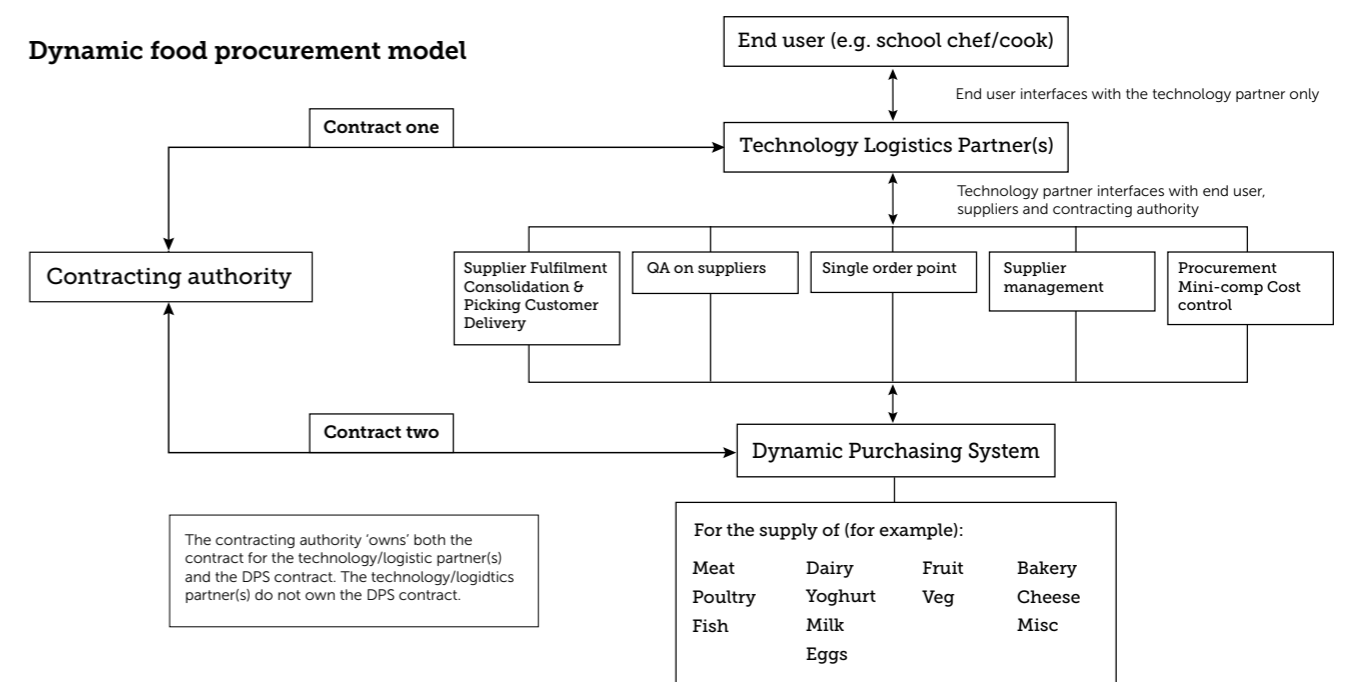
- There are no regulatory requirements for public sector organisations to procure food that meets sustainability or regional sourcing requirements. Voluntary standard schemes do exist, such as the Government Buying Standards but these are only mandatory for Central Government Departments. Instead good practice tends to be incentivised by voluntary schemes such as the Government's Balanced Score Card and the Soil Association's Food For Life Served Here Award.
- Cost pressures, complex procurement regulations and high food volume requirements mean most public sector organisations source food from major food service providers. Often these long and centralised food supply chains, through their requirements, restrict access for smaller businesses.
- Traditional procurement models are usually let in "lots" via fixed term contracts with in-built extension periods. Once a contract has been let, no other suppliers can be used for the period of the contract. In addition, only suppliers of the size which can guarantee to supply the specified requirements across the term of the contract will be successful. High volumes and large product range requirements effectively lock out smaller and regional suppliers who are unable to meet the criteria.

Innovation in action: Dynamic food procurement

Dynamic Purchasing Systems (DPS) are a legally compliant form of public sector procurement. Unlike "traditional" procurement, a wide range of suppliers, no matter their size, can have flexible access to a contract at any stage through its duration, providing they meet the organisational and quality elements set by the contracting authority. For example, a carrot grower, who produces set volumes of product and cannot produce all year round, should be able to sell their produce when available and not be penalised when they run out. This system has the added advantage of potentially lowering cost production when there is a glut.

Dynamic food procurement describes a method of utilising DPS to make it effective, both in cost, ordering and logistics. It includes the use of a technology and logistics provider that links up the procuring authority, the suppliers and the end users. Doing so mitigates some of the risks associated with a food supply DPS such as increased work for the procuring authority and an increase in small deliveries by some suppliers. Dynamic food procurement focuses on working with local suppliers thus ensuring short, efficient supply chains.

The diagram below indicates the roles and relationships:



Piloting dynamic food procurement in Bath and North East Somerset

Local political context

After much deliberation and market engagement, Bath and North East Somerset Council (BANES) adopted dynamic food procurement when re-letting a food contract for approximately 42 school kitchens producing meals for 60 schools. The previous contract was a traditional framework contract, broken into various lots; e.g. dry goods, fresh meat, fresh fruit and vegetables. The alignment and adoption of two key Council strategies (local food and procurement) and a change in the EU procurement regulations (making a DPS easier and more accessible than before) provided the local policy incentive to adopt this innovative approach.

Appointing a technology and logistics partner

Fresh-range were awarded the contract for the technology and logistics provider. At the time, Fresh-range were a very young company providing an online ethically and locally sourced online retail outlet. However, their technology platform proved to be adaptable to handle more complex public sector procurement. Once they were appointed, the DPS for fresh meat, fruit and vegetables was opened up and it went live in time for the start of the school

year in September 2016. Following market engagement, a range of large and small, local producers signed up as suppliers to the contract.

Key benefits

- **Reducing carbon emissions:** Significant and instant reductions in carbon emissions were made due to improvements and efficiencies in deliveries. Stricter delivery requirements reduced trips and a food hub based in Bath and North East Somerset meant less mileage to schools. Fresh-range collected from suppliers once they had finished their school runs, effectively never having an empty van on the road.
- **Cutting costs and time:** Online ordering by school cooks reduced the time spent placing orders with multiple suppliers and negated any up-selling to the schools by suppliers. Cooks were encouraged to use more cost-effective and seasonal alternatives where appropriate. Costs were kept in control by the use of mini-competitions and the delisting of products if they became unreasonably high. The DPS helped to identify opportunities to

The alignment and adoption of two key Council strategies and a change in the EU procurement regulations provided the local policy incentive to adopt this innovative approach.

switch to products with higher ethical or environmental credentials without impacting significantly on cost. For example non-organic chicken breast was switched to organic chicken thighs which were cheaper and delivered on organic sourcing requirements.

- **Supporting small suppliers:** Smaller suppliers could enter the DPS with just one or two products, e.g. carrots and kale, at the volumes they had available – and that did not negatively affect their standing on the contract. A mix of large and smaller suppliers were needed as there were times when smaller local producers couldn't fulfil the whole volumes of an order.



Images: Producers picking at Farringtons (top and middle), and Fresh-range delivering their catering boxes (bottom)



Image: Fresh-range delivering to a chef

Roll out of dynamic food procurement in the UK

A Dynamic Food Procurement National Advisory Board was established including staff from key government departments, Fresh-range and the Soil Association. Crown Commercial Services are putting in place a model for dynamic food procurement on a national scale, which will go live towards the end of 2020 in the pilot area of the South West of England focusing on fresh meat, fruit and vegetables.

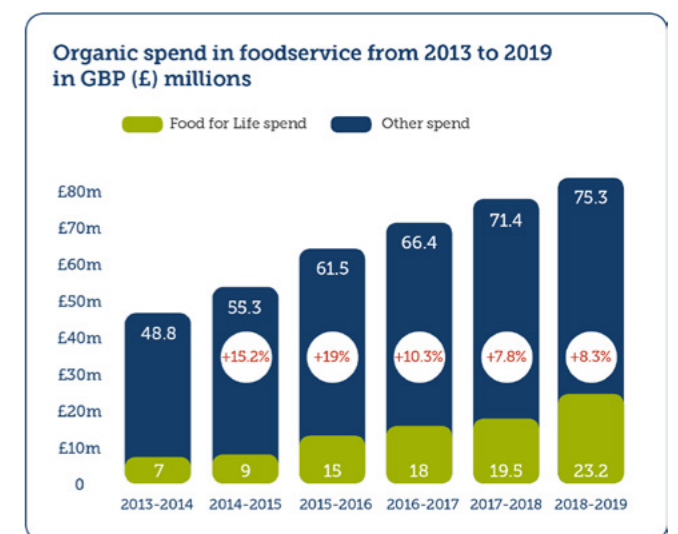
The year-long pilot will be evaluated and then rolled out across the whole of the UK. Rather than being counted as one area, the UK will be split into 14-17 areas. This will enable smaller, local suppliers, who perhaps

cannot supply a massive contract, to be involved, but will also allow larger suppliers to be involved where scale of demand requires them (e.g. HM Prisons).

It is expected that this arrangement will transform public sector food procurement through significantly shortening supply chains, ensuring food quality and provenance, greater visibility and cost control, carbon emission reduction and support for suppliers local to the area.

Innovation in action: Using voluntary standard schemes to improve sustainable sourcing

The introduction of voluntary standard schemes has improved sourcing of sustainable food in the public sector. The Soil Association's Food for Life Served Here (FFLSH) is the leading voluntary standard scheme assuring almost 2million meals per day in the public sector. This scheme rewards settings for providing fresh, healthy meals prepared from ethical and locally sourced ingredients. In 2019, £23.2 million was spent on organic in Food for Life settings, an increase of 19% from spend on organic through the scheme in 2018.





Leicester Trading Services. Increasing organic sourcing

Leicester Trading Services (LTS), a local authority caterer, serve over 33,000 school meals to more than 230 schools across the Midlands. They have recently achieved the prestigious Gold Food for Life Award³. The requirements include a minimum 15% spend on organic food across their menus alongside other ethical and local sourcing requirements.

Working in partnership with a procurement body, they have increased organic and ethical sourcing by switching suppliers and changing their sourcing policies. They have had strong political support and buy in for this approach; Leicestershire County Council have recently declared a

state of climate emergency and joined the Sustainable Food Cities Network. Despite their recent successes, LTS are keen to shorten supply chains further and source more regional food. However, they have encountered several challenges, including apprehension from producers about procurement legislation and documentation for the required volumes of supply. Further coordination and facilitation is needed to support both producers and procurers to overcome the barriers that restrict smaller suppliers access to supply contracts.

Key learnings

Political support at a high level is needed for change and improvements to existing supply chains to take place. The role of key advocates within procurement teams is critical to drive change and champion engagement with smaller, regional businesses. Generating buy in from all stakeholders including politicians, cooks, and parents is essential, together with market engagement at the start of the pre-contract phase.

Public sector supply chains are complex and subject to stringent legal regulation which can restrict access for smaller producers. Dynamic food procurement offers a solution that adheres to strict legal regulations whilst overcoming some of the inherent barriers preventing smaller businesses supplying the public sector. Dynamic food procurement enables a mix of small and large suppliers to fulfil contracts, enabling access to smaller suppliers whilst ensuring volumes for larger orders are met.

Appropriate resource is needed to engage smaller growers and producers. Smaller businesses are not familiar with procurement documentation and processes and a degree of handholding and signposting is required.

Innovation in action: Food hubs

What is a food hub?

One definition of a food hub is: "entities that sit between people who produce food and people who use it, gathering food from growers and distributing it to commercial customers or directly to consumers⁵."

Food hubs are different from – and in many cases are deliberately set up as alternatives to – wholesalers that perform similar functions in the mainstream food system⁶ and typically aim to increase supply and demand of more regional and sustainably produced food.

How do they work?

There are a range of different food hub models which work in a variety of ways, yet often share key characteristics:

- they focus on helping small-scale suppliers find markets; and operate within an explicit ethical framework
- they can fill gaps in local food infrastructure
- help consumers find locally sourced produce
- support new forms of food retail
- incubate food enterprises
- create a space for community action⁷

The opportunities, benefits and potential they provide

Food hubs offer added value and efficiency in supply chains. The creation of food hubs is helping to improve logistical efficiencies, alongside upscaling local supply and driving down overall cost. They support producers to gain entry into new and additional markets that would be difficult or impossible to access on their own by coordinating delivery, logistics and orders. Food hubs can also provide services like marketing and sales⁸ whilst providing consumers with more choice and easier access to more sustainably produced food.

Food hubs constitute the fastest growing outlet for organic food, this is especially true for home delivery which grew 11.2% in 2019 compared to just 2.5%⁹ growth in supermarkets.

Examples of UK based food hubs

The Better Food Shed. Innovation in co-ordination and communication within a sustainable supply chain

The Better Food Shed is a new and ambitious project which launched in October 2019⁸, it is currently connected to the wider 'Growing Communities' organisation. It is a non-profit wholesale business which supports the growth of small-scale local food systems. The Better Food Shed is a physical building just outside the London Low Emission Zone hub, in Barking. It represents a step change in the development of the supply of fresh organic produce into the box schemes in central London. Multiple direct marketing box schemes are able to connect with multiple suppliers, with dramatically reduced carbon footprint. But the Better Food Shed is not about centralisation. As a not-for-profit organisation, the Better Food Shed is committed to putting farmers and growers ahead of profit. It's also committed to supporting small businesses run in an ecologically sound way and to help build a more sustainable food system. It's being incubated in the initial stages by Growing Communities before aiming to become its own separate organisation in 2020.

The significance of the Better Food Shed is that it is a template for how to manage and co-ordinate the growth of home delivery of local and organic food in an urban context. Alongside being a physical hub that amalgamates and distributes food, it is

also an information hub that co-ordinates supply and demand, drastically reducing food waste, whilst increasing both the range and availability of food supplied via box schemes.

Direct communication through the supply chain, coupled with pricing transparency, makes this food hub successful, and ensures that it can serve as a model for other regional supply chains to emulate. Recognition of this, and that the model relies upon ethical business principles, has led to Growing Communities drawing up a blueprint called Better Food Traders, which can be established anywhere in the UK. Still in its first year, this is an innovation of great potential.

Image: The Better Food Shed



Cambridge Food Hub. Innovation in planning concept, and local food ecosystem

The potential for growth of online sales is enormous, but in order to preserve direct sales and keep money in their areas, local authorities must prioritise planning policy to favour local distribution hubs.

An emerging example of innovative thinking in this area is in Cambridge. An existing local delivery Box Scheme, CofCo (Cambridge Organic food company) with an existing warehouse is expanding rapidly, and so is the City of Cambridge. One of the 'new towns' planned is called Northstowe, which has been designated by the NHS as one of ten pilot 'Healthy New Towns'. The developers and South Cambridgeshire District Council, in a key innovation, have sought to establish Northstowe as a place to integrate local food into its planning structure.

Having approached CofCo, its founder, Duncan Catchpole, formulated the concept of a 'Local Food Ecosystem', which would have, at its heart, a building which could combine a local food outlet, along with local food catering, and starter food processing units. It could also act as a pick up point for box scheme customers. This physical hub has been much delayed, but it does highlight the possibility that good planning foresight can lead to local and organic food being made available in new developments, and that if the NHS could

widen its interpretation of what a genuinely healthy new town should look like, to include access to healthy food, then some very positive outcomes would result. Local and organic food could be made more available with the right planning guidelines, rather than the present system which leads to the proliferation of both international fast food outlets and massive centralized 'fulfillment centres.'

The Cambridge Food Hub has nevertheless been established and has adopted an innovative approach to making local and organic food more affordable to its customers. The innovation is that the hub operates on several levels; as a business to business supplier, offering a tiered membership structure that applies a discount to wholesale prices, whilst charging the customer for the services that it provides. This extends to tiered membership for individuals, and there is a special free membership level called 'Good Food for all' for disadvantaged people.

Through connections made with this project, Cambridge Food Hub is adapting an IT system support to facilitate its growth. The hub was set up in 2019 and could serve as a template for other local food systems."

Fresh-range. Innovation in unlocking public sector markets

Based in the South West and operating from a physical hub in Somerset, Fresh-range is a technology and logistics company that sources local and organic produce direct from local producers and delivers to public sector caterers, workplaces and customer's homes.

Using logistics technology, Fresh-range collects and consolidates fresh food from dozens of local producers and delivers to hundreds of customers shopping online across the South West, as well as public sector kitchens. The benefit to producers is they don't have to market produce, chase

payments or make inefficient deliveries with small volumes of produce.

Keen to supply more local and organic food into public sector settings, Fresh-range have worked with a local authority to pilot an innovative way of supplying public sector settings with more regionally sourced food called dynamic food procurement (pages 6 – 7). This pioneering model demonstrates the potential for food hubs to supply food service markets alongside home delivery.

Open Food Network (OFN). Enhancing efficiency and collaboration through network development

Open Food Network¹⁰ is a platform put together by an international network of software developers that allows farmers to sell produce online at a price that works for them. It is open source and currently used in nine countries. In the UK there are 47 active users with 'shop fronts', who use it to sell direct to consumers (on behalf of about 300 producers). 14 of these users are food hubs. Tamar Grow Local runs its food hub through the Open Food Network, with 35 producers supplying through it.

In 2019, they received around 50 orders a week, with deliveries made to key collection points and customers' homes. OFN provides a software platform to food businesses, in return for a percentage fee of turnover, on a sliding scale, according to the level of service or support that is required. Entry level is 2%. The platform has been growing at 5% a month for the past two years. OFN focuses on careful pricing and aims to be as ethical as possible.

Key learnings

Innovative business models are emerging across the UK which have great potential to transform food supply chains. Collaborative approaches are helping to scale up both supply and demand of regionally produced, sustainable food.

The coordination of deliveries and logistics provides routes to market for smaller producers. It does this by increasing cost and delivery efficiencies whilst improving product range for customers and increasing buying power for businesses - enabling them to compete on price with larger companies.

Digital platforms provide mechanisms for producers to market their products direct to consumers whilst supporting producer coordination and collaboration. These platforms can support the promotion, marketing and administration functions of food hubs, helping to increase both supply and demand. Replicable models are being developed.

National and local planning policy has the potential to further support the development of local and sustainable food supply chain infrastructure, including regional food distribution hubs and food retail and processing space. The development and implementation of these policies could yield high social returns on investment.

Technical and financial support to businesses developing food hubs will be needed in the short term if there is to be fast and genuine change.

Conclusion and recommendations

There are huge opportunities for producers, caterers and the public to benefit from increasing access to more sustainably produced food. The public are increasingly recognising the benefits for their health and that of the planet. As a result, the market is growing rapidly. New technology and models of supply are making it easier for small suppliers to be part of larger public sector contracts, as well as accessing new markets through a range of developing hub models. These developments are also enabling more efficient supply chains.

We have identified innovative businesses in both the private and public sector that can drive this growth, but they are, as yet, small in scale. In order to help them and the sector grow, we recommend;

1

National and Local Governments incentivise the sourcing of sustainably produced food and the development of shorter food supply chains in the public sector

Public sector settings provide a key opportunity for all members of society to affordably access more sustainable and regionally produced food. Local and National Governments should support the roll out and uptake of dynamic food procurement as a key mechanism to shorten public sector supply chains and open access for smaller, regional suppliers to this market. The development

of stronger national and local policies on healthy and sustainable sourcing is needed, along with incentivizing the uptake of voluntary standard schemes such as the Soil Association's Food For Life Served Here Award and the Government's voluntary Balanced Score Card as key tools to increase sourcing of organic and sustainably produced foods.

2

Government recognises and pays for the 'public goods' delivered by businesses producing sustainable and regionally produced food

Currently sustainable agricultural systems, including organic, are not being rewarded for the additional and systematic public goods they deliver, such as enhanced biodiversity, and climate change mitigation, nor compensated for the lower negative externalities they impose on the environment. As a result, other production systems, which don't deliver public goods alongside quality food appear cheaper to consumers, who are unaware of this dimension. The Environment Bill, and Agriculture Bill, likely to be passed in 2020 will change this, which could have the effect of boosting sustainable agricultural production. There is still a need for more advocacy in this area to ensure Government moves to reward such whole farming systems through the new Environmental Land Management Scheme.

3

Local government facilitates the development of regional food supply infrastructure as part of its climate change mitigation strategy

Local Authorities and City Councils are adopting planning policies to reduce their carbon footprints. Sourcing sustainably and regionally produced food could help reduce their footprint still further. For this to be feasible at scale, local planning policies which facilitate investment in regional food processing and distribution infrastructure need to be prioritised.

This needs to happen in response to, and in harmony with, a National Planning Policy Framework.

4

Investment is made in the coordination of, and engagement with, regional food businesses in pilot areas, where public procurement bodies are willing to engage

Appropriate resource is needed to undertake market engagement with smaller growers and producers to support them to navigate procurement documentation, processes and standards whilst also supporting public sector procurers to engage more effectively. The development of closer relationships between food procurers, caterers and producers is effective yet resource intensive. There are examples going back to a round of public sector food procurement initiatives¹¹ in the mid 2000s which sought to provide support at the interface between procurers

and producers. Many valuable lessons were learnt which could be put to good use.

5

Local food hubs are supported to develop enhanced IT and logistics capability

Whether food producers are supplying direct to the public, or through public procurement contracts, they must develop skills outside of core farming and growing. There is a clear need for technical support in areas such as IT and logistics, either supplied directly, or through food hubs. This is particularly urgent in 2020, with the rapid growth in demand (and challenges) brought on by the outbreak of COVID-19.

References

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- 6) Ibid
- 7) https://www.sustainweb.org/news/aug19_food_hubs_frcbriefing/
- 8) <https://sustainableamerica.org/blog/what-is-a-food-hub/>
- 9) Soil Association Certification Organic Market Report 2020
- 10) <https://openfoodnetwork.org.uk/>
- 11) Funded by Regional Development Agencies. The South West public sector food procurement initiative is one such example with guidebooks for caterers, wholesalers and producers produced to assist all in this process

Image: Packing boxes at Farringtons



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