



# Public Sector Procurement

## The Small Business Perspective

Federation of Small Businesses  
South East Policy Unit



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## Introduction



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**For many micro and small enterprises<sup>1</sup> the opportunity to sell their goods and services to local buyers represents a key target market and supports the FSB campaign to Keep Trade Local<sup>2</sup>.**

**Figure 1:** Number of enterprises, employment and turnover in the whole economy by number of employees, UK, start 2006

	Number of enterprises	% of turnover	% of employment
Micro (1-10 employees)	1,064,170	13.9	13.3
Small (11-49 employees)	178,695	13.8	12.0
Medium (50-249 employees)	29,855	14.2	10.2

As Figure 1<sup>3</sup> demonstrates the micro and small enterprise sector is vital to the success of the UK economy. Translated to the local level this sector is the largest potential market place for Local Government, Health Authorities, Police, Fire Services and Higher/Further Education establishments. Utilising public sector procurement to help micro and small enterprises to grow would therefore have significant benefit for the South East<sup>5</sup> economy.

Each year across the South East our councils have a combined non pay spend of approximately £4.1bn<sup>4</sup> If each of these councils were to just spend an extra 10 per cent of their procurement budget with small businesses this would release an additional £410 million into the local economy of the South East .This money would go a long way towards meeting the government and SEEDA’s objectives for economic development and regeneration.

Councils, of course, cannot unfairly favour micro and small enterprise over other businesses as they are bound by European principles to act in a transparent, open and equal manner when purchasing goods and services.

However, as the 2008 budget included a provision for the government to investigate the practicality of setting a target for Small and Medium Size Enterprise (SMEs) to win 30 per cent of all public sector business in the next five years<sup>6</sup> , there are clearly opportunities to ensure that small firms win a greater share of crucial public sector contracts.

Once again we are delighted with the support that local authorities from across the South East have shown to our survey. In total we had responses from 39 out of the 74 local authorities in the region, equating to an overall response rate of 53 per cent.

## Action Plans

### Keep Trade Local 1

It should be mandatory for local authorities in England and Wales to sign up to the Concordat and further procrastination must be addressed.

### Keep Trade Local 2

The government's investigation into the practicality of establishing a 30 per cent target for SMEs winning public sector contracts should examine how it can monitor progress against this target. All local authorities must be able to track their procurement spend by company size in order to accurately measure progress towards the 30 per cent target figure.

### Keep Trade Local 3

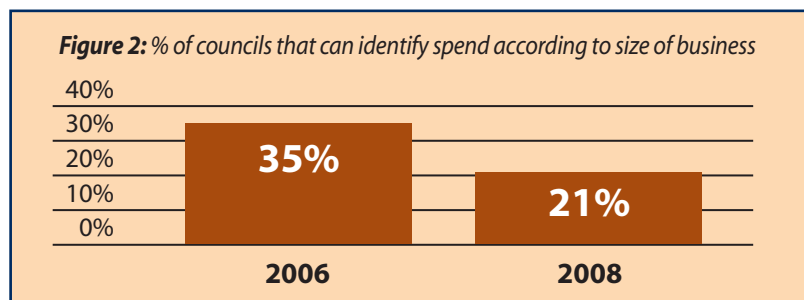
Analysis of spend with small businesses should not be based on the volume of invoices received but on the total value of invoices.

## Have you signed yet?

The FSB welcomed the publication of the Small Business Friendly Concordat in 2004 as a way for local authorities to show their commitment to small businesses. Given that 48 per cent of small businesses serve local markets, within a 50 mile radius, the council is the main public procurement opportunity. However, as of February 2008 only 34 out of 74 local authorities in the South East had signed the concordat.

Know your customers

Councils utilise a number of common methods to map their spending patterns e.g. type of service, postcode, cost centre, product category or total spend. However as Figure 2 demonstrates there has been a steep decline in the numbers of councils who break down spend according to the size of business. In 2006, 35 per cent of councils had this data available to them; by 2008 only 21 per cent of councils could identify spend according to size of business.



Fewer councils gathered data on spend by business size due to the high costs of employing a third party to carry out the analysis outweighing the potential benefits from having the information. Encouragingly, a number of councils from across the South East confirmed that they have commissioned a third party to produce this data, which should be available in the autumn.

As the government is looking to set a benchmark of 30 per cent of contracts won by SMEs it is likely that councils will be asked to start gathering this data. This can only be achieved if councils are given access to more sophisticated financial management systems which allow them to collate this type of data.

## Case Study

### Pan Sussex PQQ East Sussex County Council

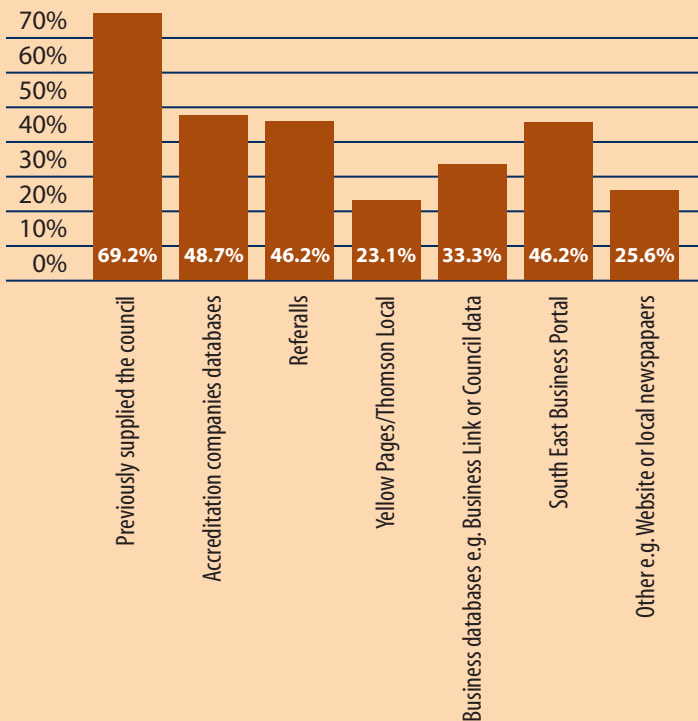
As part of the Pan Sussex Procurement Project the team looked at the Office of Government Commerce (OGC) standard Pre-Qualification Questionnaire (PQQ) with the aim of creating a standard PQQ for use by all 15 councils in Sussex in all tenders below European level (i.e. below £140,000 total contract value).

All councils in Sussex have now agreed to adopt a standard self-assessment PQQ based on the OGC model, but reduced down to only 9 pages. This means that businesses in Sussex now only have to complete the same standard form for any non-EU tender. Questions will always be the same and in the same order and they don't need to provide supporting documents.

## Hide and Seek

Councils in the South East demonstrate that they go to considerable time and effort in order to ensure that they source a wide spread of small businesses to engage with (see Figure 3 below). This may be as simple as using lists of businesses that have previously supplied, referral lists or simply looking in Yellow Pages/Thomson Local. More and more councils are now using databases assembled by accreditation companies, or online portals to reach out to small businesses. All these are in addition to the use of the council's procurement websites and advertising contract notices in the local media.

**Figure 3: Methods for identifying small businesses<sup>8</sup>**



## Case Study

### Meet the Buyer Event East Kent Councils

The East Kent Councils of Canterbury, Dover, Shepway and Thanet working in conjunction with Constructionline are hosting a "Meet the Buyer Event" on 10th September 2008 at the Canterbury Cricket Ground for construction companies. Other buyers will include: representatives from Kent and Christchurch Universities, a large construction company and two major contractors to the councils looking for sub-contractors.

The aim of the event is to reduce the barriers to contractors working for the public sector by helping them reach the necessary standards in Health and Safety, legal compliance, financial and technical competence to allow them to tender for public sector business.

Constructionline is the government owned national pre-qualification service that assesses contractors to a given standard, removing the need for completion of complex and lengthy pre-qualification questionnaires whenever construction work is tendered.

Councils will publicise their own procurement arrangements to help contractors identify contract opportunities and maximise their chances of being invited to tender.

They are also using this event to create a core list of contractors to undertake minor building and maintenance works not covered by existing contracts and are interested in meeting local SMEs and helping them to qualify for such work.

## Action Plans

### Keep Trade Local 4

Councils should ensure that their procurement strategies include specific commitments aimed at encouraging a diverse supply base. Large contracts must be broken into smaller lots to encourage small business involvement.

## Small is beautiful

The Gershon Review identified efficiency savings to government, both local and central, of £2.1 billion per annum until 2008. Though the FSB understands the need for efficiency savings, the consequence of this drive has seen the aggregation of many public procurement contracts putting them beyond the reach of small businesses.

This drive for greater public sector procurement efficiency has directly increased the pressure on local authorities to replace a range of smaller contracts with fewer large “big partnership style” contracts. However as the OGC clearly points out “aggregation of demand need not, therefore, necessarily lead to aggregation of supply”<sup>9</sup>.

Encouragingly, over a third of councils (35.9 per cent) confirmed that they had already identified opportunities for dividing parts of larger framework agreements into smaller lots to enable SMEs to have a better chance to tender.

More councils should follow the lead set by Tonbridge and Malling Borough Council who as part of their procurement strategy have made the commitment that:

“We will balance opportunities for disaggregating our larger contracts or dividing them into smaller lots to enable SMEs and VCOs<sup>10</sup> to have an equal chance to tender to them with value for money considerations.”<sup>11</sup>

## Case Study

### Business Consortia Chichester District Council

In 2006 Chichester District Council encouraged local businesses in the creative industries to jointly set up the South Coast Design Forum to promote the collective skills of its members. The council committed some funding for the first three years of the Forum. Further public sector funding pays for a full-time coordinator.

The Forum now has over 200 members, paying a small annual fee. They are mostly micro businesses with a few small businesses. The Forum members meet once a month to review progress and generate ideas on raising profile and awareness leading to business opportunities.

Many of the more active members of the Forum have generated business from its Forum membership. Some members have also formed their own small consortia focused on specific creative services e.g. Fusion Creative.

## Information overload

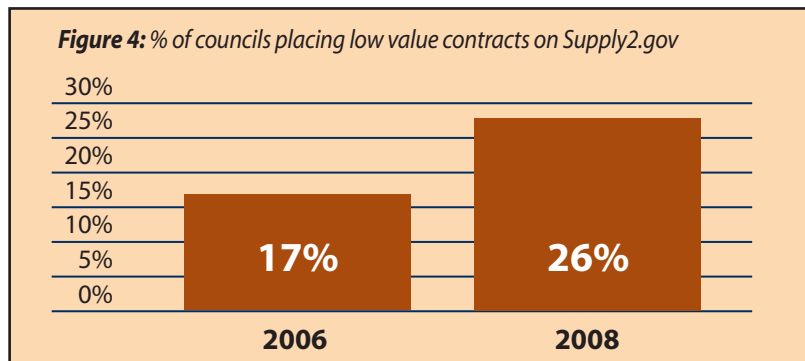
***“There is too much duplication and confusion and the portals are not promoted to businesses sufficiently.”***

As over half (59 per cent) of the councils have a procurement website, and two thirds of their sites advertise details of upcoming low value contracts, this should be the first port of call for all small businesses interesting in bidding for public tenders.

Other sources of information on low value contract opportunities are the growing number of procurement portals available for small businesses to register to receive email alerts for relevant upcoming contract opportunities. These can be national portals such as Supply2.gov or CompeteFor, regional portals such as the South East Business Portal, or even sub-regional portals such as Surrey Police Procurement Portal or East Sussex Procurement Portal to name but a few. If businesses are increasingly confused about what portal to use, the case is not much different for councils, as one response observed:

*“There is too much duplication and confusion and the portals are not promoted to businesses sufficiently.”*

Of those councils that place low value contracts on these portals the most commonly used one is the South East Business Portal (41 per cent) followed by Supply2.gov (25.6 per cent). Despite strong government support for the Supply2.gov portal there has only been a very slight increase in the number of councils placing contracts on the site (Figure 4) – 17 per cent in 2006 to 26 per cent in 2008. These findings reflect a lack of confidence by suppliers in this heavily promoted portal, and in fact many are switching over to only using the South East Business Portal for contract notices.



## Case Study

### **Lots Crawley Borough Council**

Crawley Borough Council signed up to the Small Business Friendly Concordat in May 2006 and since then has been trying to ensure that SMEs have as many opportunities as possible to do business with the council.

*“One way we have tackled this is to look at tenders above the EU thresholds. We split our Building Cleaning Services tender into ‘lots’, the idea being to give smaller businesses the opportunity to apply for a part of the work which they have the size and capacity to deal with. We intend to take this approach with all future above OJEU tenders.”*

## Action Plans

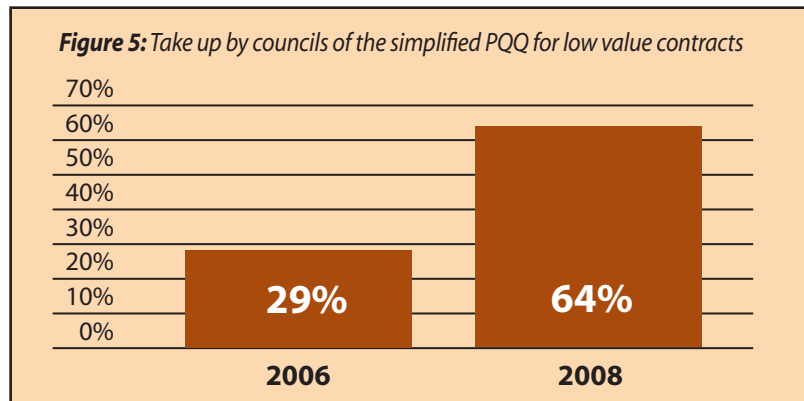
### Keep Trade Local 5

Councils need to adopt a simplified Pre-Qualification Questionnaire which suppliers only have to fill in once, and update as necessary for each tender they apply for. Ideally this should be based on a secure web site, perhaps on a low value procurement portal.

## In it to win it

The OGC recommends that councils, in order to reduce the administrative burden on SMEs, should “use the simplified Pre-Qualification Questionnaire...when running a competitive procurement for low value (i.e. sub-OJEU) requirements.”

As Figure 5 demonstrates there has been an incredible take up by councils in the use of a simplified pre-qualification questionnaire (PQQ), increasing from 29 per cent in 2006 to 64 per cent in 2008. The shortest PQQ for low value contracts was 4 pages. The average size of a PQQ has also fallen to 8 pages. However, many councils stressed the size of the PQQ still depends very much on the type of contract and amount of specialist information required.



Further progress needs to be made in terms of establishing one common PQQ for all low value tender opportunities across the South East. However, there have been a number of agreements by councils across administrative boundaries to use a common simplified PQQ for low value contracts.

## Action Plans

### Keep Trade Local 6

Local authorities should closely monitor any negative effects of e-Procurement in relation to engaging small businesses in bidding for contracts.

### Keep Trade Local 7

Local government should follow the lead of central government and remove the restrictions that prevent contractors and suppliers using factoring and invoice discounting.

## Online Savings

With local authorities under an obligation to publish procurement contracts, receive bids and pay for goods online the FSB has concerns that as only 18 per cent of small firms currently trade online such programmes may create another barrier to trade for small businesses.

In the South East there has been a very high take up of e-Procurement (71.8 per cent), e-Payment (61.5 per cent) and to a lesser extent e-Auctions (35.9 per cent) and e-Sourcing (28.2 per cent) by councils looking to reduce costs during each stage of the purchasing process.

The increasing shift towards online procurement means that businesses also need to become e-enabled as most potential markets are moving rapidly down this route.

## Driving innovation

The UK Intellectual Property Office survey on intellectual property awareness (Figure 6) revealed that smaller companies are less likely to have been innovation active than larger companies but given the much larger number of smaller companies, the majority of innovating companies are still those with only 0-9 employees.

**Figure 6 - % of companies inventing or developing products or services in the past 5 years**

No. Employees	0-9	10-49	50-249	250 plus	Total
% of all firms	17.6%	28.7%	40.7%	49.6%	<b>19.0%</b>

The findings of the UK Intellectual Property Office survey are particularly significant in light of the key conclusion from the Sainsbury Review into the government's science and innovation policies that "public procurement has a major contribution to make to stimulate innovation in companies".

The greatest potential benefit to the UK economy from driving innovation through public procurement would be derived by specifically targeting the small business sector, and in particular micro businesses which are the major source of innovation.

## Action Plans

### Keep Trade Local 8

All training for procurement managers and budget holders should include sections on driving innovation through public sector procurement; specifically focusing on how to weigh up the risks involved against the potential benefits.

### Keep Trade Local 9

Tender response lead times, even for low value contracts should be a minimum of 3 weeks to provide sufficient time for SMEs to develop innovative partnerships and solutions.

## Online Savings *(continued)*

In order to achieve this goal we need to address the issues identified in a recent innovation survey:

“The conduct of public procurement was more likely to be seen as negative rather than positive for innovation. Companies saw public procurement in the UK as risk averse, slow and bureaucratic.”

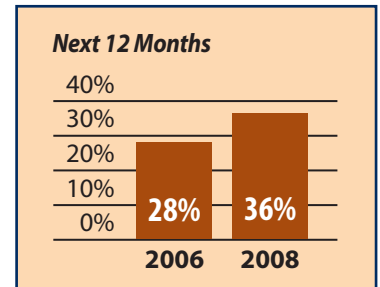
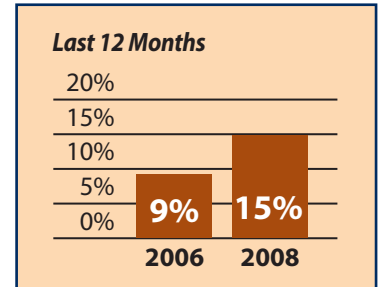
Clearly innovation involves a certain degree of risk taking from all parties involved (for businesses innovation involves significant cost and time implications). Procurement managers need to be given specific training on how to assess these risks against the potential benefits that realising innovation in the delivery of products and/or services could bring to the local economy.

As Figures 7 & 8 demonstrate there has been a steady increase in the number of councils providing training for managers on procuring from SMEs when compared to the results of the 2006 survey.

One potential method for councils to encourage innovation in the delivery of their products and services would be via the promotion of small business consortia. Encouraging small businesses to collaborate on the delivery of public sector contracts would act as a catalyst to encourage them to share knowledge and ideas, potentially leading to the joint development of new products or services delivering long term benefits both for the businesses engaged in the consortia, and for the local economy. If the council could then act as an intermediary to link the consortia into local universities this would provide a significant stimulus to the innovation process.

However, only 8 per cent of councils have held (or plan to hold) events specifically aimed at encouraging small firms to collaborate on contract opportunities. This lack of focus on the value and importance of establishing small business consortia is reflected in a fall in the numbers of councils encouraging their establishment, which decreased from 19 per cent in 2006 to only 13 per cent in 2008.

**Figure 7 & 8 - Councils providing training for managers on procuring from SMEs**



## Action Plans

### Keep Trade Local 10

Councils should give greater focus to the benefits of creating SME consortia and utilising these as a catalyst to drive innovation in the delivery of products and services.

### Keep Trade Local 11

The EU Parliament should create a new framework and guidance on evaluating the merits of a consortium of SMEs, rather than just basing it on the turnover of the lead partner.

### Keep Trade Local 12

Councils should hold tender briefing meetings with local SMEs, with actual future tender opportunities as a focus.

## Practice Makes Perfect

Procurement training events help to encourage the operation of a mixed economy of suppliers including small firms, minority businesses as well as social enterprises and voluntary and community groups. This in turn helps to promote the realisation of economic, social and environmental benefits for local communities through procurement activities.

Councils have developed a good track record in providing procurement training events for small businesses. Sector specific (46.1 per cent) and general procurement events (33.4 per cent) remain the most common forms of procurement training. A further 15.4 per cent of councils confirmed plans to hold events centred on specific contract opportunities over the next 12 months.

Despite the encouraging take up of training events for small businesses run by councils, only 5.1 per cent actually monitored how many of those businesses that took part in training went on to bid for contracts. The cost of carrying out such analysis was usually the key factor in deterring councils. However gathering such data can reveal some very interesting results with one council being able to identify that 10 per cent of businesses taking part in training events are now successfully delivering council contracts, and another council was able to put the value of business generated at approximately £500,000.

## Case Study

### Local Procurement Project City of London Corporation

Local purchasing has enormous potential to stimulate the economies of neighbouring boroughs and foster associated job opportunities. The bulk of all future jobs growth is expected to be in the small and medium-sized enterprise (SME) sector rather than through larger firms. The development of a vibrant SME economy must be the basis of any sustainable form of regeneration in the City fringes and neighbouring boroughs.

The Local Procurement Project supports the City Corporation's economic regeneration programme by encouraging competitive procurement from small and medium size enterprises (SMEs) in the boroughs immediately adjacent to the 'Square Mile'. It has three phases:

**Phase One:** Influencing the City of London's procurement officers Working with procurement officers across the City of London to include local SMEs in all quoting / tendering opportunities.

**Phase Two:** Influencing the City of London's Supply Chain requiring trade contracts and planning agreements with first tier suppliers to make sub-contracting opportunities available to local SMEs.

**Phase Three:** Influencing the City Encouraging City firms to adopt local procurement as part of their social responsibility and business competitiveness.

These phases run concurrently rather than in sequence. The Local Procurement Project team, run out of the Economic Development Office and the Strategic Procurement Unit, works continuously to reinforce the principles enshrined in all three phases of the initiative, both within and beyond the organisation.

## 14 Point Action Plan

- 1 It should be mandatory for local authorities in England and Wales to sign up to the Concordat and further procrastination must be addressed.
- 2 The government's investigation into the practicality of establishing a 30 per cent target for SMEs winning public sector contracts should examine how it can monitor progress against this target. All local authorities must be able to track their procurement spend by company size in order to accurately measure progress towards the 30 per cent target figure.
- 3 Analysis of spend with small businesses should not be based on the volume of invoices received but on the total value of invoices.
- 4 Councils should ensure that their procurement strategies include specific commitments aimed at encouraging a diverse supply base. Large contracts must be broken into smaller lots to encourage small business involvement.
- 5 Councils need to adopt a simplified Pre-Qualification Questionnaire which suppliers only have to fill in once, and update as necessary for each tender they apply for. Ideally this should be based on a secure web site, perhaps on a low value procurement portal.
- 6 Local authorities should closely monitor any negative effects of e-Procurement in relation to engaging small businesses in bidding for contracts.
- 7 Local government should follow the lead of central government and remove the restrictions that prevent contractors and suppliers using factoring and invoice discounting.
- 8 All training for procurement managers and budget holders should include advice on driving innovation through public sector procurement; specifically focusing on how to weigh up the risks involved against the potential benefits.
- 9 Tender response lead times, even for low value contracts should be a minimum of 3 weeks to provide sufficient time for SMEs to develop innovative partnerships and solutions.
- 10 Councils should give greater focus to the benefits of creating SME consortia and utilising these as a catalyst to drive innovation in the delivery of products and services.
- 11 The EU Parliament should create a new framework and guidance on evaluating the merits of a consortium of SMEs, rather than just basing it on the turnover of the lead partner.
- 12 Councils should hold tender briefing meetings with local SMEs, with actual future tender opportunities as a focus.
- 13 Councils should adopt standard clauses encouraging prime contractors to engage more with local sub-contractors.
- 14 A very common plea from small businesses is to use plain English in procurement documentation. A number of councils have Crystal Marks from The Plain English Council and councils should consider applying this to procurement documentation.

## References

- <sup>1</sup> Micro = 1-10 employees; Small = 11-49 employees
- <sup>2</sup> For more information on the FSB Keep Trade Local Campaign go to <http://www.fsb.org.uk/data/default.asp?id=0&referrer=%2Fkeeptradelocal%2FDefault%2Easp>
- <sup>3</sup> BERR Enterprise Directory Analytical Unit, SME Statistics 2006
- <sup>4</sup> South East Centre of Excellence, Business Plan, 2004
- <sup>5</sup> New Economics Foundation, Public Spending for Public Benefit, 2005
- <sup>6</sup> HM Treasury, Budget 2008
- <sup>7</sup> <http://www.communities.gov.uk/localgovernment/efficiencybetter/nationalprocurementprogramme/nationalprocurementstrategy/smallbusinessfriendly/authoritieswhohave/>
- <sup>8</sup> Multiple responses allowed
- <sup>9</sup> Office of Government Commerce, Small Business Friendly Concordat: Good Practice Guide, 2005
- <sup>10</sup> Voluntary and Community Organisations
- <sup>11</sup> Tonbridge and Malling Borough Council, Procurement with Small and Medium-sized Businesses, and Voluntary and Community Organisations
- <sup>12</sup> OGC, Smaller supplier...better value? 2005
- <sup>13</sup> Based on a comparison with the findings of the 2006 SEPU Local Authority Procurement Survey results
- <sup>14</sup> UK Intellectual Property Office, UK Intellectual Property Awareness Survey, 2006
- <sup>15</sup> 99 per cent of all business in the UK employ less than 50 employees
- <sup>16</sup> Lord Sainsbury of Turville, The Race to the Top: a Review of Government's Science and Innovation Policies, October 2007
- <sup>17</sup> EEF, New light on innovation. How UK manufacturing is meeting the challenge, July 2005

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