

Accelerating the SME economic engine: through transparent, simple and strategic procurement

November 2008

Accelerating the SME
economic engine:
through transparent, simple
and strategic procurement

November 2008

© Crown copyright 2008

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to

Office of Public Sector Information
Information Policy Team
Kew
Richmond
Surrey
TW9 4DU

or e-mail: licensing@opsi.gov.uk

HM Treasury contacts

This document can be found in full on our website at:

hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

Printed on at least 75% recycled paper.
When you have finished with it please recycle it again.

ISBN 978-1-84532-512-1
PU635

Contents

	Page
Foreword	3
Chapter 1 Introduction	7
Chapter 2 Transparency	13
Chapter 3 Simplicity	21
Chapter 4 Strategic procurement	25
Chapter 5 Could SME access be improved by setting a goal?	37
Annex A Definitions, scope and terms of reference	43
Annex B Analysis of progress since 2003	45
Annex C Methodology of data collection	53
Annex D Summary of the call for evidence process	55
Annex E International comparisons	63
Annex F About the committee	69

Foreword

In Budget 2008, the Chancellor invited me to lead an advisory committee to provide advice for the 2008 Pre-Budget Report on action to reduce the barriers small and medium sized firms face when competing for public sector contracts and to advise on the practicality of setting a goal for SMEs to win 30 per cent of all public sector business in the next five years. He also asked me to consider the follow up to the 2003 Better Regulation Task Force and Small Business Council report *Government: Supporter and Customer?*

This report represents the results of the Committee's considerations. To inform its work the Committee consulted widely issuing a call for evidence that received over 1300 responses, which provided valuable input from both businesses and public authorities. I also hosted a series of consultation workshops to hear the views of businesses and public sector procurers first hand and worked with different representative bodies to explore what actions would have the most impact.

Public procurement, estimated at over £175 billion per annum, represents approximately 13 per cent of UK Gross Domestic Product and is a substantial proportion of the economy. Although there is much good practice in both local and central government, with some real progress being made since the 2003 report, it quickly became clear from the evidence gathered that small firms still face substantial hurdles to compete on an equal footing with larger enterprises in the public sector procurement market place. This means that they lose out and that Government also misses the opportunities for innovation and better value for money small firms can provide.

Twelve key recommendations are set out in box 1.A. All aim to build on recent initiatives by further improving SME participation in public procurement in line with the concerns identified by:

- making opportunities as open and transparent as possible;
- making the procurement process equitable and as simple as possible; and
- managing procurement strategically to encourage:
 - innovation;
 - procurer capability; and
 - ensuring a fair deal for SMEs that participate in the supply chain.

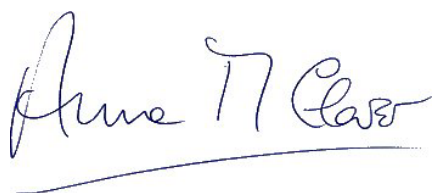
The Committee also considered the practicality of an aspirational goal of small and medium enterprises winning 30 per cent (or more) of all public sector business. The strong view of the small firms and business organisations consulted was that the overriding priority for Government was to tackle the three issues of transparency, simplicity and making procurement strategic rather than establishing a target. Small businesses felt they could compete openly on the basis of the quality of their product and service, but this needed to be on equal terms with large firms.

Public authorities held similar opinions. They were of the view that, because of the variation in goods and services bought by different public bodies there could be no single "optimal level" of procurement from SMEs and also, that a goal risked either distorting markets or develop into a "tick box" process. For all these reasons the Committee concluded that a goal would not be effective in improving SME participation in public procurement. Our view, however, is that there is merit in requiring public sector bodies to report on the value of contract spend with SMEs,

which would allow Government to monitor the success of measures put in place to improve SME access, and provide evidence for future policy decisions.

The Committee's work has shown that there is already much good practice in both central and local government to celebrate. It is also clear that there are pockets where best practice guidance is not followed and where substantial change is needed. To make greater progress over the next five years than the last, the Government needs to implement the Committee's recommendations across the public sector as broadly as possible. This means that the whole public sector needs to step up to the plate. The more contracting authorities that adopt these actions, the greater the difference small businesses will see and the greater the value for money the public sector will secure. The Committee recognised the difficulty in mandating certain behaviours across the whole public sector owing to the devolved nature of some areas, but Government needs to engage actively with these areas; demonstrate how actions form best practice and create benefits for contracting authorities, as well as for small businesses.

I would like to thank all the small businesses, the representative organisations and the public sector bodies for their invaluable contribution over the last six months. I was extremely heartened by the entrepreneurial spirit that I encountered in all sectors and across all regions of the country. I also particularly want to thank members of the committee and the sub-committee for their time, challenge and wise counsel. Finally I should like to thank the officials in various Departments who have worked so hard and provided support to the committee during its work.

A handwritten signature in blue ink that reads "Anne Glover". The signature is written in a cursive style and is underlined with a single horizontal line.

Anne Glover CBE
November 2008

Box 1.A: Summary of recommendations

Improving SME participation in public procurement is best achieved by making the market work effectively to allow SMEs to compete effectively for contracts. This requires that opportunities should be transparent, the process as simple as possible, and that a strategic approach to procurement encourages innovation and gives SMEs a fair deal when they are sub-contractors. In detail:

Transparency

1. By 2010, contract opportunities above £20,000 across the whole public sector should be advertised electronically with standard indicative contract value ranges, and accessible through a single, free, easy to search online portal.
2. Government should issue all tender documentation electronically by 2010 and this should be kept as brief as possible. Businesses should be permitted to tender electronically for all public sector contracts by 2010; no “paper only” tenders should be required after this date, with an ambition for all tenders to be electronic by 2012.
3. Details of contract awardees should be published online in a standard format within 48 days of contract signature, accessible via the single portal by 2010.
4. Tendering opportunities thought especially suitable for SMEs or consortia of SMEs should be flagged by the procurer during the advertising process. Government should provide strategic and detailed guidance for procuring authorities on assessing suitable contracts for flagging, based on risk, value and market maturity.

Simplicity

5. Qualification criteria that are not specific to a sector should be standardised and incorporated in all pre-qualification questionnaires so that businesses do not need to repeatedly submit the same core information in different formats.
6. Procurers should give businesses the opportunity to provide details of all previous relevant experience when bidding for contracts, not just public sector experience. This should be taken into account when selecting successful tenderers.
7. Procurers should ensure that, where they rely on a particular accreditation scheme or standard as part of the process of prequalification or contract award, that they take a flexible approach. Businesses should be given the opportunity to provide evidence that they can meet the contract requirements by reference to other similar equivalent accreditations or standards they may already hold – especially where these have been recognised or required by other public sector procurers.

Strategic Procurement

8. Departments should use their Innovation Procurement Plans to set out how procurement aligns with their overall commercial strategy, encourages innovation and gives advanced notice of long-term procurement plans.
9. Government should encourage wider use of outcome-based specifications across the public sector, as a means of driving innovation.
10. Government should expect and enable prime contractors to make their sub-contracting opportunities accessible through the single, online portal created in Recommendation 1.

11. Through contract management, Government should ensure that SMEs and other firms acting as sub-contractors obtain contract conditions, including promptness of payment terms, that are no worse than those applicable to the prime contractor.

Measurement

12. The Committee recommends that all central government departments should report annually on the value of their contract spend with SMEs, creating a reliable single source of quantitative data which can be used to inform future policy decisions and evaluate the recommendations in this report.

1

Introduction

The current turmoil in the global economy creates challenges for businesses and Government. If the UK wishes to improve productivity then it is important that it continues to be one of the best places in the world to do business for firms of all sizes¹.

The provision of goods and services to government is a significant part of the economy. The public sector spends approximately £175 billion² a year on procurement, equivalent to 13 per cent of GDP. It is essential that the Government uses this leverage to lead the way in ensuring businesses have favourable and competitive market conditions and a stable policy framework to make it easy to plan ahead.

On latest figures, Small and Medium Enterprises (SMEs) constitute 99.9 per cent of businesses in the UK, employing 59 per cent of the private sector workforce and making up 52 per cent of business turnover. They are potentially major suppliers to government but often SMEs face substantial hurdles in winning contracts.

Action is needed by Government to address the concerns identified in this report. By ensuring open and fair competition for public sector contracts, whilst minimising burdens on potential and successful bidders, Government could not only help SMEs directly but also save money for the taxpayer. SMEs have an important role in supplying goods and services and the increased competition and innovation they bring has an important role in ensuring that the Government can deliver world-class public services that are value for money.

¹ *Doing Business*, World Bank, 2008.

² Source: PESA (Public Expenditure Statistical Analyses), HM Treasury, 2008.

1.1 This Committee is not the first to consider the challenges faced by SMEs competing for public sector contracts. In 2003 the Better Regulation Task Force (BRTF) and Small Business Council (SBC) jointly reviewed SME participation in public sector procurement. Their report *Government: Supporter and Customer?* published in May 2003 made eleven recommendations to help tackle the barriers faced by small businesses, all of which were accepted by Government.

1.2 These recommendations can be grouped into four broad key themes: transparency, bureaucracy, documentation and capability; and cover accessibility and advertising of opportunities, public sector culture, documentary requirements and training for both procurers and businesses. The full recommendations and details of the action taken by the Government in response can be found in Annex C.

1.3 This committee's own call for evidence and other recent reports³ have revealed the same issues. Among the main challenges SMEs face are problems concerning the lack of:

- **transparency:** The tendering process and communications need to be simple, clear, open and transparent, enabling SMEs to participate;
- **simplicity:** The excessive bureaucracy and required documentation raise real barriers for SMEs; and
- **making procurement strategic:** A failure by public authorities to
 - encourage innovative SMEs;
 - improve public sector procurement capability; and
 - encourage good practice between prime and sub-contractors.

1.4 To address these points chapters 2 to 4 consider each of the above three issues. They contain recommendations on actions Government should take over the next five years to make further progress. Chapter 5 considers the second part of our terms of reference which requested us to consider the practicality of setting a goal for small and medium enterprises to win 30 per cent of all public sector business and how SMEs' success in winning public sector contracts, including sub-contracting, could be more reliably measured.

1.5 Before looking at the specific issues, some characteristics of the public procurement market, the role of SMEs in the marketplace and some of the earlier actions taken to address issues are considered below. Some international comparisons are also contained in Annex E.

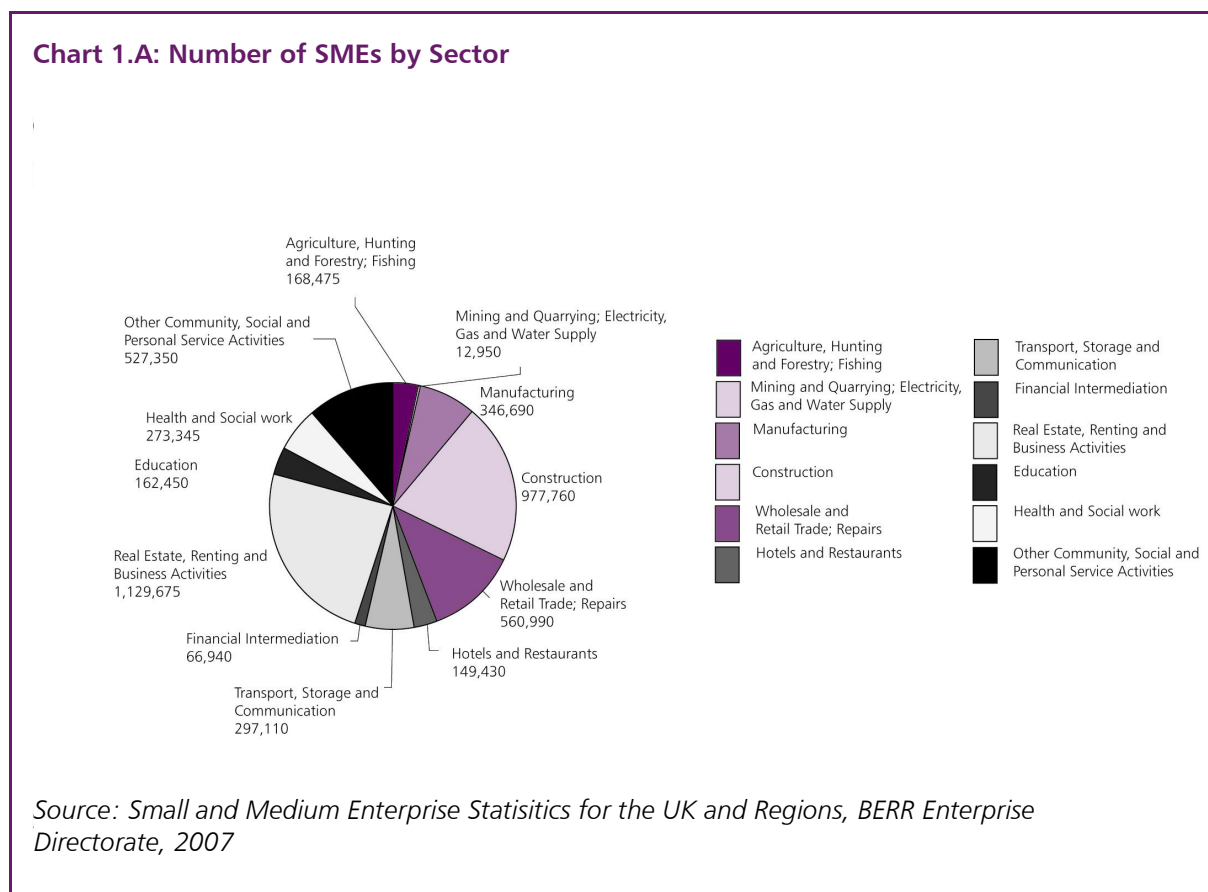
The Current Landscape: The Role of SMEs in the UK Economy

1.6 There are 4.7 million Small and Medium Enterprises (SMEs) in the UK, constituting 99.9 per cent of all businesses. They employ 59 per cent of the private sector workforce and are responsible for 52 per cent of business turnover. Their average productivity has increased faster than larger firms in the last decade, but is still lower than larger firms. SMEs have a particular importance in terms of local economies and creating job growth. They tend to be concentrated in sectors that have lower capital intensity and therefore lower productivity; within individual sectors however SMEs do not always have lower capital intensity. More generally, in a mixed economy there is clearly a complementary role for SMEs alongside large companies given SMEs may be better suited to operating in smaller, niche markets where there are fewer gains from economies of scale. It is also evident that good arguments can be made that SMEs have an important role in leading entry into emerging sectors.

³ *Evaluating SME Experiences of Government Procurement*, Scorecard Working Party (CBI and FSB), October 2008; *Public Services Industry Review*, Department for Business, Enterprise and Regulatory Reform (BERR), July 2008; *Health and Safety in Public Sector Construction Procurement*, Department for Trade and Industry (DTI)/Office of Government Commerce/Health and Safety Executive (OGC), 2007.

1.7 SMEs therefore have an important role to play in driving UK productivity growth⁴, which arises from the existence of large numbers of small firms⁵ and through "productive churn" and changes in the composition of firms within the economy⁶. Through the effect of competitive pressure on prices and on the quality and choice of goods and services, there are clear benefits for consumers.

1.8 The Department for Business, Enterprise and Regulatory Reform's (BERR) SME Statistics⁷ show that the sectors where SMEs are most prevalent are 'Real Estate, Renting and Business Activities', 'Wholesale, Retail Trade, Repairs' and 'Construction'. The chart below shows the number of SMEs by sector.



Wider Effects to the UK Economy of Public Procurement with SMEs

1.9 The public sector spends approximately £175 billion a year on procuring the goods and services needed to deliver public services. Within this £175 billion, £70 billion is spent on common goods and services, that is a product or service which is purchased by more than one organisation. Within the £70 billion key areas of spending are on construction (18 per cent), facilities management (11 per cent), and health and social care (8 per cent) – all of which are sectors with a high prevalence of SME businesses.

1.10 The committee believes that strong SME participation in the public procurement market place brings a number of benefits. *Smaller Supplier...Better Value?*⁸ published by OGC and Small Business Service (SBS) in 2005 states "Much could be gained by enabling more SMEs to

⁴ BERR Economics Paper No.1; *BERR's Role in Raising Productivity: New Evidence*, BERR, February 2008.

⁵ Robinson et al (2006) review a number of these studies.

⁶ Harris and Li (2005) review several studies on this topic.

⁷ *Small and Medium Enterprise Statistics for the UK and Regions*, BERR Enterprise Directorate, 2007.

⁸ *Small Supplier...Better Value?*, OGC/SBS, 2005.

compete. The benefits to the public sector can include better levels of service, innovative business solutions and increased competitiveness in the longer term. In return SMEs could gain by having greater access to a large and stable market.” The committee believes this analysis remains correct.

Box 1.A: Benefits SMEs can offer:

Better value for money: Bringing in more suppliers will often bring greater competition to the market place, so reducing the costs of procurement from all suppliers. SMEs have lower administrative overheads and management costs than larger firms, depending on the nature of the procurement; this can result in lower prices.

Better quality of service: SMEs have short management chains and approval routes, so they can respond quickly to changing requirements. SMEs may also be highly focused on particular markets making them particularly responsive to changes in those markets.

SMEs are often better able to offer a more personal, level of service, developing bespoke products and services or tailoring existing ones to meet specific customer needs and develop sound long-lasting relationships with their customers.

SMEs may also be better able to supply higher quality specialist products or services than their larger competitors, either because larger suppliers are discouraged by the limited demand, or because by concentrating on niche markets SMEs can retain skills, originality and commitment in that field that are greater than those found in larger competitors.

More Innovation: SMEs can bring innovation through the early exploitation of new technology, providing products or services in new or underdeveloped markets, or by using innovation to differentiate themselves from established market players.

1.11 Despite these potential benefits, SMEs may not always be best placed to win contracts to supply to Government. Particularly in capital intensive sectors and sectors where Government procures very large volumes of common goods and services (for example utilities), large firms may be able to achieve economies of scale that enable products and services to be offered at a price lower than would be viable for a smaller firm. Project risks may also be lower with a large organisation, which, for example could have easier access to additional resource should timescales begin to slip. Notwithstanding this, case studies⁹ suggest that the potentially higher project risks associated with SMEs can be managed.

What is the challenge?

1.12 From the evidence collected by the Committee it appears that there are substantial barriers that mean that SMEs are not always able to compete on an equal footing for public procurement opportunities. Action is needed to address these barriers, otherwise the UK will continue to miss out on the real benefits of a fully competitive market for procurement, where SMEs compete with larger companies to offer the best goods and services for the best price, delivering not just cost savings to the taxpayer, but potentially also higher productivity and greater innovation.

1.13 Although the Government has taken various steps to improve SME access to contracts, available data, which may not be completely robust appears to indicate in 2005-06 only 16 per

⁹ A Study of the Benefits of Public Sector Procurement from Small Businesses; SBS, 2005.

cent of the total value of central government contracts was won by SMEs – (50 per cent of contracts by number). In Local Government SMEs account for 60 per cent of the total value of local government contracts¹⁰. It is clear from the call for evidence that barriers to SME participation need to be reduced and eliminated. SMEs have pointed out concerns such as lack of clarity, administration and complex procedures.

1.14 Having an open and fair competition for public sector contracts, which helps ensure best value for taxpayers, inevitably means that organisations prepare and tender bids. The cost of this is proportionally heavier on SMEs than bigger companies. Therefore, part of the challenge is to minimise burdens on SMEs whilst keeping an open and fair competition.

Work with SMEs to date

1.15 Many of the measures to help SMEs in the market place follow on from the 2003 BRTF and SBC report and the two SME pilot procurement schemes run between June 2003 and March 2005, in Haringey, North London and the West Midlands. These pilot schemes were aimed at finding ways of making public sector contracts more accessible to small businesses, making the procurement process simpler, identifying ways to improve small businesses' success in selling to government and piloting potential solutions. Participating SMEs deemed both pilots to be successful and reports from each were published in order to help share best practice¹¹.

1.16 Following the pilots, action was taken on various fronts, guidance on how to tender and do business with the public sector published and training packages delivered by all Regional Development Agencies. In addition, guidance aimed at procurers was published including *Smaller Supplier...Better Value?*¹² which sets out the benefits to the public sector of working with small businesses.

1.17 In October 2003 *The National Procurement Strategy for Local Government*¹³, was launched which set out a plan of action for local government, working with the public, private and voluntary sectors to improve public procurement. This vision for procurement, linked to the Government's vision for world-class public services, has been a catalyst for the development of a more strategic approach to procurement in local government. All procuring authorities were called upon to set out the steps they were taking to engage with small businesses in their procurement strategies or policy statements.

1.18 A voluntary non-statutory code of practice, *The Small Businesses' Friendly Concordat: Good Practice Guidance* was launched in March 2005¹⁴ which sought to remove the barriers that discourage small firms from entering public procurement markets, especially for the first time, by simplifying processes and clearly set out what small firms and others supplying public authorities could expect when tendering for contracts. Aimed mainly at local authorities, the commitments were to:

- provide details of prime contractors on authorities' websites;
- keep the tender process as simple as possible;
- use a council-wide pre-qualification questionnaire containing common core questions with limited bespoke additions for each contract;

¹⁰ *Procurement Survey of Contracts Awarded to SMEs*, DTI, 2005/06.

¹¹ *Final Evaluation and Report for Trade Local and Haringey SME Procurement Pilot*, OGC/SBS, 2005; *Final Project Evaluation Report for West Midlands Pilot*, OGC/SBS, 2004.

¹² *Small Supplier...Better Value?*, OGC/SBS, 2005.

¹³ *National Procurement Strategy for Local Government*, Office of the Deputy Prime Minister (ODPM), October 2003.

¹⁴ *The Small Businesses' Friendly Concordat: Good Practice Guidance*, ODPM, March 2005.

- assess potential suppliers against published pre-qualification and tender evaluation criteria; in particular, the criteria to be proportionate to the risks of the individual contract process, and the criteria relating to financial standing not to be set to unreasonably exclude newer businesses;
- offer meaningful feedback to suppliers following the procurement process in order that suppliers can improve for future tenders; and
- publish a complaints procedure.

1.19 Although the *National Procurement Strategy for Local Government*¹⁵ set a goal for all local authorities to have adopted the Concordat by the end of 2005, disappointingly only 172 out of 388 English Local Authorities (44 per cent) had signed up to the concordat principles by April 2008.

1.20 Central Government and regional institutions also have a role. For example, www.supply2.gov.uk, launched on 31 March 2006, is the only Government sponsored national web portal that offers consolidated access to lower-value public sector contract opportunities from across the UK. However, even after a visible three month free trial period, only 101,000 businesses have registered¹⁶, representing 2 per cent of the SME population.

1.21 Regional Development Agencies (RDAs) have led other regional and local public sector players to develop SME friendly approaches to procurement. In addition to developing regional specific initiatives such as Supply London (London Development Agency) and Profit Through Procurement (South West of England Regional Development Agency), the RDAs have worked together to develop the CompeteFor web portal to improve access to London 2012 Olympic contracting opportunities. All have developed and delivered programmes to assist SMEs to understand the tender process, and held events to bring public sector buyers and suppliers together.

1.22 Real steps have been taken to improve SME access to public procurement over the last five years. The Committee's call for evidence has shown the existence of much good practice. However, it is clear that in many instances public bodies are still failing to follow best practice, creating unnecessary expense for businesses and resulting in poor use of their resources through their failure to engage with the business community effectively. The Government needs to take these issues seriously if taxpayers and SMEs are no longer to lose out.

¹⁵ www.communities.gov.uk/hps

¹⁶ Press Release, BiP Solutions Ltd, September 2008.

2

Transparency

Improving access to public contracts

2.1 In order to increase SME access to public sector procurement opportunities, Government should ensure that businesses are able to find out about live, and upcoming, opportunities.

2.2 The public advertising of tender opportunities above a threshold set by the European Union procurement directives ensures value for money to the public sector and taxpayers, and contributes to an open and competitive market for businesses. The thresholds are periodically updated, but as of January 2008 were set at the levels shown in the table below¹. These opportunities are freely available on the European Commission's Tenders Electronic Daily (TED) website².

Table 2.A: Tender thresholds

Type of Public Sector Body	Supplies	Services	Works (i.e. construction)
Central government departments (and sub-departments)	£90,319	£90,319	£3,497,313
Other public sector contracting authorities	£139,893	£139,893	£3,497,313

Source: OGC Policy and Standards Framework (thresholds correct at time of publication)

2.3 However, the EU treaty principle of transparency requires contract opportunities below these thresholds amounts to be advertised sufficiently wide to ensure open and fair competition. Advertising practice within the UK of tenders below the EU threshold varies considerably. As lower value opportunities are of particular importance to SMEs, the 2003 BRTF/SBC report recommended the creation of single, national place for the advertisement of all public sector opportunities. In March 2006 Government launched the www.supply2.gov.uk site to fulfil this role.

¹ Taken from www.ogc.gov.uk

² <http://ted.eur-op.eu.int>

Box 2.A: www.supply2.gov.uk

Supply2.gov.uk is the only Government sponsored national web portal that offers consolidated access to lower-value public sector contract opportunities from across the UK.

All public sector procuring departments are able to advertise their low-value opportunities on the portal. Businesses are able to register their details and search for suitable contract opportunities and create and publish their own unique supplier profile, allowing company information to be viewed and accessed by registered public sector buyers. The portal has made it easier for businesses to search for and find relevant opportunities, reducing the time taken to source them and the barriers to gaining access to public sector contracts. In addition, public sector procurers can ensure that their notices have increased visibility and are able to widen their supplier base.

The site, which is delivered by a third-party contractor appointed following a public tender, is self-funding through subscription fees. Beyond a basic level of free access to opportunities in one local area, the optional charges paid by subscribers for wider access meet the costs of ongoing development, marketing, maintenance and delivery. This self-funding business model was selected as offering the best balance between sustainability, meeting the primary objectives of the service, and delivering best value to both businesses and taxpayers.

In the first two years of operation over 101,000 potential suppliers had registered onto the site and over 93,000 opportunities advertised, of which over 31,000 were lower value opportunities.

2.4 Use of www.supply2.gov.uk by the public sector is not mandatory, with the result that some central government departments, regional bodies and many local authorities have either developed their own websites or have joined forces to create collaborative portals. The sites can be regional, pan-regional or sector based. Some are free, whilst others charge a fee for anything beyond a basic service. In addition, a number of commercial organisations have developed similar products, often providing a more comprehensive service with the added value of matching businesses to opportunities. Some of these portals were highly commended by SMEs consulted during the call for evidence process with 29 per cent of the 873 SMEs with experience of engaging with the public sector reporting positively about the use of www.supply2.gov.uk and another 29 per cent praising other IT/web-based information sources.

Box 2.B: Welsh National Procurement Website³

Welsh National Procurement Website⁴

The National Procurement Website (NPW) consists of two portals: sell2wales (for suppliers) and buy4wales (for procurers). Both are fully funded by the Assembly Government and free at the point of use. 30,757 suppliers had registered by the end of the August 2008, of which 18,720 were registered in Wales. 165 public sector procurers have registered, representing 97 per cent of public sector organisations in Wales. To the end of August 2008, notices were published with a total value of £5.9 billion.

Users have reported positively on their experiences with the site. Of 900 businesses surveyed, 71 per cent would recommend sell2wales to other businesses, 61 per cent rated user-friendliness, good or very good, and 54 per cent stated that their overall opinion of services and facilities of website was good or very good. Some firms suggested there could be improvement in Common Procurement Vocabulary (CPV) codes (20 per cent) and reducing jargon/over complication (12 per cent). The most common concern was being overwhelmed by notice alerts for irrelevant contracts.

2.5 Many SMEs told the Committee that although they had positive experiences of finding contract opportunities online, the number of routes for accessing opportunities online was still highly confusing. 23 per cent of SMEs with public sector experience who took part in the Committee's call for evidence said it was difficult to identify suitable or relevant tenders. 24 per cent of SMEs with experience said that relevant information and opportunities should be available from a single source.

2.6 In addition, some businesses complained about having to pay to access public procurement opportunities they felt should be made available free of charge. In March 2008 the Chancellor announced a free three month trial period of the low value opportunities for new firms registering on www.supply2.gov.uk in order to encourage more businesses to register and try the service. During the three month trial between May and July 2008 over 20,000 new registrants were recorded, doubling normal take up rates and indicating to public sector bodies that SMEs are keen and looking to do business.

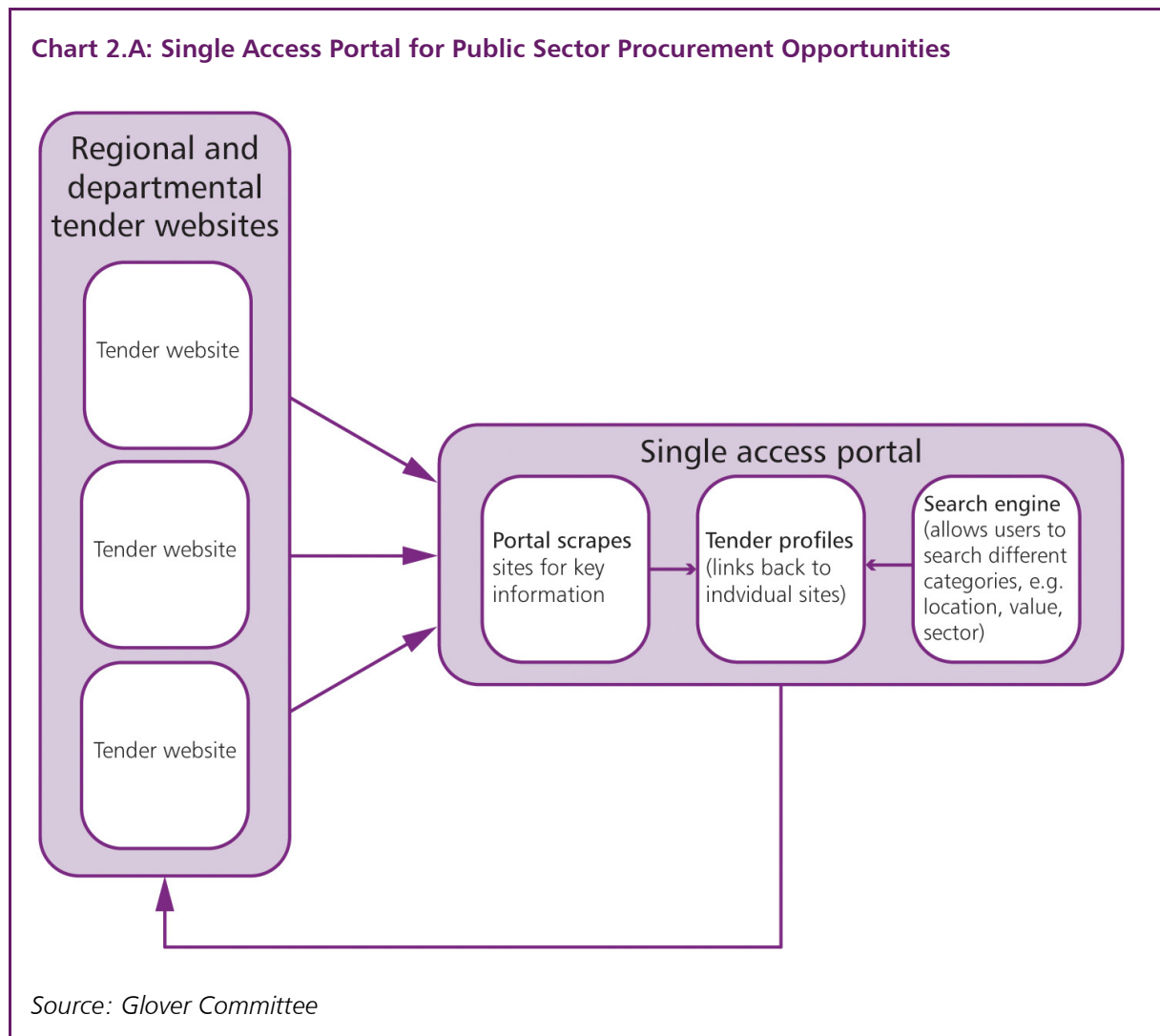
2.7 The Committee recommends that the Government should pursue the development of a single, national, Government sponsored public sector opportunity website to aggregate advertisement of contract opportunities over £20,000 in value, and details of contracts awarded and provide the means to easily search existing opportunities portals. The portal should be an Amazon-like market place allowing each procuring authority to maintain their own advertising, but broadcast it through a single portal, offering SMEs a single point of access through which to search for opportunities as an alternative to searching individual portals for opportunities from different procuring authorities or within different sectors. This will increase transparency and give businesses a better view of the range of potential opportunities. The £20,000 threshold allows procuring departments to retain the autonomy to decide on a case-by-case basis whether advertising opportunities below this level would ensure value for money. The diagram below is an example of how the portal could work.

2.8 The portal should bring together existing best practice and enable businesses to easily search for relevant opportunities at a more granular level than is currently possible. To increase efficiency the portal should save more time for businesses through automatic daily e-alerts of

³ Information taken from *Evaluation of the National Procurement Website*, Welsh Assembly Government/DTZ, March 2008.

⁴ Information taken from *Evaluation of the National Procurement Website*, Welsh Assembly Government/DTZ, March 2008.

relevant opportunities. Value could be added by linking the portal to other Government notices such as regulation alerts, guidance and public sector training opportunities. Contract award notifications should be posted onto the portal to promote greater transparency and give businesses an insight in to potential supply chain opportunities. Prime contractors should connect to the same portal, thus covering sub-contracting opportunities and giving businesses greater opportunities to become involved within the public sector market place.



2.9 In today's modern economy, electronic tools are fundamental to business success and the open and transparent electronic advertisement of public sector procurement opportunities has clear benefits for all, ensuring that the public sector gets the best solution whilst retaining value for money and boosting healthy competition. Government must ensure that all businesses are able to access all opportunities and are in a position to compete. The Committee considers this first recommendation to be crucial if the Government is going to achieve this.

Box 2.C: SME with Public Sector Experience

“Identifying opportunities within the sector can be a minefield. If you register with one of these tender notification portals one tends to get loads of leads, many of which are totally irrelevant. The sifting process and matching contracts to registered users for these tender notification portals is generally not very good and if one is not careful all day can be spent sifting through irrelevant tender application/notifications.

Identifying opportunities is not too bad, but the various websites including www.supply2.gov.uk are not easy to use or follow. Setting the criteria for selection of tenders is unclear and we seem to end up with lots of irrelevant opportunities.”

Communication and Feedback

2.10 Many SMEs told the Committee that they would value more face-to-face contact with procurers to develop relationships and learn about upcoming opportunities. To ensure effective engagement between procurers, prime contractors and other businesses, the public sector should follow existing OGC guidance *Early Market Engagement*, and deploy good practice, such as Meet the Buyer days to ensure engagement with SMEs and other potential suppliers.

2.11 The Committee also feels it is essential that communication between procurers and business is effective throughout the procurement process, including providing good quality feedback to unsuccessful businesses. The Committee heard examples of public authorities specifying in tender invitations that they would expressly refuse to offer feedback. This cannot be in the interest of a well-functioning market. Evaluation criteria should also be open and transparent and businesses should know whom to turn to when they feel they have been treated unfairly. There have been attempts to address these issues before. The *Government Code of Practice for Customers and Suppliers*, which sets out ground rules for procurers in central government and local government, includes a *Small Business Friendly Concordat*. However, Government now needs to ensure that this existing guidance is followed, that all public authorities adopt the good practice already disseminated. Greater awareness is also needed of the OGC Supplier Feedback Service, which investigates cases where businesses feel that they have not been treated in accordance with the rules.

Training and Tools

2.12 Central government, regional bodies and local authorities have been offering and delivering training to both procurers and SMEs for several years. In May 2007 an online training package for small firms called *Winning the Contract* was launched on the Learndirect website. It was developed from material used in the Haringey and West Midlands pilot. In addition, a training package was developed for public sector procurers to help them to widen opportunities for small firms. This has since been incorporated into training schemes provided by the National School of Government and the Chartered Institute of Purchasing and Supply.

Box 2.D: Winning the Contract

In April 2007 the *Winning the Contract*⁵ online training package was launched. Accessed via the Government supported e-learning initiative Learndirect, the course builds on material developed for the West Midlands and Haringey pilots and seeks to develop SMEs' ability to win business from government.

The call for evidence showed that awareness of *Winning the Contract* was low and, when alerted to the course, small businesses were put off by the nature of the course and the costs involved, currently £49.99 for a course that is estimated to take 4 hours.

Take up of the training package has been low despite its modest cost. So far there has been no evaluation to assess business benefits or impact as a result of undertaking the course, or indeed whether the training was actually completed.

2.13 Many SMEs who provided evidence to the Committee felt that they did not require training courses to bid for work, that the onus should be on their product and rather than their ability to get through the bid writing process. Others did not know what training courses were available, or how to find out about what was on offer. Some SMEs recognised that training courses could be useful to them but were put off by the costs involved.

2.14 Whilst there are many issues for the public sector to address the Committee believes it is incumbent on businesses to ensure they are "bid ready." Small businesses need to recognise that they must develop the skills to complete required documentation to acceptable standards and to provide evidence that procurers are seeking. In response to this, the Committee believes that procurers could help SMEs better judge the opportunities they are most likely to be successful in bidding for. A system of flagging contracts thought suitable for SMEs during the advertising process, including providing indicative information on contract values, and publishing contract awardees post award of contract, will both increase transparency and help SMEs to make informed decisions about which contracts to bid for.

2.15 SMEs have also recognised that electronic submission of tender documentation could be helpful, through streamlining of processes and reducing bureaucracy. The responses to the consultation with businesses that was launched by HMRC in March 2005⁶ indicate that SMEs are willing to conduct business with HMRC electronically provided that online services are reliable, easy to access and simple to use.

⁵ <http://www1.learndirect-business.com/business-courses/winning-the-contract>

⁶ *HMRC Online Services: Increasing Use of Online Filing and Electronic Payment*, HMRC, March 2005.

Box 2.E: Transparency Recommendations

1. By 2010, contract opportunities above £20,000 across the whole public sector should be advertised electronically with indicative contract value ranges, and accessible through a single, free, easy to search online portal.
2. Government should issue all tender documentation electronically by 2010 and this should be kept as short as possible. Businesses should be permitted to tender electronically for all public sector contracts by 2010; no “paper only” tenders should be carried out after this date, with an ambition for all tenders to be electronic by 2012.
3. Details of contract awardees should be published online in a standard format within 48 days of contract signature, accessible via the single portal by 2010.
4. Tendering opportunities thought especially suitable for SMEs or consortia of SMEs should be flagged by the procurer, with specific guidance on the essential characteristics of a successful bidder made available. Government should provide strategic and detailed guidance for procuring authorities on assessing suitable contracts for flagging, based on risk, value and market maturity.

3

Simplicity

3.1 Many SMEs who provided evidence to the Committee expressed frustration that they were not successful at the tender stage, despite being able to access opportunities. The committee feels that there could be a number of reasons for this.

3.2 Bureaucratic tender processes place excessive burdens on potential suppliers. Timescales are often too short for small businesses to be able to respond and tender documents, as seen from the example below, can be unclear. They may fail to focus on outcomes or take into account the whole life value of the product or service being procured.

Box 3.A: An example of a confusing question asked in a tender document, provided during the call for evidence process.

“Please provide a list of relevant services carried out over the past five years. Evidence of satisfactory completion for the most important of these services indicating in each case the value of the consideration received, and when and where the services were carried out must be provided. The list shall be sub-divided to reflect the different aspects of the services to be provided, including what experience the candidate has towards delivering Sustainability Policies.”

3.3 The Federation of Small Business (FSB) members’ survey (2006)¹ showed that 24 per cent of their members were put off from selling to the public sector, as the process was perceived to be too complex or time consuming.

Box 3.B: SME with Public Sector Experience

“The supply of information is at times very intense. One tender required so much information that the complete tender was over 500 pages...they required five copies in hard format and one copy on CD.”

3.4 SMEs are often asked to provide historical financial information or accounts for the previous three years, which can rule many new start up and small firms out of the tender process. This three year level of information is not a requirement of the EU Procurement Directive², which gives contracting authorities some flexibility to determine what level of information they require to satisfy themselves that the supplier has the required capacity to perform the contract. OGC guidance³, is for contracting authorities to request two years of accounts or, if these are not available, other information that will demonstrate that the supplier’s economic and financial standing is sufficient to enable them to perform the contract.

¹ *Lifting the Barriers to Growth*, Report by Stirling University/ Federation of Small Business, 2006.

² The EU procurement directives set out the procedures to be followed by purchasers in the public and utilities sectors. OGC is responsible for implementing them in UK law.

³ *Supplier Financial Appraisal Guidance*, OGC, 2006.

Box 3.C: SME with Public Sector Experience

“Nightmarish. Each and every tender asks just about the same questions in a slightly different order but with just enough difference to ensure that you have to start all over again.”

3.5 Pre-Qualification Questionnaires (PQQs) are often different for each tender and tend to ask for similar information, but in numerous different formats, meaning SMEs bidding for multiple contracts have to present the same routine details each time. There was support for a core PQQ to be adopted across the public sector; this was a recommendation of *Government: Supporter and Customer?* but uptake of the PQQ developed by OGC has been poor. In the call for evidence, businesses voiced exasperation at the number and variety of PQQs being used by procuring organisations that continued to create and use their own.

3.6 In addition, PQQs tend not to allow SMEs to illustrate their specialist abilities, niche qualities or show how innovative they can be. This rigid structure can hinder and constrict innovative thinking and holds back progressive design. Many SMEs felt that PQQs should allow them to boost their bid by illustrating their unique selling point, innovative ability or the added value that they bring.

3.7 The committee recommends the development of a standard format for non-sector specific questions, which should be adopted across the public sector.

3.8 Gaining a public sector track record was cited as a key issue for businesses, with some SMEs feeling that procuring organisations do not take private sector delivery history or sub-contractual performance into account when assessing a business’s capability. There was evidence that without the opportunity to work as a prime contractor the opportunity to gain an acceptable track record is non-existent.

3.9 SMEs were clear that they wanted the opportunity to work directly with public sector procurers as prime contractors. Government could assist SMEs to build their experience and gain public sector experience by developing a more informal tender process for low value, low risk contracts – and all relevant experience – regardless of whether private or public sector should be used to assess a business’s capability to deliver.

Box 3.D: SME with Public Sector Experience

“We are often told that unless we have successfully tendered in the past the chances are that we will not be considered and therefore the situation is very much a “catch 22” ... Preference appears to be given to businesses who have a track record of working with public services.”

3.10 Accreditation requirements pose a barrier to many SMEs. National and international standards are important to small businesses, and can help put them on a level playing field with larger organisations. However, additional accreditation criteria developed by individual procuring authorities can be many, diverse and costly, even within a particular sector and do not always cross local authority boundaries. This can mean that a business can be qualified to bid for a particular tender with one public sector body, but not another just a few miles down the road.

3.11 In 2005 an OGC investigation⁴ into the use of third party accreditation within the public sector concluded that their use was “uncoordinated” and did indeed “present barriers to suppliers’ participation.” Following this investigation, new guidance for procurers was published but evidence provided to the Committee showed that accreditation remains a key issue for SMEs. There was consensus that accreditation should not automatically be required but, when the work being bid for does require accreditation, sensible levels should be set from national standards.

3.12 Contract aggregation, the practice of bundling together of a number of potential smaller contracts into one large one, can effectively squeeze small firms out of the marketplace but can also have benefits. In July 2004 Sir Peter Gershon delivered his independent review on public sector efficiency⁵ to the Prime Minister and the Chancellor of the Exchequer. This report called for an efficiency drive within departments and argued the case for aggregating demand into a smaller number of contracts to free up contract managers and ensure greater value for money was gained through economies of scale. At the same time the report was quite clear that aggregation should only happen where it makes sense. Although guidance⁶ has been published to remind procurers of the barriers that can be created by large contracts, it is not clear that it is being followed or that best value for the public purse is being achieved.

3.13 The 2004 Office of Fair Trading (OFT) report, *Assessing the Impact of Public Sector Procurement on Competition* found that contract aggregation could have a positive or negative effect on competition depending on the specific contract in question. It stated that, “the right trade-off balances the costs and benefits associated with bundling requirements in terms of the positive and negative effects on competition ... the administrative costs of procurement and the likely extent of scale and scope economies.” The very fact that a number of contracts are bundled together means that there are less contracts to be won, reducing a business’s chance of winning a contract. In addition it removes the scope for benchmarking competition and renders it difficult to compare the performance of different contractors providing similar requirements.

3.14 Firmer action needs to be taken by Government to ensure proper consideration is given by procurers to contract size, the development of lots, and whether contract elements might better left outside and delivered as small individual contracts.

3.15 Procuring departments should ensure that OGC guidance *Smaller Supplier... Better Value?*, which advises public sector procurers to size their contracts appropriately, is followed and that they take proactive measures to ensure that SMEs can play a full and effective part in meeting the Government’s needs.

Box 3.E: Public Sector Procurement Official

“The public sector is under pressure to cut procurement costs so the tendency has been to move towards bigger contracts, which does not favour SMEs ... Bigger contracts are often more difficult to monitor, control and evaluate. In some cases they prove to be financially inefficient as costs do increase.”

3.16 Approved supplier lists and framework agreements are operated by many public sector procurers and enable them to build a shortlist of sources or suppliers who can meet their needs, but may not be refreshed frequently or in a transparent way.

⁴ *Third Party Supplier Accreditation Study*, OGC/Merlin Consultancy, 2005.

⁵ *Releasing Resources to the Front Line - Independent Review of Public Sector Efficiency*, HMT, 2004.

⁶ *“Smaller Supplier... Better Value..?”*, DT/OGC, 2005.

3.17 Frameworks and approved supplier lists can work well for businesses and procurers by removing the need for repeated pre-qualification exercises. However, despite guidance to procurers⁷ setting out good practice and advice to contracting authorities with the aim of ensuring that the process of getting onto a framework is proportionate and not unnecessarily bureaucratic, many businesses find it difficult to gain inclusion on approved supplier lists and difficult to gain contracts once included on the lists. The lists tend to be refreshed infrequently, in some instances only every four to five years, which means that some businesses may be excluded from the market place for a significant period. When lists are being refreshed they may not be widely advertised, and data requirements often exclude small firms from inclusion. For instance, consideration is sometimes given to how long a business has been established, its size and how the business is funded. Procurers need to take particular care with framework agreements and their “refresh cycles” to ensure they reflect respective markets and maintain SME and new business access.

Box 3.F: Simplicity Recommendations

5. Qualification criteria that are not specific to a sector should be standardised and incorporated in all pre-qualification questionnaires so that businesses do not need to repeatedly submit the same core information in different formats.

6. Procurers should give businesses the opportunity to provide details of all previous relevant experience when bidding for contracts, not just public sector experience. This should be taken into account when selecting successful tenderers.

7. Procurers should ensure that, where they rely on a particular accreditation scheme or standard as part of the process of prequalification or contract award, that they take a flexible approach. Businesses should be given the opportunity to provide evidence that they can meet the contract requirements by reference to other similar equivalent accreditations or standards they may already hold – especially where these have been recognised or required by other public sector procurers.

⁷ *Guidance on Framework Agreements*, OGC, September 2008.

4

Strategic procurement

Innovation

4.1 Innovation is essential to the UK's future economic prosperity and quality of life and is a key enabling force for improved economic performance and sustainable growth. In a rapidly changing business climate, companies must be able to react quickly and adapt to change. Public sector procurement has the potential to play a key role in driving innovation. Through intelligent use of its purchasing power, the public sector can drive business competitiveness, improve productivity and obtain improved goods and services, leading to improved public services and better value for money over the long term.

4.2 Companies of all sizes can benefit from improved public procurement practice, but it may be especially beneficial to SMEs, where there is arguably the greatest potential to be unlocked by the removal of barriers. Although larger companies invest more in Research and Development (R&D) and innovation and carry out more innovation in absolute terms, SMEs are seen to be more innovation intensive, with relatively greater investment in innovation as a proportion of the activities or value of the business. In the period 2004-06, 63 per cent of businesses employing 10-249 people defined themselves as 'innovation active' compared to 72 per cent of larger companies but these businesses gained 9 per cent of their turnover from novel innovation compared to 7 per cent for the larger companies¹. Enabling greater access for SMEs to public sector contracts could both stimulate demand for increased innovation in SMEs and enable the public sector to benefit from this potential for innovation.

4.3 Government can encourage the development of innovative practice in SMEs in a number of ways.

4.4 Catalytic procurement: The public sector supports the development and demonstration of new technologies or innovations, or acts as a launch customer, giving the market confidence to make further investments or to take up the technologies; for the SME a first customer (in this case the public purchaser) to start a 'reference list' can be crucial to gaining credibility and winning further business.

4.5 Creating a focus for innovation: Public sector demand can, in some cases, be sufficiently great to coalesce effort around it and encourage specific research and development or other innovation aimed at meeting these needs.

4.6 Setting frameworks: By procuring to particular specifications, the public sector can help support the development of product standards that can then be adopted more widely. This can also link into legislative or regulatory frameworks that stimulate innovation. Conversely, setting out specifications or standards well in advance can help firms offer goods and services better adapted to the public sector's needs.

¹ Innovation statistics 'Innovation activities -size', DIUS, 2008.

What is being done?

4.7 In recent years, a number of initiatives have been put in place to ensure that government meets the highest professional standards in its procurement, and to enhance the public sector's capability to use demand to promote and encourage innovation.

4.8 Procurement guidance: In August 2007, the Department for Innovation, Universities and Skills (DIUS) and the OGC published *Finding and Procuring Innovative Solutions*, a practical handbook on managing innovative procurement within existing Government and EU rules.

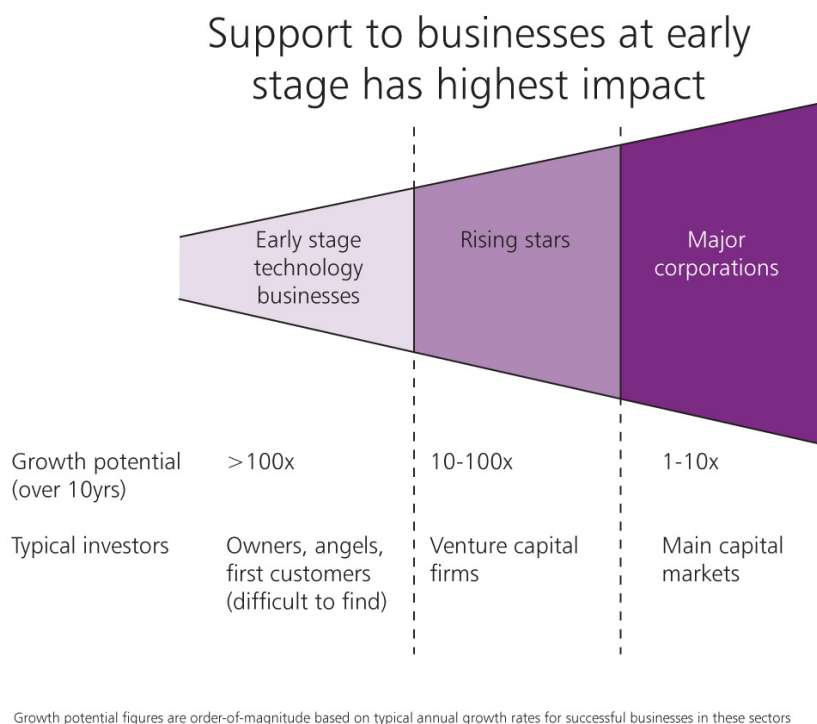
4.9 Innovation procurement plans: In April 2008, DIUS published the White Paper, *Innovation Nation*, in which it set out actions to use procurement to drive increased demand for innovative products and services. A key recommendation was that each Government Department should produce an Innovation Procurement Plan, aligned with its Commercial Strategy, setting out how it will seek to drive innovation through procurement and use innovative procurement processes.

4.10 Forward Commitment Procurement (FCP). FCP is a procurement model designed to deliver innovative solutions to public sector requirements. In this model, the procurers' role is to identify long-term needs rather than to specify the solutions. This forms the basis of a dialogue with potential suppliers, resulting in the development of a specification that requires a product or service to deliver a higher performance standard than that currently available on the market. This is backed by a commitment on the part of the public sector to purchase the product or service if a supplier can produce one that meets the performance criteria, thereby creating an incentive to innovate. A successful procurement results in long-term value for money for the procurer, improved means of meeting the needs, and creates the market conditions in which innovative suppliers of goods and services can thrive. The model was first developed in the environmental goods and services sector, where the public sector provides a lead market and where innovation is keenly sought. To date, there have been two pilots of the FCP model within Government: "Zero Waste Prison Mattresses" run by the Prison Service; and a pilot to develop ultra-efficient lighting being run by the Department for Health and BERR.

Procurement of research

4.11 Small Business Research Initiative (SBRI). Early-stage technology businesses are critical in creating new sectors of the economy. According to the U.S. Small Business Administration, small businesses have been responsible for 13-14 times as many patents per employee as larger firms and 60-80 per cent of all new US jobs. Growth potential and risk are usually much higher than for mature businesses.

Chart 4.A: Support to Businesses at Different Stages of Development



Source: *Department for Universities, Innovation and Skills*

4.12 It is difficult for early-stage businesses to get funding for development, prototyping and demonstration, typically costing in the range from £100,000 to £1 million. The UK is perceived by business to be a disadvantage relative to, for example, the US, where the SBIR (Small Business Innovation Research) programme provides \$2 billion of contracts per year to this sector. This difficulty with funding is often compounded by concerns around losing rights to intellectual property.

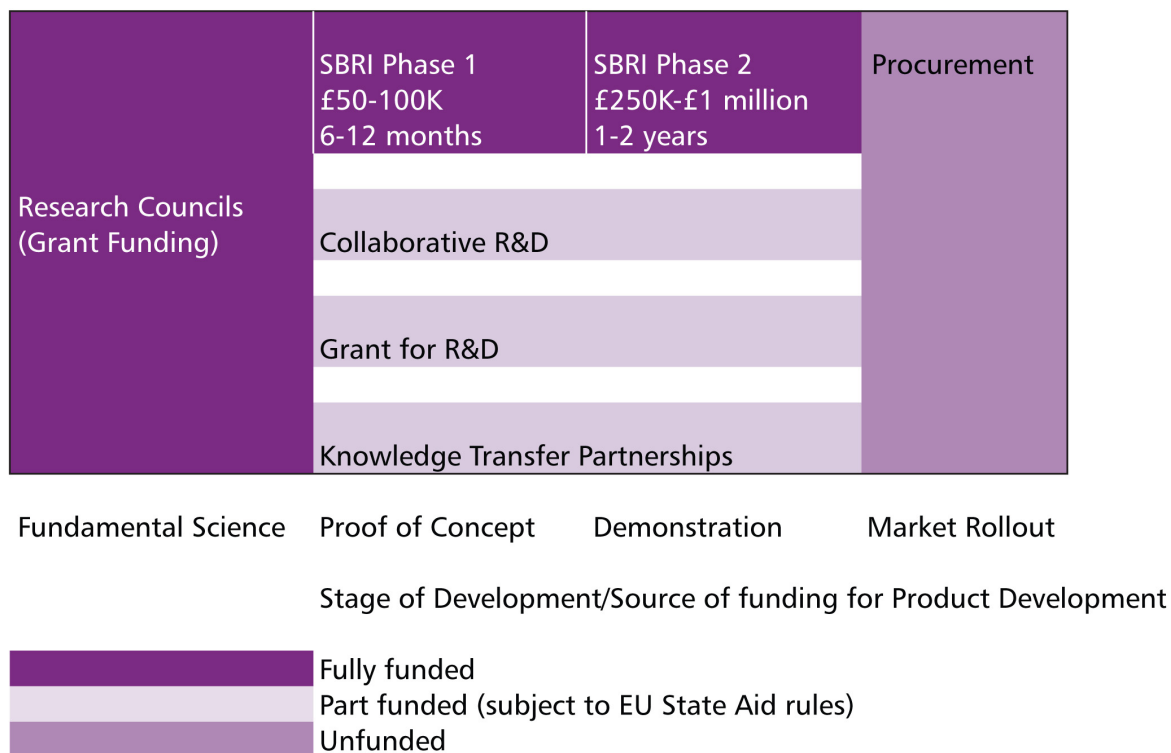
4.13 Lead customers play a vital role in such businesses; by paying development costs, they provide both cash and focus to the early-stage company, while gaining market advantage themselves through hastening the development of an offering they need. The purpose of SBIR is for the Government (and its agencies) to act as such a lead customer. By spending a small part of its budget on such developments, it can provide vital support to bridge this funding gap and at the same time improve its own service and value for money by capturing innovation faster.

4.14 SBIR is being reformed to create a structured programme for procurement of technology development, adopting some key principles of the successful US Small Business Innovation Research programme. This reform follows recommendations made in Lord Sainsbury's *Review of UK Science and Innovation Policy*, published October 2007. Principles of the new SBIR include:

- structured programme of open competitions, advertised through the Technology Strategy Board;
- two phase project structure to manage risk;
- Phase One: typically £50,000 - £100,000, six months: technical feasibility (mostly lab-based);
- Phase Two: typically £250,000 - 1 million, two years: demonstration, trials, scale-up, preparation for manufacturing;

- focus on technology development projects, not policy research: intention is to lead to a commercial procurement (typically within five years), although no formal commitment;
- futcome-based tender specifications;
- contracts not grants (100 per cent funding);
- intellectual property rights retained by the contractor; and
- a pilot of the reformed SBRI has recently been launched and will be rolled out to other Departments from April 2009.

Chart 4.B: SBRI in Procurement Landscape



Box 4.A: The Technology Strategy Board (TSB) Innovation Platforms

The Technology Strategy Board has been given a broad remit to support innovation and to strengthen UK technological capabilities in all sectors. Over time, it aims to increase the focus of support for technology development on challenge-driven innovation. The TSB has developed a number of "Innovation Platforms", which bring together key partners in Government, business and the research base to address a major societal challenge and to open up market opportunities to increase business investment in research and development and innovation. The five Innovation Platforms launched to date are: Low Carbon Vehicles; Intelligent Transport Systems; Low Impact Buildings; Assisted Living; and Network Security. The Technology Strategy Board intends to bring forward a further five Innovation Platforms over the next three years.

Innovation Platforms aim to identify all the elements needed to develop technologies, including support for research and innovation, mechanisms for the exchange of knowledge and information, as well as creating demand for innovation through supportive regulatory environments, and through public and private procurement of the technologies developed. The main benefit to the public sector of the approach adopted by the Innovation Platforms is that they are involved in the development of technology at an early stage, so are able to guide its development, increasing their own technological knowledge and expertise and enabling them to make better informed decisions about procurement. In parallel, the private sector benefits from the opportunity to build close relationships with potential procurers and better insights into customer requirements.

4.15 Government has made significant efforts in recent years to harness the power of its procurement for the promotion of business innovation, and to harness the innovative potential of SMEs, but there remains considerable scope for further progress. Our suggestions in this area focus on encouraging the provision of innovative subcontracting opportunities to SMEs; ensuring best practice in intellectual property rights; and the development of a more strategic approach to procurement by Government, with the provision of early information to the market.

4.16 The public sector needs to take a more strategic approach to the procurement of innovative solutions, and to recognising the influence that public sector procurement can have in providing an incentive for companies to innovate. The *Innovation Nation* White Paper published by DIUS earlier this year included a commitment for all Government departments to produce Innovation Procurement Plans which will set out how they intend to do this. Fulfilling this commitment is an essential first step to achieving a step change in the ability of the public sector to drive and benefit from innovation developed by business.

4.17 In addition, there is considerable scope for the public sector to make greater use of outcome-based specifications during procurement exercises, for example through use of the FCP model. As set out in the Commission on Environmental Markets and Economic Performance report and the report of the Environmental Innovations Advisory Group, such mechanisms can have a significant effect in driving innovation and in providing an incentive to companies to develop products that meet customer and market needs.

4.18 Finally, to encourage innovation amongst high growth potential SMEs, the Government should ensure that all participating departments agree and publish cash budgets for the SBRI programme, commencing in 2009-10, and commit to working in partnership with the Technology Strategy Board to implement the SBRI programme. These actions will complement measures already taken or recommended to encourage procurement of innovative solutions

such as improved guidance to procurers, promotion of the concept of specifying needs rather than solutions, and aggregation of demand.

Intellectual property rights

4.19 Advice for procurers on intellectual property rights can be found in the guidance, *Finding and Procuring Innovative Solutions*, and states that intellectual property rights should remain with the party best able to exploit it. When procuring from SMEs, procurers should not unnecessarily require ownership of intellectual property. Value for money for the tax payer should be taken into consideration when balancing the costs and benefits of owning intellectual property, as opposed to negotiating a reduced contract cost and allowing intellectual property rights to remain with the originator. Government should ensure that this policy is met in departments, and that progress in this area is assessed through Procurement Capability Reviews.

Capability of procurers

4.20 During its investigations, the Committee received a positive response from procurers who were keen to stress that good progress has been made in encouraging SMEs to participate in public sector procurement over the last few years. However, they also acknowledged that barriers for SMEs remain and in many cases echoed the sentiments of businesses, particularly around the issue of excessive documentation.

4.21 Public sector procurers generally accepted the many advantages of working with SMEs, such as increased flexibility, adaptability and innovation and feel that SMEs were well suited to delivering local services. Health and social care, travel, catering, small scale construction projects and building maintenance were described as areas where procurers felt SMEs could make the most positive contributions - in addition to contributing to the delivery of innovative products and services, either as prime contractors for smaller contracts or as sub-contractors for large contracts. Many procurers suggested that working with local SMEs could have particular benefits to local economies, especially when those SMEs are voluntary sector organisations situated within the local area.

4.22 One barrier to engaging with SMEs, which has been consistently raised by procurers, is the pressure of incorporating a number of policy priorities within their procurement processes. Government has developed a number of policy requirements to be delivered through procurement, including economic considerations (including procuring from SMEs and voluntary sector organisations) social considerations (e.g. equality and adult skills), environmental sustainability, ethical trading, collaboration, and value for money. Many procurers told us they feel confused by the requirements to incorporate these policies within their procurement processes, and feel they have no clear priority.

4.23 The Committee believes that a public authority's commercial strategy should outline that authority's priorities for their key areas of spend regarding factors such as sustainability, social issues, and SME engagement. These priorities should be reflected in subsequent contract specific measurement weightings, which should be proportionate to the contract.

Box 4.B: Sustainable Procurement Task Force Prioritisation Methodology

The Prioritisation Methodology is a risk based approach, published by the Sustainable Procurement Task Force in its 2006 action plan that helps organisations focus their efforts and resources appropriately within their overall commercial strategies. It takes into account environmental and socio-economic risk, the potential that the procurer has to influence suppliers and the scope to increase sustainability, in addition to cost. The Prioritisation Methodology forms the first part of the prioritisation process and allows Government departments to develop appropriate approaches depending on the product or service being procured, and the policy priorities identified.

4.24 The call for evidence showed that many businesses (19 per cent of all SME respondents) feel that they are often ruled out on the grounds of the perceived risk of engaging with a small or new business. Public sector procurers often rely on insurance to manage risk and a blanket approach is sometimes taken to set liability levels, which can lead to high insurance demands that SMEs cannot meet. There is evidence of some contracts citing "no limitation of liability" clauses. This behaviour can exclude SMEs, and particularly new businesses, from taking part in the public sector marketplace.

4.25 The ability and willingness of public procurers to contract with smaller businesses that may be perceived as being “risky” is dependent on them possessing the requisite skills. In developing the procurement profession across the public sector, OGC and departments should ensure that all procurers have the necessary risk and contract management skills to ensure that they are able to effectively manage risk and contracts by the employment of real business techniques rather than imposing costly insurance levels.

4.26 The Committee suggests that Procurement Capability Reviews, which are currently taking place across all central Government departments, provide an opportunity to cascade the SME agenda throughout the departments. The recommendations the Committee has made around procurement strategies, procurer capability and risk management should be followed up through the Procurement Capability Review process and, for the wider public sector, be addressed through the Regional Improvement and Efficiency Partnerships.

Sub-Contracting

4.27 The supply chain of first-tier contracts is the place where most SMEs find opportunities. There are little reliable UK data available to illustrate this but in the US in 2006 (latest available figures), 40 per cent of all federal procurement was allocated for SMEs² within supply chains, constituting a substantial proportion of Government business available through supply chains.

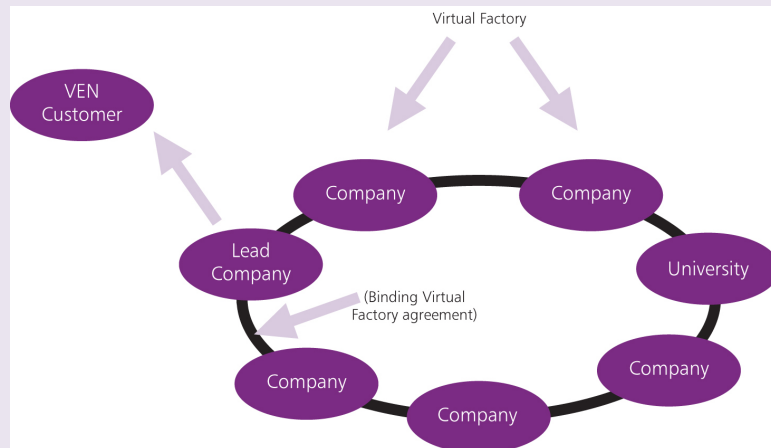
4.28 Government needs to ensure that businesses receive help and support to build their capacity to become “bid ready”. The call for evidence intensive coaching and mentoring schemes for all SMEs interested in supplying the public sector, and specific support programs such as Yorkshire Forward’s Virtual Enterprise Network scheme to help those that could benefit from forming consortia. Generic training was seen as a good place to start but businesses felt that it was inadequate and insufficient to enable them to secure contracts.

² *Sub-Contract Goals*, Small Business Administration, 2006.

Box 4.C: VEN GROUP (www.vengroup.com)

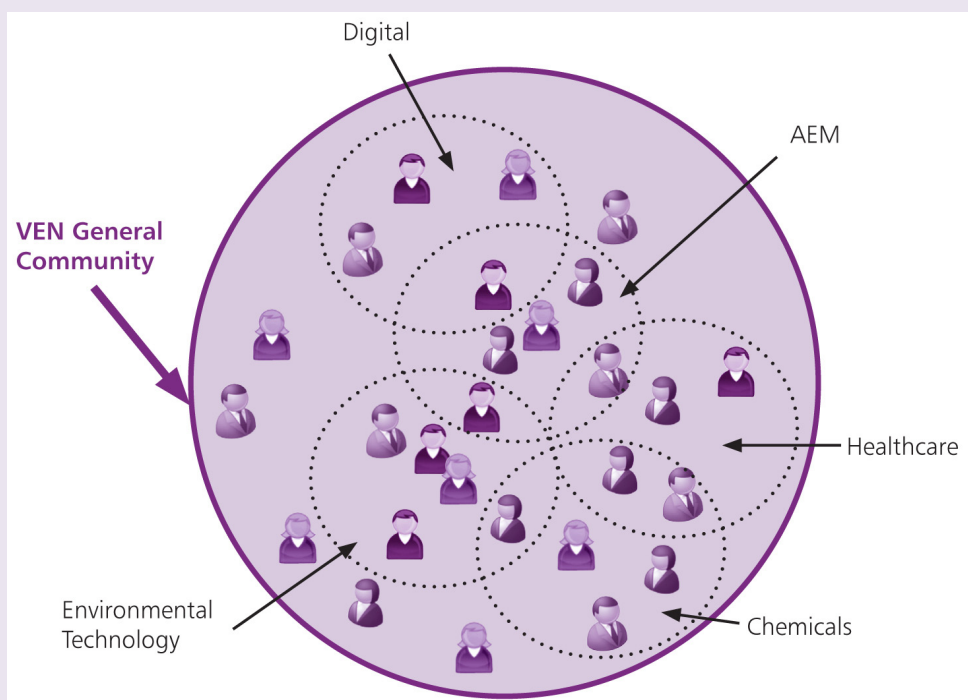
The Virtual Enterprise Network is an initiative in Yorkshire and Humber which helps small & medium sized businesses form consortia.

Businesses registering with VEN undergo a process that identifies and maps their core competencies; VEN then matches the collective capabilities of members with business opportunities proactively sourced from both private and public sectors.



When a commercial opportunity has been identified, VEN brings together the right group of members to form a Virtual Factory; a legal entity that exists for the duration of the contract if the bid is successful. The Virtual Factory members work together on a collaborative basis and are fully supported and trained by VEN throughout the process.

Businesses are enabled to offer more competitive, refined and flexible responses to tender opportunities, whilst public sector procurers are given greater access to a diverse range of goods, services and specialist skills by working with a variety of companies, but at lower cost and risk, with the value for money and enhanced service levels that come from dealing with just one contract and collective suppliers.



4.29 Middlesex University, in their report on research on SME access to public procurement³, found that there were no sub-contracting data available from the demand side. This could only be obtained via supplier questionnaires and it was reported that contracting organisations are currently unwilling to provide this kind of information. On the supply side, the FSB's survey of its membership⁴ was the only study with a substantial sample size to deal with sub-contracting. It found that a total of 50.2 per cent of the 18,939 respondents were public sector sub-contractors, with the highest percentages supplying local authorities (7.8 per cent), schools (7.4 per cent), universities and colleges (7.0 per cent) and the NHS (6.5 per cent).

4.30 From the data above, it is likely that a high percentage of SMEs engage with the public sector as sub-contractors; the is probability that more will do so in the future, as public sector organisations aim to achieve efficiency gains by moving to larger contracts, for which SMEs would be less likely to be able to bid. For example, Middlesex University cites how the Ministry of Defence (MoD) is moving to longer and larger contracts with a "cascade down approach' relying more on subcontracting"⁵

Current SME experience of engagement as sub-contractors

4.31 Following extensive engagement with SMEs, both through an online questionnaire and a series of workshops, the Committee gained understanding of how SMEs currently participate in public sector procurement as sub-contractors.

4.32 The committee found that when operating within supply chains, SMEs often find their ability to input curtailed, their margins squeezed and the flexible and innovative approaches that they can offer rarely exploited. They often suffer unfavourable terms and conditions, and can face disproportionate delays in payment.

4.33 The Committee established an expert sub-group with representation from suppliers, public procurers, business representative bodies and academics to explore sub-contracting issues in depth.

³ *Review of research and Data on the Role of SMEs in Delivering Public Services*, Centre for Enterprise and Economic Development Research, Middlesex University Business School, 2008.

⁴ *Lifting the Barriers to Growth*, Report by Stirling University/ Federation of Small Business, 2006.

⁵ Defence Analytical Services and Advice (DASA) 2007.

Box 4.D: CompeteFor

CompeteFor has been set up by The Olympic Delivery Authority, the Regional Development Agencies and Devolved Administrations, to advertise the contracting opportunities arising through the London 2012 Olympics supply chain.

The portal encourages suppliers to open up their sub-contracting opportunities posting all available contracts throughout the supply chain on CompeteFor. All tier one suppliers are asked to advertise all new sub-contracting opportunities on the site offering buyers and prime contractors a simple way of engaging with suppliers that they would otherwise struggle to access. Once a supplier fills in an online profile it can apply for any appropriate opportunity, whether as a prime or sub-contractor.

As of 25 June 2008, over 20,000 suppliers were registered on CompeteFor. The Olympic Delivery Authority anticipates that 10,000 London 2012 opportunities will be available on the site, at all levels in the supply chain.

4.34 Procurers should work with prime contractors throughout the procurement process, to develop a plan of how they will engage SMEs in supply chains to ensure the public sector gets the most value from the contract. Through contract management, Government should encourage prime contractors to pay SMEs and other firms acting as sub-contractors promptly. There exists much guidance on these issues, including *Supply Chain Management in Public Sector Procurement*, and *Smaller Supplier: Better Value?* Government should work with procurers to ensure this guidance is followed.

Box 4.E: Strategic Procurement Recommendations

8. Departments should use their Innovation Procurement Plans to set out how procurement aligns with their overall commercial strategy, encourages innovation and gives advanced notice of long-term procurement plans.

9. Government should encourage wider use of outcome-based specifications across the public sector, as a means of driving innovation.

10. Government should expect and enable prime contractors to make their sub-contracting opportunities accessible through the single, online portal created in Recommendation 1.

11. Through contract management, Government should ensure that SMEs and other firms acting as sub-contractors obtain contract conditions, including promptness of payment terms, that are no worse than those applicable to the prime contractor.

5

Could SME access be improved by setting a goal?

5.1 The Committee's terms of reference invite it to consider the practicality of setting a goal for small and medium enterprises to win 30 per cent of all public sector business in the next five years and how SMEs' success in winning public sector contracts, including sub-contracting, could be more reliably measured.

5.2 At the root of this question is the concern that SMEs may not be winning a fair share of public contracts and a possible means of addressing it. In considering the matter, the Committee identified a number of issues to address including the form a target might take (either binding or otherwise), whether it is desirable from a business or public sector perspective, and its possible impact.

5.3 Although some countries (notably the United States) operate set-asides for SMEs, in its discussions and the call for evidence, the Committee approached the question of a target in the clear understanding that its terms of reference invited it to consider the target in the context of an aspirational "goal", based on contract value, rather than a binding "set-aside" or "quota". Annex E gives more information on how SME set-asides operate in the United States and elsewhere. Before considering any legal issues, the Committee sought to gather information through its call for evidence on the merits or otherwise of establishing a goal.

Potential advantages of setting a goal

5.4 Establishing a goal would give increased emphasis to the importance the Government attaches to the participation of SMEs in the public procurement market place and indicate that it was serious about taking steps to help them achieve a greater share of public sector procurement.

5.5 A goal could encourage public sector organisations to pay greater attention to the nature of its tenderers and might also incentivise them to ensure greater transparency of opportunity for SME suppliers. The increased attention on supplier type would make public authorities pay greater attention to the measurement of SME involvement in tendering and supply. Management information on public sector procurement spend is patchy and if it was improved there is the potential for improved decision-making, based on better market and supplier information.

5.6 Transparent reporting of how much spend goes to SMEs across the public sector would be likely to incentivise procurers to make a greater effort to diversify their supply base and actively seek to employ SMEs. Publication of the amount of contracts awarded to SMEs would drive compliance with a goal, as stakeholders would be able to see how organisations are performing in relation to the Government's aspirations.

Potential disadvantages of setting a goal

5.7 The call for evidence revealed that the majority opinion of both businesses and public procurers was that the disadvantages of a goal strongly outweighed the advantages.

5.8 Most small businesses were of the view that they wanted to compete on the basis of the quality of their product and service, on equal terms with large firms, rather than be subject to special treatment. Both they and the business representative organisations considered that the over-riding priority for Government was to tackle the underlying issues of transparency, simplicity and strategic problems in procurement and problems facing sub-contractors, rather than establishing a target (or targets). They considered that a target would potentially mask the symptoms of the problems SMEs face rather than addressing problems in the market place.

5.9 Public authorities shared this view. They noted that because of the wide variation in goods and services bought by different public bodies there could be no single “optimal level” of procurement from SMEs. Establishing a target in an already complicated procurement landscape also risked either distorting markets or developing into “tick box” process.

5.10 From a Government perspective it is also clear that a target in any event could not take the form of a binding “set-aside” or “quota” representing a firm minimum level of procurement to go to SMEs in the public sector as a whole. The Committee recognises that such a process would not be compatible with European Treaty principles or the rules that govern fair procurement across the EU. It would also be difficult to accommodate within the general UK Government approach of seeking to achieve best whole-life value for money through procurement which, subject to ensuring there is a level playing field between suppliers, implies a degree of neutrality.

Other evidence

5.11 The Committee commissioned the Centre for Enterprise and Economic Development Research at Middlesex University Business School to review available research and data on the role of SMEs in delivering public services and identify possible gaps. The Middlesex University Report¹ looked at national data available from procurers and suppliers, and discovered that there was no comprehensive source of information on the proportion of public sector contracts awarded to SMEs, making it impossible to set a credible baseline against which a goal could be measured. The necessary measurement infrastructure to support a goal would require substantial Government investment and would need to be maintained over a number of years to allow longitudinal analysis and measure progress in improving SME access to public procurement. Government would need to be certain that this would add value and, crucially, would not add to administrative burden for either SMEs or procurers.

5.12 The Committee commissioned the National Endowment for Science, Technology and the Arts (NESTA) to gather information on international SME policy, focusing on a representative selection of countries, including the USA, which has a target for 23% procurement from SMEs at federal level. NESTA has found that “there is strong evidence to suggest that targets alone, even where mandatory on procurers, are not sufficient to encourage SME procurement.”²

5.13 Evidence from the University of Washington suggests that, whilst some small businesses make effective use of federal procurement set-asides, success itself can create problems. Growing firms can expand beyond the point at which set-aside assistance is available, and be forced to compete against larger firms without any further government assistance. There is some evidence to suggest that firms deliberately halt their expansion in order to remain within the arbitrary SME size limits, with the set-aside hence acting as a disincentive for these firms to grow³.

¹ *Review of Research and Data on the Role of SMEs in Delivering Public Services*, Centre for Enterprise and Economic Development Research, Middlesex University.

² *NESTA Submission for the Glover Committee – International Comparisons*, NESTA Policy and Research Unit, 2008.

³ *Evaluation of SME access to Public Procurement Markets in the EU*, European Commission, 2007.

5.14 A report published by NERA Economic Consulting and the SBS in 2005, *A Study of the Benefits of Public Sector Procurement from Small Businesses*, found that none of the work undertaken in the study suggested that there was “any sound basis for deriving in the abstract an optimal level of SME procurement [which would inform any target], either in the aggregate or in any specific market”. It was suggested that this was because the optimum level of procurement from SMEs could vary from 0-100 per cent across sectors and the fact it would depend on the competence of the particular procurer in question. This conclusion is also supported by the Confederation of British Industry (CBI) in their submission to the Committee’s call for evidence.

Conclusion on the goal

5.15 For the reasons outlined above the Committee concluded a goal would not be effective in improving SME participation in public procurement. The main priority must be for the Government to tackle the main issues of transparency, simplicity and strategic procurement and the position of SMEs in the supply chain.

5.16 It is clear though that without reliable information it is not easy for public authorities to judge whether or not SMEs are receiving equal treatment and therefore, the committee has given consideration to options for measurement.

Measurement

5.17 The study undertaken by Middlesex University for the Committee analysed currently available data and data sources. It identified that available data suffered from a lack of commonality in approach in different public sector organisations. Annual surveys undertaken by the former Small Business Service and OGC only partially filled this gap, as only a small proportion of public sector spend was covered, with two of the highest spending public sector organisations, MoD and the National Health Service’s Purchasing and Supply Agency (NHS PaSA), excluded from the findings. In addition, these surveys had not attempted to examine supply chain activity, which could provide evidence of SME sub-contractors.

5.18 The most comprehensive sources of data appear to be held by private sector organisations commissioned by public sector bodies to report on their procurement spend. However, longitudinal analysis of these data is dependant on organisations signing up to more than one year’s analysis, and coverage is unrepresentative of the public sector as a whole, with poor coverage of health, defence and other central government. Use of these resources is likely to remain ad hoc, with public sector organisations utilising them when required to supplement their own data sets.

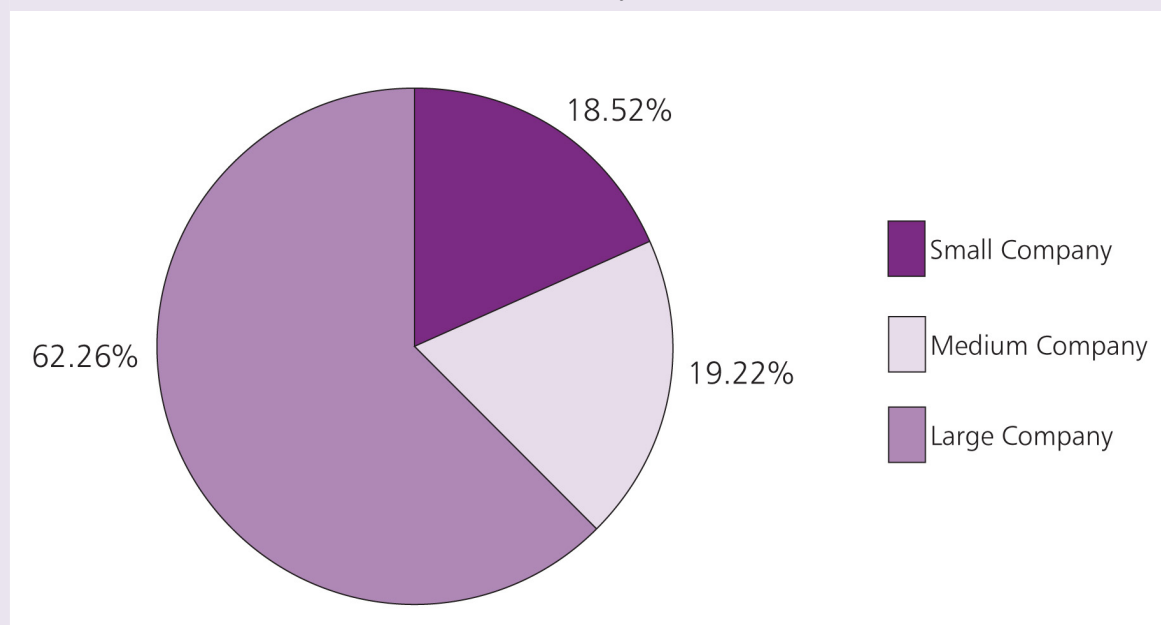
5.19 The Committee analysed data provided by Spikes Cavell⁴ to generate statistics on a range of public sector data, looking specifically at spend data for central and civil government and local authorities.

⁴ Details of the methodology of Spikes Cavell’s data collection can be found in Annex E.

Box 5.A: Spikes Cavell Data Analysis 1

Central and Civil Government, including agencies and non-departmental public bodies (NDPBs)

The chart below is based on data from the 2006-07 financial year, covering a total spend by UK 41 central and civil government organisations of £1.2 billion. 37.74 per cent of core spending is with SMEs, with 19.22 per cent with medium-sized firms (50-249 employees) and 18.52 per cent with small firms (0-49 employees).



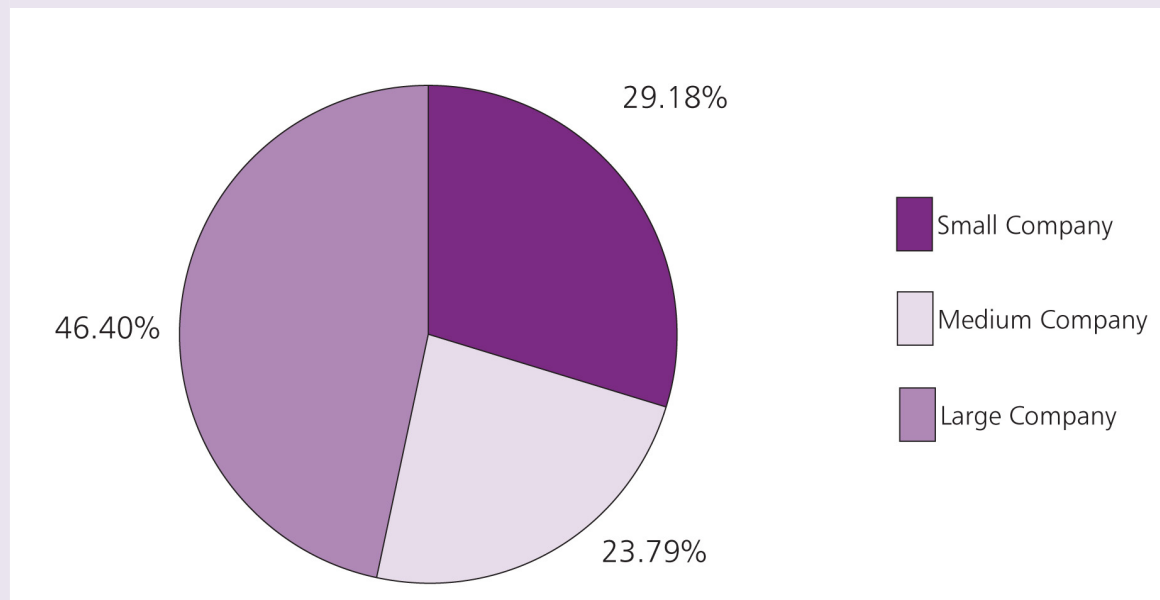
The table further breaks down spend with SMEs by sector, showing how SMEs were particularly strong in consultancy (19.68 per cent of SME spend), facilities management (19.07 per cent) and construction (17.50 per cent).

Sector	Total suppliers	per cent Spend	per cent Invoices	per cent Suppliers
Consultancy	1,847	19.68	8.27	14.99
Facilities Management	1,955	19.07	18.38	15.86
Construction	843	17.50	4.65	6.84
Human Resources	1,403	10.60	10.82	11.38
Unclassified Trade	774	4.56	4.94	6.28
ICT	705	4.00	5.47	5.72

Box 5.B: Spikes Cavell Data Analysis 2

Local Government

For the same financial year, the chart below illustrates the higher performance of SMEs in 89 UK local government authorities, accounting for 52.97 per cent of a total spend of £11.2 billion. Of this, 23.79 per cent is with medium companies, and 29.18 per cent with small firms.



Looking at sectoral analysis in local government, the table below shows some similarities with central government, with construction (27.33 per cent) and consultancy (6.29 per cent) significant sources of business for SMEs. However, the high percentage of SME spend in social community care (20.17 per cent) indicates the different business needs and priorities in local government. This supports the point that there is no over arching “optimum level” for SME procurement in different sectors, as public sector organisations need to have the freedom to meet their respective business needs by seeking best whole-life value for money.

Sector	Total Suppliers	per cent Spend	per cent Invoices	per cent Suppliers
Construction	13,748	27.33	11.19	10.40
Social Community Care	9,827	20.17	15.12	7.43
Consultancy	13,413	6.29	2.61	10.15
Human Resources	9,754	5.35	8.11	7.38
Transport	4,108	4.83	4.37	3.11
Facilities Management	10,262	3.76	5.18	7.76

5.20 Surveys of SMEs are another potential source of information, with the Federation of Small Businesses and the Annual Small Business Survey being the two primary repositories of data derived from large samples (18,939 and 9,905 responses respectively). Supply-side data offer another perspective on the tendering process, allowing SMEs to give their views on engagement with public procurement and including those who have yet to engage. The surveys are useful in identifying possible barriers for SMEs who want to participate in public procurement and the sectors and types of public organisation they have engaged with before. Provided surveys are repeated at regular intervals, with identical or similar questions, they can allow for longitudinal analysis of trends.

5.21 However, both surveys have their weaknesses, mainly relating to the composition of the sample base. The FSB study, based as it is on membership of an organisation, shows bias based on sector and region, with the South West region and production activities over-represented. It does however have some information on SME access to sub-contracting (see sub-contracting section below). The ASBS survey has better regional and sectoral coverage (despite some bias towards manufacturing) but does not currently distinguish between contracting and sub-contracting. Of course, data gathered through surveys are qualitative and will not be as reliable as quantitative figures derived from objective demand side spend data.

5.22 The most comprehensive and focused mixed study on SME involvement in public procurement is the aforementioned NERA *Study on the Benefits of Public Sector Procurement from Small Businesses (2005)*. The study uses FSB 2004 results in combination with 20 qualitative public sector supplier case studies and Government consumption UK input-output tables (2002). Middlesex University points out that this study suffers from the lack of objective SME evidence provided by Government data streams and the bias of the FSB data, which were shown to be over-representative of SMEs supplying the public sector.

Conclusion on Measurement

5.23 It is clear that available information on SME engagement in public procurement is patchy and that there is no single data source that is comprehensive in terms of subject area, sector, geography and longitudinal data. This lack of consistent monitoring by procurers means that impact evaluation of any measures undertaken is difficult. The Committee therefore believes that effective measurement, done in a way without creating undue burdens on either businesses or the public sector, is essential.

Box 5.C: Measurement Recommendation

12. The Committee recommends that all central government departments should report annually on the value of their contract spend with SMEs, creating a reliable single source of quantitative data which can be used to inform future policy decisions and evaluate the recommendations in this report.

A Definitions, scope and terms of reference

SME definition

The Glover Committee used the EU definition of an SME, as set out in Recommendation 2003/361/EC. Details of limits for headcount, turnover and balance sheet total are set out in the table below:

Enterprise category	Headcount	Turnover	or	Balance sheet total
micro	< 10	≤ € 2 million		≤ € 2 million
small	< 50	≤ € 10 million		≤ € 10 million
medium-sized	< 250	≤ € 50 million		≤ € 43 million

The only data within the report that does not use the definition above are the analysis of local and central government accounts payable data by Spikes Cavell. This work uses the same headcount criterion as the EU definition, but uses a maximum turnover figure of £22.8 million¹.

Scope

The Committee's remit encompassed the whole public sector in England. This is inclusive of central civil government, defence, the National Health Service (NHS), executive agencies, non-departmental public bodies, local government and all other relevant public bodies.

The Committee looked at public procurement policy and practice in the devolved regions and internationally (both within and outside the EU).

Terms of reference

Following the Chancellor's announcement in Budget 2008, the following terms of reference were agreed:

The Committee is to provide advice to the Chancellor and Secretary of State for Business, Enterprise and Regulatory Reform on:

- how much progress has been made on implementing the recommendations in the 2003 report *Government: Supporter or Customer?*, produced for Government jointly by the Better Regulation Task Force and the Small Business Council;
- what impact these and other actions taken in the last five years have had on improving SME access to Government contracts, with particular reference to innovative young companies;

¹ Spikes Cavell initially used the EU definition, but changed to a definition provided by the Federation of Small Businesses (FSB), with turnover figures provided in pounds sterling rather than euros following concerns from customers over variations in reports due to currency fluctuations rather than movements of the underlying data.

- how SMEs' success in winning public sector contracts, including sub-contracting, could be more reliably measured;
- the practicality of setting a goal for small and medium enterprises to win 30 per cent of all public sector business in the next five years; and
- what actions Government should take in order to make further progress over the next five years, within the scope of EU procurement rules and the overarching policy objective of value for money.

The Committee was supported by officials from the Office of Government Commerce (OGC), the Department for Business Enterprise and Regulatory Reform (BERR), HM Treasury (HMT) and the Department for Innovation, Universities & Skills (DIUS).

The Committee agreed terms of reference for a sub-group of experts to provide input to the committee on sub-contracting and innovation, and to support the Committee in its development of recommendations.

B

Analysis of progress since 2003

Analysis of the implementation, and impact of, the recommendations made in the 2003 Better Regulation Task Force Small Business Council/Report "Government: Customer and Supplier?"

Recommendation		Outcome	Commentary
1.	Allocate resources for and implement a "Supplying Government" web portal	Fully Met	Supply2.gov created March 2006.
2.	Local Authorities encouraged to develop "selling to the council" websites.	Partially Met	89 per cent of council's procurement strategies specifically address e-procurement.
3.	Procurement advice and training for SMEs.	Fully Met	<i>Tendering for Government Contracts</i> published in 2004, <i>Winning the Contract</i> , an online training package was launched in 2007.
4.	Regional Development Agencies to work with prime sector contractors to develop opportunities for SMEs.	Partially Met	Many projects are short term and sustained activity is in short supply.
5.	Development of a common core pre-qualification questionnaire (PQQ).	Fully Met	PQQ for low complexity and low value procurements published on OGC website in 2006.
6.	Publication of the mechanism for reporting non-compliance with the <i>Government Procurement Code of Good Practice</i> .	Fully Met	<i>Government Procurement Code of Good Practice</i> published and available on OGC and Business Link websites.
7.	Wider use of the Government Procurement Card.	Met	51 per cent of councils report using a procurement card and 1,014 GPC schemes are now in operation across the public sector in over 700 organisations.
8.	Office of Fair Trading (OFT) should carry out research on characteristics of markets where it is important that SMEs are able to compete.	Partially Met	OFT research had a broader remit than that envisaged, identifying markets where competition concerns were most likely to arise, rather than focusing purely on SMEs.
9.	When opting for prime contractors, procurers should ensure that their business case for doing so brings value for money and use the procurement process to ensure that prime contractors manage their supply chains following best practice guidelines. Government departments and local authorities should list details of	Partially Met	Supply chain management guidance has been published and some Government departments list their prime contractors on their websites. However, the majority do not and there is no mechanism to measure the value for money of using prime contractors or ensure that they treat their sub-contractors fairly.

	prime contractors and contracts on their websites.		
10.	Development of a SME-friendly procurement concordat, which all local authorities should sign up to.	Partially Met	A SME-friendly procurement concordat has been published: as of April 2008, 44 per cent of English Local Authorities had signed up.
11.	Local Authorities' procurement strategies should set out steps to engage with SMEs or publish this information in their annual reports.	Partially Met	The 2004 <i>National Procurement Strategy</i> report indicates that progress was being made in this area, however this information was not collated in future reports.

Recommendation 1

The Department of Trade and Industry (DTI) should ensure adequate resources for a "Supplying Government" web portal project. The portal should advertise lower value contracts from across central government and include information on future contract opportunities. There should be a named contact for each advertised contract. The portal should be set up and piloted by spring 2005.

Implementation

The Supplying Government website has since become www.supply2.gov.uk which, since March 2006, has functioned as the national opportunities portal for sub-OJEU threshold tender opportunities. Businesses are able to access contracts for one location within the UK free of charge but are required to pay a subscription fee if they wish to access opportunities more widely.

From 1 May until 31 July 2008, the website allowed new registrants to gain free access to public sector contracts valued under £100,000 throughout the UK. During the trial, 22,500 new suppliers registered on www.supply2.gov.uk; of which nearly three quarters had a turnover of less than £1 million, and over three quarters had less than 20 employees¹.

Supply2.gov.uk enables businesses to search for suitable opportunities and gives a named contact for each advertised opportunity. They are also able to create and publish their own unique supplier profile of pre-qualification information that can be viewed and accessed by public sector buyers registered on the portal.

Impact

Although the www.supply2.gov.uk site has opened up the market to more SMEs by allowing businesses to find UK wide opportunities in one place there appear to be a number of shortcomings, including the fact that full coverage of central and local government low value opportunities has not yet been achieved. The proliferation of public sector portals has further confused SMEs.

The site at present primarily functions as an advertising portal and is not able to notify, or measure, contract awards.

In July 2007 a quantitative survey of suppliers using Supply2.gov, carried out by OMB² concluded that 43 per cent believed that supply2.gov had saved their business time in either searching for or applying for public sector contracts and around a third of user firms considered that supply2.gov had made it easier to bid for public sector work and that it had increased the number of contracts they are likely to bid for. Having said that, overall satisfaction with the service was relatively low, with less than half of all firms 'satisfied' and almost a third

¹ News Release, BiP Solutions, 2008.

² Quantitative Survey of Suppliers Using www.supply2.gov.uk. BERR, July 2007.

'dissatisfied' and only one fifth thought it would have a positive impact on their chances of winning contracts.

To the end of August 2008 just over 93,000 opportunities have been advertised through the portal, of which just over 31,000 were lower value, best suited to small businesses and previously hard to find.

Recommendation 2

The Office of the Deputy Prime Minister (ODPM) and the Local Government Association (LGA) should encourage local authorities to develop "selling to the council" websites by 2005. Websites should include information on contracts for tender, forthcoming contract opportunities and guidance on how to do business with the council. There should be a named contact for each advertised contract.

Implementation

The National Procurement Strategy for Local Government launched in October 2003 stated that by 2004 every council should publish a 'Selling to the Council' guide on its corporate website together with details of bidding opportunities and contact details.

The Strategy published its final report in April 2008³. A survey of local authorities in England drew 135 responses; given that there are 388 local authorities this was a disappointing response rate. However, of these, 93 per cent said that they had published information on the internet, 89 per cent stated their strategies specifically addressed e-Procurement, 31 per cent reported using e-Tendering, 35 per cent used e-Auctions, and 57 per cent online catalogues.

Impact

Local authorities do publish guidance on their websites and there is evidence to show that there is a good level of engagement between councils and SMEs.

Recommendation 3

Within the context of small business support, the SBS should provide advice and training for SMEs on how to do business with central government and local councils. The Business Link Operators should deliver this by spring 2004.

Implementation

There is evidence of a variety of advice and training for SMEs in this area.

The guidance material, *Tendering for Government Contracts* was published in November 2004 and *Winning the Contract*, an online training package was launched in May 2007.

Since the publication of the report, the Business Link service has moved from direct delivery of business support services to providing information, diagnosis and brokerage for suppliers. Practical support has also been provided by face-to-face training supplied by the nine English Regional Development Agencies.

Impact

The Call for Evidence shows that the available training and guidance material is useful as a starting point, but is not sufficient in itself to assist businesses win work. There has been no evaluation of the impact and usefulness of training courses.

³ National Procurement Strategy for Local Government, Final Report, DCLG, April 2008.

Recommendation 4

Regional Development Agencies should ensure by spring 2004 that, as part of the supply chain development work for which they are already funded, they work with prime public sector contractors to develop opportunities for small and medium-sized enterprises.

Implementation

A series of regional initiatives and programmes have taken place, and continue to do so, although coverage appears to be quite patchy. The RDAs joined forces to create and deliver CompeteFor, a website, designed to publicise new business opportunities within the London 2012 supply chain. The site actively matches buyers in the supply chain with potential suppliers.

Impact

Some good projects have taken place regionally with benefits for businesses that have engaged. However, many projects are short term and sustained on-going activity is in short supply.

Recommendation 5

The public sector should develop a common core pre-qualification information document for lower value contracts so that businesses do not have to put together different information in different formats to get past the expression of interest stage. OGC, ODPM and LGA should develop and pilot this by spring 2004.

Implementation

A standardised pre-qualification questionnaire was produced and made available by OGC in April 2006. The questionnaire is specifically designed for low complexity and low-value procurements. It seeks to reduce the amount of time businesses spend in pre-qualifying for public procurement contracts by asking questions in the same format, ensuring the questions are easy to answer and evaluate, and by not asking firms to provide unnecessary information.

Impact

Although the PQQ is available on the OGC website, there is little evidence of take up and variation in practice by authorities remains.

Recommendation 6

SBS should publicise the mechanism for reporting non-compliance with the OGC "Government Procurement Code of Good Practice."

Implementation

The "Government Procurement Code of Good Practice" set out the core values and behaviour for all members of central civil government's supply chain. At inception SBS placed a copy of the Code on the OGC website and provided a link to the code on the Business Link website. Information was sent to Business Link and incorporated into training delivered to both suppliers and procurers.

In April 2007 OGC launched the Supplier Feedback Service, which provides a direct route for suppliers to raise concerns about public procurement practices, regardless of supplier size or value of contract. The mechanism for reporting non-compliance requires SMEs to contact the Head of Procurement in the organisation they are dealing with, the relevant Trade body, or OGC via its helpline or website. This is an informal feedback route and does not replace any of the formal mechanisms for seeking remedies as a result of breaches of the public procurement rules e.g. European Commission infractions.

Impact

To August 2008, 34 queries have been taken forward by the Supplier Feedback Service. The service will consider all complaints from suppliers, with no restrictions or thresholds placed on supplier size or value of contract. The majority of responses come from SMEs.

The Supplier Feedback Service has been publicised to the membership of representative bodies such as the CBI, FSB and Intellect, as well as through stakeholder events and trade journals. There are plans to reinvigorate the promotional campaign for the service, with the aim of driving up the number of supplier responses.

Recommendation 7

OGC, ODPM and the LGA should consider how to promote the wider use of the Government Procurement Card, recently extended by the OGC to include local authorities and other non-central civil Government bodies, in order to improve prompt payment by the end of 2003.

Implementation

The use of the Government Procurement Card is now widespread across the public sector providing an efficient means for authorised staff to conduct low value transactions quickly.

Impact

In the final report of the *National Procurement Strategy for Local Government*, 51 per cent of councils report using a procurement card, up from a baseline in 2000 of 13 per cent. *The Government Procurement Card Annual Report 2007*⁴ reports that 1,014 GPC schemes are now in operation across the public sector in over 700 organisations, with 360 schemes in central government, 286 in education and 284 in local government. Since 2006, there has been a 31.77 per cent increase in the amount of schemes in operation.

Recommendation 8

Office of Fair Trading (OFT) should carry out research to identify the characteristics of those markets where it is important to ensure that SMEs are able to compete to ensure competition, particularly where this may have an impact on innovation and value for money achieved by public sector procurement. Within this, it should also assess the impact of framework agreements and contract aggregation on SMEs. This research should be carried out by the end of 2003.

Implementation

OFT published *Assessing the Impact of Public Sector Procurement on Competition* in September 2004⁵.

This report was a somewhat broader approach than the BRTF/SBC suggested. It identified markets where competition concerns are most likely to arise, and where further investigation might be most appropriate.

The report looked specifically at contract aggregation, noting that although it may reduce the costs of procurement, it may also have a negative impact on competition. It notes that the participation of smaller firms may be limited and that contract aggregation amplifies the extent of incumbency advantages compared with letting multiple contracts. However, the report also indicates that contract aggregation may also promote competition through, for example, reducing the scope for tacit collusion.

⁴ *The Government Procurement Card Annual Report 2007*, Visa/OGC Buying Solutions, 2007.

⁵ *Assessing the Impact of Public Sector procurement on Competition*, OFT, September 2004.

Impact

The Committee's call for evidence process indicated that many SMEs were still concerned that the size of public sector contracts tends to favour larger firms (21 per cent of SMEs with public sector experience). During supplier workshops, delegates stated that increasing aggregation of contracts and use of frameworks were having a negative impact on SMEs.

Recommendation 9

Where public sector procurers opt for prime contractors, they should ensure that their business case for doing so in those particular markets brings value for money.

Public sector procurers should ask prime contractors during the procurement process to demonstrate their track record in achieving value for money through effective use of their supply chain, including use of SMEs. This should also be examined as part of the ongoing contract management. Public sector procurers should ensure that prime contractors pay sub-contractors on time and that when paying progress payments to prime contractors the payments flow down through the supply chain.

In order to make sub-contracting opportunities more transparent to SMEs, Government Departments and local authorities should list details of prime contractors and contracts on their websites.

Implementation

The Government accepted that public sector procurers should ensure that prime contractors pay sub-contractors on time and that payments flow down through the supply chain.

In 2006 OGC issued new guidance entitled *Supply Chain Management in Public Sector Procurement*⁶, aimed at contracting authorities, which aimed to encourage a more sophisticated approach to supply chain management and to define the roles of the procurer and prime contractor in this process.

As part of the West Midlands pilot in 2005, OGC identified around 30 suppliers to talk to, to request that they make their supply chains more open and transparent. Subsequently, OGC worked with 13 key suppliers, all of whom agreed to improve their own systems where they could and three effected a change to their websites.

Impact

The *Supply Chain Management in Public Sector Procurement* is freely available via the OGC website: there has been no long-term evaluation of the impact it may have had on prime and sub-contractors in public sector supply chains. There is little evidence of long-term impact.

The first part of this recommendation, the demonstration of achieving value for money through supply chains, seems to have been largely ignored. With regards to timely payments, there is much evidence that SMEs in the supply chain have to wait lengthy periods of time to receive payment, whilst the larger businesses benefit from government policies stipulating 30 day period terms. 5 years on from this recommendation, it appears that public sector procurers are not ensuring that payments flow down the supply chain.

⁶ *Supply Chain Management in Public Sector Procurement*, OGC, 2006.

Recommendation 10

The Local Government Procurement Forum, with input from the Small Business Service, should develop a SME-Friendly Procurement Concordat. All local authorities should be able to sign up to this by 2005.

Implementation

The Small Business Friendly Concordat: Good Practice Guidance was launched in March 2005. This voluntary, non-statutory Code of Practice aimed to remove the barriers to businesses that discourage small firms from entering public procurement markets, especially for the first time, by simplifying processes and clearly set out what small firms and others supplying Local Government can expect when tendering for local authority contracts. It formed part of the *National Procurement Strategy for Local Government*⁷ (NPS), published in October 2003, which set a goal for all Local Authorities to have adopted the Concordat by the end of 2005. By signing the concordat local authorities agreed to publish a corporate procurement strategy including commitments to: publish guidance for suppliers on how to do business with the council, advertise contracts using a range of publications to encourage diversity, competition and apply tendering processes fairly and offer meaningful feedback to suppliers following the procurement process.

By April 2008 only 172 out of 388 English Local Authorities (44 per cent) had signed up to the concordat principles.

Impact

There has been a relatively low sign up rate, with little evidence to measure the impact of signing up to the Concordat. It is not possible to say that businesses in an area where the concordat has not been signed receive an inferior service.

Recommendation 11

The ODPM and LGA should encourage local authorities to set out in their procurement strategies the steps they are taking to engage with small and medium-sized enterprises by the end of 2003.

Government Departments should include in their procurement policy statements the steps they take to engage with small and medium-sized enterprises by the end of 2003 or publish this information in their annual reports.

Implementation

The National Procurement Strategy set out ways to help Local Authorities deliver their strategic objectives and improve frontline services to the public through improved procurement practices. It launched the Regional Centres of Excellence to assist all councils in implementing the Strategy and build procurement capacity and capability throughout the English regions and stated that "every council's corporate procurement strategy should set out the council's approach to collaboration."

By 2004 83 per cent of 135 respondent councils set out their approach to collaboration, (37 per cent specifically and with targets) and 29 per cent refer to trading in the strategy, (6 per cent specifically), 65 per cent had signed up to the national concordat on SMEs, with 25 per cent anticipating to do so by the end of the financial year 2008-09.

⁷ www.communities.gov.uk/nps

In addition a number of initiatives and projects such as the West Midlands and Haringey Procurement Pilots took place.

Impact

The 2004 report indicated that progress was being made in this area but subsequent annual surveys relating to the NPS did not consistently cover this issue. The Final NPS report outlines that 44 per cent of respondent councils measure their performance on procurement from SMEs.



Methodology of data collection

To supplement the Committee's understanding of available data relating to SME engagement with public sector procurement, Middlesex University were commissioned to produce a report analysing the existing evidence base.

The objectives of the research were to identify relevant existing data sources on SMEs and public services and assess their relative quality; identify research papers and studies related to SMEs and public services and assess the relative quality, scope and key findings, and finally to identify the gaps in research and data collected to date.

The Middlesex team reviewed a wide range of literature drawn from different sources. This was collected through web searches, existing material held by the research team and consultation with a range of researchers and experts in the field. In addition to a structured review of each relevant study, telephone interviews with those involved in data collection have been used to collect additional information on methods used and definitions for key terms.

In addition to studies looking at SMEs in general, data was collected on specific sectors and activities. This included looking at specific geographic areas either at the regional or local authority level, together with data from surveys for particular types of SMEs (e.g. social enterprises or Black Asian and Minority Ethnic-owned businesses).

In order to gain a broader picture of SME access to public procurement, the Committee also commissioned Spikes Cavell to provide access to its Observatory, allowing analysis of a range of public sector bodies and looking in particular at central and civil government and local government, in the financial year 2006-07.

Spikes Cavell's data collection methodology consists of the following steps:

Extract

Spikes Cavell first extracts data from the organisation's financial systems. This is supported by a documented data extraction specification sent to the organisation.

Enhance

The data are then cleansed and standardised through cross-reference to external databases.

Validate

The data undergo an extensive series of checks to ensure that they are of sufficiently high quality.

Aggregate

Master supplier records are created to ensure that all public sector bodies can cross-reference and compare supplier data. All spend data are also aggregated into a single, unified and consistent master database.

The Observatory can provide SME data relating to their total share of contracting authorities' core trade spend. Spikes Cavell define "core trade spend" as that which is above £1,000 and indicate that smaller spending levels account for less than 0.5 per cent of total public sector spend (and are therefore not significant).

There are 339 current members (with more in the pipeline), of which over half (171) have used the Observatory for more than one year. Membership retention rates are described by Middlesex University¹ as “quite good and appear to be growing...with around one third of memberships having lapsed”.

The data for the 339 current members are representative of their most recently recorded financial year, as members have different invoice accounting procedures and financial year ends. This means that Observatory data cannot provide effective longitudinal data (i.e. data in which units are observed over multiple time periods). Middlesex University notes how “changes in annual membership have implications for the balance and coverage of different types of public sector organisations annually”, with only 171 of the public bodies on the Observatory able to provide information which can only be used for like-for-like comparisons of data between years.

The table below, from Middlesex University’s report, illustrates how the Spikes Cavell Observatory contains data on a sizeable minority of UK public sector organisations, possibly over one eighth (13 per cent) of all organisations, based on the table estimates presented.

Spikes Cavell Breakdown of Public Sector Members by Organisation Type (2004-2008)

Organisation	Spikes Cavell		UK Total*
	Number	Percentage of UK public bodies	Number
Central & Civil Government	50	6.2	813
Higher Education	71	11.2	635
Local Government	164	33.6	489
NHS	34	6.4	532
Police, Fire & Emergency	17	14.7	116
Registered Social Landlords	3	-	-
Total	339	13.0**	2,585

Note: *Approximate totals, based on broad definitions, supplied by Spikes Cavell
 **Excludes Registered Social Landlords (n=336)

As there is at least a 5 per cent sample in each of the categories presented, Middlesex University believes that the Observatory should be capable of providing “reasonably robust” measures of public sector spending patterns. The report does, however, note that Spikes Cavell data are biased towards Scottish public sector organisations, particularly in the central and civil government category, where 70 per cent of organisations are Scottish.

¹ *Review of Research and Data on the Role of SMEs in Delivering Public Services*, Centre for Enterprise and Economic Development Research, Middlesex University.

D Summary of the call for evidence process

The Call for Evidence process was multi-pronged, reaching out to SMEs, business representative bodies and public sector procurers and consisted of an online questionnaire, a series of workshops and a number of meetings with key stakeholders.

Online Call for Evidence

Running from 6 June – 8 August 2008 the online call for evidence asked a series of questions designed to identify the key barriers faced by SMEs, to ensure that the Committee was fully aware of the real issues at a grass roots level and give businesses and other stakeholders the opportunity to shape future policy.

Respondents were invited to provide comments under one of three categories:

- those who had either bid for public sector work or worked with the public sector (either as a prime or sub-contractor);
- those who had not engaged with the public sector; or
- public sector procurers and those representing contracting authorities.

A total of 1,296 responses were received, breaking down as follows:

- 873 responses were received from SMEs with experience of public sector work or bidding;
- 378 responses were received from SMEs without experience; and
- 45 responses were received from public sector procurers.

Ci Research¹ was commissioned to analyse the results in order to draw a picture of the business respondents and to identify key themes, obstacles, issues and general trends.

Businesses with Experience of public sector work or bidding – base 873 respondents

Question One: “We would like to know more about how easy or otherwise you find it to identify opportunities to supply the public sector”.

Summary of responses:

- SMEs are disadvantaged due to their lack of size/track record (41 per cent);
- It is difficult to identify suitable/relevant tenders (24 per cent);
- Tendering is complicated and time consuming (22 per cent);
- SMEs are helped by supply2gov (29 per cent); and

¹ Care should also be used when considering the use of the summary statistics contained in the report. The base size on which each statistic is based has been set out, but readers should realise that this study is not a statistically robust research survey.

- contracts are easily identified through the use of other IT/web based information sources (28 per cent).

Question Two: “We would like to know more about your experience of the tendering process in terms of paperwork and the supply of information”.

Summary of responses:

- tendering is complicated and time consuming (41 per cent);
- SMEs are disadvantaged due to their lack of size/track record (27 per cent);
- the process is bureaucratic and obsessed with irrelevant information/it is paper intensive (24 per cent); and
- of those who stated that tendering is complicated and time consuming a greater proportion of respondents were more likely to be operating in more highly regulated sectors. For example, 74 per cent and 60 per cent answered in this way from the Social Care and Food sectors respectively, compared to the lowest figure of 29 per cent in Office Provisions ².

Question Three: “We would like to know more about your experience of fulfilling public contracts”.

Summary of responses:

- Once a contract has been agreed, the experience is positive with few, if any, problems (41 per cent);
- SMEs disadvantaged due to lack of size/track record (12 per cent); and
- For those who responded positively about their experiences, views did vary by region. Those based in London and the North West were more likely to have made a positive response (47 per cent and 48 per cent respectively), compared to those in Wales (25 per cent) and Yorkshire and Humberside (32 per cent).

Question Four: “Please tell us what you feel were the negative aspects of your engagement with the public sector”.

Summary of responses:

- Failure to understand SMEs and being disadvantaged due to lack of size/track record (34 per cent).
- Bureaucratic process and long PQQs (28 per cent).

² Please note that there were only 19 respondents operating in the Social Care sector, 6 respondents in the Food sector and 17 respondents in the Office Provisions sector.

- Poor information from the bidder during pre-tender submission and poor feedback following a decision (17 per cent).
- The failure to understand SMEs was most likely to be identified by those operating in the Food (50 per cent) and Social Care (53 per cent) sectors and least likely to be identified by those in the Health sector (17 per cent).

Question Five: "Please tell us what you feel were the positive aspects of your engagement with the public sector".

- Able to generate a good working relationship with the staff, many of whom were cooperative and knowledgeable (32 per cent).
- Regular and reliable payment (28 per cent).
- There were no positive aspects (14 per cent).

Question Six: "Please use the following space to tell us about any improvements you think could be made to enable SME participation in public procurement".

Summary of responses:

- Government support for SMEs, so that there is no exclusion due to company size and lack of track record (39 per cent).
- Simplify and clarify the tender process (33 per cent).
- Relevant information and opportunities should be available from a single source (24 per cent).
- Improved PQQ/qualification system to help increase the opportunities for SMEs (19 per cent).

Question Seven: "The committee is collecting evidence of the feasibility of a goal proportion of public procurement being secured by SMEs. If you think small firms in your sector do not get a sufficient share of contract opportunities please let us have your views on any barriers as you see them or suggested measures the Government might take to address this".

Summary of responses:

- SMEs are blocked because of lack of size and track record and the comparatively low number of staff members (49 per cent).
- Don't know or no response (18 per cent).

Businesses with NO experience of public sector work or bidding – base 378 respondents

Question One: “Please tell us why you have never engaged with the public sector”.

Summary of responses:

- The cost (time and resources) and bureaucracy associated with the tendering process (44 per cent).
- The size of contracts tends to favour larger companies and therefore discourages SMEs (21 per cent).
- Transparency – tender offers were not forthcoming, SMEs were not being invited to tender (20 per cent).

Question Two: “What would entice you to engage with the public sector?”

Summary of responses:

- Making the tendering process easier (33 per cent).
- Increasing the number of opportunities (17 per cent).

Question Three: “What are the obstacles in finding out about opportunities to supply to the public sector?”.

Summary of responses:

- The cost (time and resources) and charges associated with the bidding process (e.g. the charge to use “supply2gov”) (23 per cent).
- Lack of knowledge about where to look for the opportunities (21 per cent).

Question Four: “Please use the following space to tell us about any improvements you think could be made to enable SME participation in public procurement”.

Summary of responses:

- Reduction in bureaucracy to make the process simpler (21 per cent).

Question Five: "The committee is collecting evidence of the feasibility of a goal proportion of public procurement being secured by SMEs. If you think small firms in your sector do not get a sufficient share of contract opportunities please let us have your views on any barriers as you see them or suggested measures the Government might take to address this".

Summary of responses:

- Procurers need to have a greater understanding of the challenges SMEs face in engaging in public sector procurement processes(23 per cent).

Public Sector Procurers – base 45 respondents

Question One: "What do you think are the advantages of engaging SMEs in the supply chain (citing any personal experience if applicable)?"

Summary of responses:

- Supporting the local economy (18).
- Receiving innovative ideas and suggestions from SMEs (17).
- Being cost effective (17).
- Providing a responsive service and "going the extra mile" (15).
- Being more flexible (13).

Question Two: "What do you think are the disadvantages of engaging SMEs in the supply chain (citing any personal experience if applicable)?"

Summary of responses:

- Having a lack of capacity and/or resources to deliver to the required contract specifications (17).
- Procurement from SMEs being considered riskier than procurement from larger organisations (11).
- Cost: respondents mentioned issues such as not having the size to be able to generate economies of scale, not being able to compete on cost and not providing sufficient value for money for the procuring organisation (9).

Question Three: "Please tell us what are you doing to enable SME participation in your procurement, both as prime contractors and as sub-contractors".

Summary of responses:

- Conducting workshops to explain the tendering process and the help that is available (12).
- Advertise tenders on local websites, e.g. local authority website, trade press, etc. (9).
- Work with business support organisations (including RDAs, Chambers of Commerce, Business Links) to increase the awareness among SMEs of the opportunities (9).

Question Four: "Please tell us about any action that you have taken to diversify your supplier base, and manage any potential risks in doing so".

Summary of responses:

- Holding seminars to help highlight the opportunities and explain the tendering process (7).
- Encouraging SMEs to bid and to keep trying if unsuccessful; associated with this was the provision of feedback to those submitting tender responses (5).
- Use of purchasing websites, including "supply2gov" (5).
- Conducting risk assessments and capability assessments (5).

Question Five: "Please tell us about any improvements you think Government could make to enable SME participation in public procurement".

Summary of responses:

- Educate SMEs in the procurement processes used by the public sector (10).
- Reduce the bureaucracy associated with the bidding process (8).
- Make the bidding process simpler and easier (8).

Question Six: "The committee is collecting evidence of the feasibility of a goal proportion of public procurement being secured by SMEs. Please tell us any views you have on this".

Summary of responses:

- Of the 33 respondents who expressed either a positive or negative preference 33 per cent were supportive of the idea and 66 per cent were against it (the balance of 12 did not express an explicit opinion). Of the 22 respondents who were against the idea, the most cited comments were:
- It would be counter productive and restrictive (18).

- It would be counter to current EU and UK Government policy and regulations (7).
- It would increase the amount of bureaucracy (4).
- The goal is not realistic (4).
- The key issue is to be able to procure the best quality service at the best price (13).
- Rather than having a target, try to increase the number of SMEs submitting expressions of interest/tenders (3).

Business consultation workshops

Four consultation workshops were attended by over 200 businesses and business representative organisations, at which the key issues identified in the online questionnaire were discussed at a more granular level. This allowed the Committee to gauge the real level of impact that these issues have on businesses on the ground and gain new ideas of potential solutions from the business community.

The ideas and suggestions coming out of the business consultation workshops were then floated and discussed in detail at two workshops attended by over 70 public sector procurers. The outcome of these workshops has formed the body of much of this report.

In addition extensive stakeholder engagement has ensured that additional input has been received by a number of business representative organisations, trade bodies, sector organisations and businesses to which the Committee wish to express their thanks.

E

International comparisons

The Committee commissioned the National Endowment for Science, Technology and the Arts (NESTA) to gather information on international SME policy, focusing on a representative section of countries¹. These were selected on the basis of their relevance and/or interest to the UK, looking at “Old” and “New Europe”; the Commonwealth and English-speaking economies; newly industrialising countries and the USA.

Direct comparisons of SME policy outside the EU are rendered difficult by substantial variations in international definitions of what constitutes an SME (including different sectoral definitions) and there is no internationally accepted reporting framework for data relating to this area. However, NESTA were nevertheless able to draw together examples of good practice (and possible pitfalls to avoid) from a review of their case studies which the Committee has used to inform their thinking and recommendations.

E-Procurement

E-procurement, through reducing the overall cost of obtaining information on contracts (through websites such as those operated by Australia or South Korea) and simplifying the bidding process has made public contracts more accessible to SMEs, who face proportionally greater costs on tendering for a contract. It is important for SMEs that this information is available for free or for a nominal fee, as the Organisation for Economic Cooperation and Development (OECD) reports that subscriptions (in this case to printed journals) can be prohibitively expensive for SMEs². Governments can also benefit from cost savings: the World Bank estimates that South Korea saves \$2.6 billion annually by using e-procurement³.

Looking specifically at South Korea, which won the 2003 UN Public Service Award for innovation in governance for its e-procurement system, best practice includes a single, centralised website, updated regularly. The b2g.gov.kr website contains details of all procurement opportunities within South Korea over a relatively low threshold and, in addition, contains information on contracts awarded, advice on securing a bid and details of the help available to SMEs:

- a searchable database by contract value, type and sector; and
- inclusion of international procurement opportunities alongside national, to promote competition.

NESTA also highlighted the high degree of political buy-in for the South Korean procurement project, with strong engagement from the very highest level following the election of a new president in 1998 committed to the overhaul of Government IT infrastructure. Previously, although some departments had run their own e-procurement systems, the absence of centralisation and standardisation meant that these incompatible, standalone systems could not handle large volumes of procurement. The process of reform was overseen by the Ministry of Business and Planning, which first provided a standardised e-procurement system for the most commonly procured goods, and gradually centralised all e-procurement through a single front

¹ NESTA Submission for Glover Review Workstream on International Comparisons, NESTA Policy and Research Unit, 2008.

² Public Procurement Review: Hungary, OECD, June 2003.

³ PREM notes : Korea's move to e-procurement, World Bank, July 2004.

end.⁴ The World Bank reckons the impact of the site to be highly positive, cutting payment times on receipt of invoices, a particular concern of SMEs, from 14 days to four hours, whilst the number of bids tripled in the two years that the site was running, a clear measure of its success⁵. In 2008, 93 per cent of all government procurement took place through the e-procurement service.⁶

Within the EU, Sweden has amongst the most active tendering SMEs in Europe according to a 2004 survey, with 85 per cent of organisations that won contracts being SMEs and 94 per cent of SMEs reporting that winning public procurement contracts was part of their firm's strategy.⁷ A possible driver of this high participation is the fact that Sweden also had the highest levels of openly advertised procurement, this accounting for 4.68 per cent of Swedish GDP in the same year.⁸

Measurement

There is also potential for e-procurement to reduce administrative burden by making it easier for procurers to access information relating to the proportion of spend going to SMEs, allowing for a user-friendly method of data collection. These data can then be used to provide a solid basis for evidence-based policy and a guide to the success of measures put in place to improve SME participation in public procurement. France's *Observatoire Economique de l'Achat Public* (Economic Observatory for Public Procurement), set up in 2005, collects detailed data on SMEs' access to public sector contracts (only contracts of an estimated value of above €90,000 are taken into account). In 2006, 178,735 contracts were awarded with a total value of €59,333 million.⁹ 74 per cent of number of contracts and 37 per cent of value of contracts were won by SMEs (based on the employee number and turnover.)¹⁰

Slovakia and Hungary are two more EU Member States with long-standing policies of collecting data on participation in public procurement by firm size. In Slovakia, however, there are no records dealing with contracts awarded below the Slovakia national procurement thresholds. These thresholds vary by procurement type, but no contract below €59,000 will be recorded. Given the relatively small size of the Slovak economy, and its transitional status, this is quite likely to miss a large amount of public procurement work. In the case of Hungary, all awarding authorities are obliged to collect information on the types of firms receiving contracts, which the Hungarian Public Procurement council aggregates for its annual reports.

Targets

NESTA has found that "there is strong evidence to suggest that targets alone, even where mandatory on procurers, are not sufficient to encourage SME procurement." Despite the fact that mandatory SME quotas or set asides are not permissible under EU law, and hence do not come under the Committee's terms of reference, it was deemed useful to investigate these practices as a means of gaining greater understanding of international SME policy.

In the United States, there is a longstanding programme of affirmative action for SME procurement. This dates from 1978, when the Public Law 95-507 amended the 1958 Small Business Act with the intention of making government procurement more accessible to small businesses in the US, with a "fair proportion" of government procurement spending to be placed with small (and other disadvantaged) businesses. PL 95-507 states that is the Federal

⁴ PREM notes : Korea's move to e-procurement., World Bank, 2004.

⁵ *Social Accountability Stock-Taking Exercise for South and East Asia: E-Procurement in South Korea*, World Bank, 2004.

⁶ *Automating procurement processes puts states at the head of the class*, Dave Stephens, GovPro, June/July 2008.

⁷ *Access of SMEs to Public Procurement Contracts*, European Commission, March 2004.

⁸ *Ibid.*, Table 54.

⁹ *Recensement des marchés notifiés en 2006*, Observatoire Economique de l'Achat Public, November 2007.

¹⁰ *Evaluation of SME Access to Public Procurement Markets in the EU*, European Commission, 2007.

government's duty to provide the "maximum practicable opportunities" in its acquisitions for small businesses.¹¹ Procurement law requires agencies to purchase at competitive prices, therefore contracts would be set-aside for small businesses only when two or more qualified small businesses were expected to bid.

Each fiscal year, the Small Business Administration negotiates goals with the Federal agencies to establish individual agency goals for procurement from small businesses such that, in the aggregate, the government-wide goals are met. The SBA works with federal government agencies to ensure that agencies meet statutory requirements for the value awarded to small businesses, as well as fulfil other programmes targeted at specific types of small businesses. Achievement against the targets is monitored annually, with individual agencies required to report quarterly on progress towards achieving the established target. Within the SBA, the Office for Advocacy leads in lobbying for closer SME engagement with government generally, and offers a range of support for SMEs considering bids for government contracts.

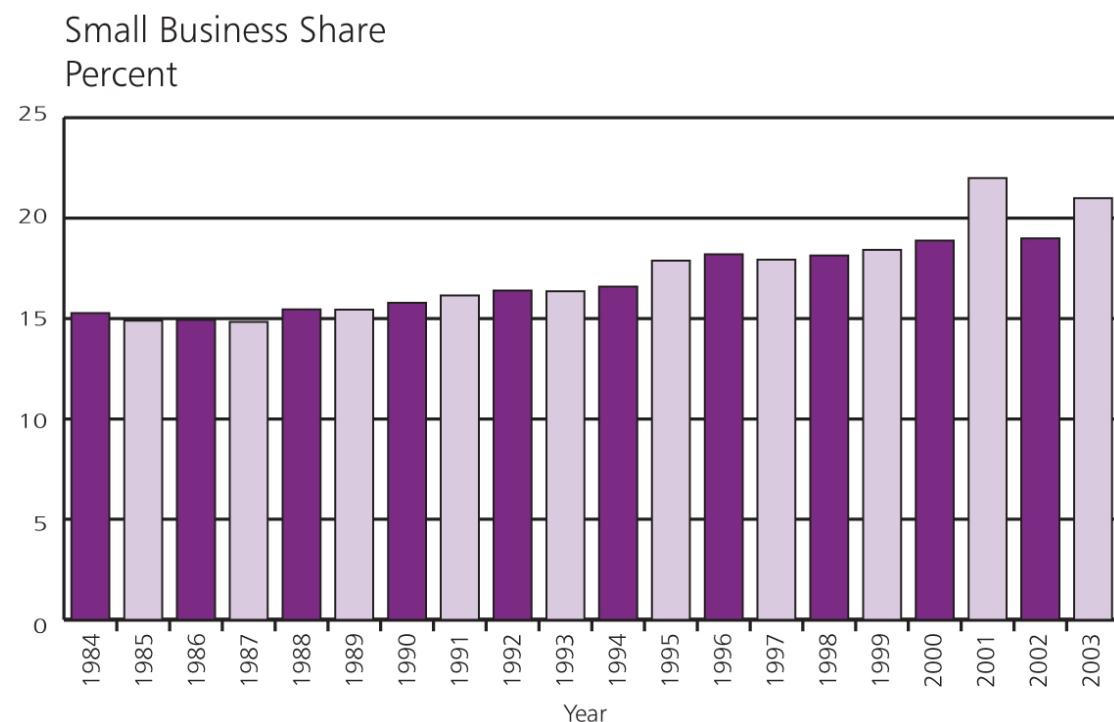
Currently, the statutory minimum goal for all government agencies is for 23 per cent of all prime contracts by value to be awarded to small businesses. But specific targets can vary, and a distinction can be made between direct and prime contractor expenditure – for instance, the Department of Defense's targets for 2005 were 23 and 43 per cent respectively.¹²

These targets, and effective monitoring, have enabled a rising proportion of government contracts by value to be awarded to (US-definition) small businesses, as the graph here shows:

¹¹ *A bill to amend the Small Business Act and the Small Business Investment Act of 1958: Summary as of 10/4/1978*, Library of Congress, Thomas.

¹² *Secrets of the World's Largest Seed Capital Fund*, Connell D., Cambridge Centre for Business Research, 2006.

Proportion of US Federal Government Contracts Awarded to Small Businesses Since 1984



Source: Small Business Administration

Sub-contracting from larger suppliers to smaller is even more substantial, with 40 per cent of contracts by value being undertaken by small businesses in 2006. It has not, however, been a focus of particular assistance and support within the small business procurement programme, although that is starting to shift.¹³

However, evidence from the University of Washington suggests that, whilst some small businesses make effective use of the federal procurement value set-aside, success itself can create problems. Growing firms can expand beyond the point at which set-aside assistance is available, and be forced to compete against larger firms without any further governmental assistance. There is some evidence to suggest that firms deliberately halt their expansion in order to remain within the arbitrary SME size limits¹⁴, with the quota hence acting as a disincentive for these firms to grow.

Looking at quotas on a more targeted, sectoral level, as of 2002, the Australian Government introduced a requirement that ICT contracts greater in value than \$20 million would include a minimum of 10 per cent by hardware and 20 per cent by software to be sourced from SMEs. However, an assessment of support for ICT SMEs in procurement, conducted on behalf of the Department for Communications, Information Technology and the Arts, found that the

¹³, *The Government's Role in Aiding Small Business Federal Subcontracting Programs in the United States*, Major Clark III, Chad Moutray, Radwan Saade, US Small Business Administration, Office of Advocacy September 2006

¹⁴ *Evaluation of SME Access to Public Procurement Markets in the EU*, European Commission, 2007

minimum SME participation requirements were not met in the large contracts, with agencies successfully appealing for exemptions on value for money grounds.¹⁵

Training for Procurement and Feedback

Many countries have used formal feedback and, to a lesser extent, training for SMEs and procurers. Although there is little empirical information to support the benefits of either, NESTA notes that in Slovakia, defined and formal feedback has been reported to improve SMEs' ability to win procurement contracts.

In Slovakia, the 2006 Public Procurement Act contains the requirement that procurers must inform all participants about the outcomes of public procurement, including providing reasons if they have not been successful. This policy, although originally undertaken as an anti-corruption measure to improve transparency, has provided SMEs with a learning process, enabling them to improve their bids in future.

The majority of the countries examined by NESTA offer training for their SMEs in how to tender for public contracts, including Australia, China, France and the United States. The "Granslosa Affarer" project in Sweden, initiated by the National Board of Trade to improve knowledge amongst SMEs of procurement opportunities consists of three major measures: a national information campaign; training of public procurement consultants and training for companies to improve their tendering skills (provided and administered by NUTEK, the Agency for Economic and Regional Growth). However, as noted above, there has so far been little evaluation of the effectiveness of these measures.

Innovative Procurement

As noted by the Sainsbury Review of science and innovation policies, the U.S. Small Business Innovation Research (SBIR) scheme has been successful in promoting innovative SMEs.¹⁶ It is estimated that SBIR funding is at least as important as conventional venture capital in the U.S. for early-stage technology firms. SBIR firms generated five times as many new jobs as those not funded by SBIR over a ten-year period.¹⁷

The SBIR establishes a goal of 2.5 per cent of federal R&D expenditure to be spent on SMEs. The Korean equivalent to this programme, the KSBIR goes further, with all public institutions (including nationalised concerns such as utilities) required to place 5 per cent of their R&D budgets with SMEs, with the Small and Medium Business Administration (SMBA) allocating approximately \$920 million under this programme in 2005.

Nevertheless, NESTA believes that targets are not the most important element in SBIR's success. It highlights instead SBIR's unique two-part contract, which allows the risks inherent to innovative procurement to be spread. The first part of the contract allows SMEs to experiment with new approaches; the second, available following successful completion of the first, allows for actual delivery of the product or service in question.

The Korean New Technology Purchasing Assurance offers guarantees to SMEs that their new products will be purchased by Government agencies, removing some of the development risk associated with making innovative products. The SMBA finances the SME research with public institutions agreeing to buy the technology for a fixed period of time. By the end of 2005, this scheme had supported 80 new technology products, with plans to expand the scheme further¹⁸.

¹⁵ *SME Share in Australian Government ICT Purchasing* Australian Government, Department for Communications, Information Technology and the Arts, February 2005.

¹⁶ *The Race to the Top: a Review of the Government's Science and Innovation Policies*, London, Lord Sainsbury, HMT, 2007.

¹⁷ *Secrets of the World's Largest Seed Capital Fund*, Connell D., Cambridge Centre for Business Research, 2006.

¹⁸ *Major Policy*, Small and Medium Business Administration, 2005.

The schemes and programmes above offer ways in which the risks associated with procuring innovative products and services can be mitigated, both for the SMEs in question and Government. Hence SMEs can have the security of a contract and Government can benefit from increased innovation, enabling it to improve the service it offers to the public.

F

About the committee

Anne Glover CBE

Anne is a co-founder and Chief Executive of Amadeus Capital Partners Limited, the management company that provides investment services to five venture capital funds, totalling £460m in commitments. She is on the board of Optos plc, which developed a laser-based imaging device for capturing a wide-field image of the retina; and Glysure Ltd, which is developing a continuous sensor for glucose monitoring in intensive care units.

Anne is a past chairman of the British Venture Capital Association (BVCA), which represents the vast majority of UK-based private equity and venture capital firms in the UK. Anne is also on the Technology Strategy Board, of the UK Government.

Professor Sir Roy Anderson

Sir Roy Anderson FRS, FMedSci became Rector of Imperial College London in July 2008. Prior to this, as Chief Scientific Adviser to MoD he was in charge of a large research and technology budget, chaired its Investment Approval and Research and Development Boards and was a member of the Defence Management Board and of the Defence Council.

He was made professor at Imperial in 1982 and Head of the Department of Biology in 1984, a position he held until 1993 when he became Head of the Department of Zoology and Linacre Chair of Zoology at the University of Oxford.

He currently chairs the science advisory board of the World Health Organisation's Neglected Tropical Diseases programme, is a member of the Bill and Melinda Gates Grand Challenges advisory board, and chairs the Schistosomiasis Control Initiative advisory board (SCI) funded by the Gates Foundation. He is a non-executive director of GlaxoSmithKline.

Tim Byles

Tim Byles joined Partnerships for Schools in November 2006. He was previously Chief Executive of Norfolk County Council, where his achievements included raising the council's performance substantially, creating a wide range of public private partnerships for improved service delivery, and developing trading subsidiaries turning over more than £100 million per annum.

Before joining Norfolk in 1996 as one of the youngest chief executives in the country, Tim was Director of Economic Development at Kent County Council. During his time in Kent and Norfolk, he was involved in large-scale schools and commercial premises procurement projects.

Professor Luke Georghiou

Luke Georghiou BSc, PhD is Professor of Science and Technology Policy and Management at the University of Manchester. His duties as Associate Dean of Research involve preparing and implementing a strategy for a Faculty with 850 academic staff spanning business, social sciences, arts and humanities.

He is a member of the Manchester Institute of Innovation Research, a large research centre within Manchester Business School, and has been on its staff since 1977. He has previously chaired EU Panels on innovation policy and the demand-side and written a paper for the

National Endowment for Science, Technology and the Arts (NESTA) on the potential for the use of procurement for innovation. He regularly advises several governments on these and related matters.

Crawford Gillies

Crawford Gillies is an independent director of a range of organisations. He is currently Chairman of Control Risks Group Holdings Ltd, Hammonds, Touch Bionics Ltd and the Saltire Foundation. He is a Non-Executive Director of Standard Life plc, a Senior Advisor to Bain & Company and chairs the advisory board of Sumerian Ltd.

Crawford previously spent 23 years with Bain & Company, the international management consultants. Crawford was a member of the Management and Strategy Boards of the DTI from 2002 to 2007 where he also chaired the Audit and Risk Committee, and has been a member of the Scottish Enterprise International Advisory Board since 2002.

Joe Ippolito

Joseph P. Ippolito is a senior Partner in Deloitte's Management Consulting division. He leads Deloitte's Supply Chain and Manufacturing practice and co-leads the UK Public Sector Health practice. Joe has over 24 years international consulting experience and has advised many major international private sector companies and public sector organisations in the UK and USA. He is an expert in business transformation, supply chain and procurement restructuring, operations improvement and change management. More recently, Joe has helped the NHS and Department of Health transform their supply chain and procurement network and functions. He has a B.A. degree from Harvard University, where he majored in Finance and Economics, and an Executive MBA degree from London Business School.

Martha Johnson

Martha Johnson is Vice President of Computer Sciences Corporation (CSC), a leading global consulting, systems integration and outsourcing company. It aims to provide customers in industry and government with solutions crafted to meet their strategic goals and enable them to profit from the advanced use of technology, with a focus on delivering innovative solutions.

Martha has also worked extensively within the public sector in the United States, most recently as Vice President of the Council for Excellence in Government and Chief of Staff of the General Services Administration. She sat on the Supervisory Committee that advised on the creation of the Office of Government Commerce in the UK in 2000.

Sir William Sargent

Sir William Sargent is Executive Chair of the Better Regulation Executive in the Department for Business, Enterprise and Regulatory Reform. Until June 2005 Sir William chaired the Small Business Council, whose remit was to advise HM Government on the "impact or likely impact of government initiatives". Sir William is a non-executive director of the HM Treasury Board.

Sir William is joint chief executive and co-founder (in 1986) of Framestore CFC, one of the world's leading companies in the creation of digital images. Awards include BAFTAs, Royal Television Society, as well as Oscars (Technical) and Emmys. Credits include *The Golden Compass*, *Walking with Dinosaurs* for the BBC, the *Harry Potter* films and a host of award winning commercials in the UK and USA.

John Warrington

After working for a number of years in industry, John joined the NHS in 1984 to work in the West Midlands Regional Supplies Department in Birmingham. He worked in a number of

purchasing roles in the West Midlands, Oxford and North West Regional Health Authorities before joining the National Purchasing Unit of the newly formed NHS Supplies Authority in 1992.

John's current role is Director – Policy and innovation and NHS Development. His span of control includes research, innovation, special projects, communication and procurement policy for the NHS. He is also responsible for building procurement capacity and capability in the NHS with the roll-out of Collaborative Procurement Hubs.

Membership of the Expert Sub-Group

Professor Luke Georghiou (Chair) (Professor of Science and Technology Policy and Management, Manchester Business School, University of Manchester)	Professor Fergus Lyon (Professor of Enterprise and Organisations, Centre for Enterprise and Economic Development Research, University of Middlesex)
Tom Wills-Sandford (Director of Public Affairs, Intellect [trade association for UK technology industry])	Dr Helen Walker (Lead researcher on sustainable purchasing and supply in the Centre for Research in Strategic Purchasing and Supply, University of Bath)
David Connell (Senior Research Associate, Centre of Business Research, University of Cambridge)	Harry Tee (Chair, Electronics Leadership Council and Dialight plc)
Rob Savidge (Executive Vice-President, Engineering and Technology, Rolls Royce)	Collan Murray (Senior Procurement Manager, Greater London Authority)

ISBN 978-1-84532-512-1



9 781845 325121 >