



SW FSB Public Procurement Policy





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The ideal SME Friendly purchasing procedure

1. Freely available information about where tenders are advertised, about the purchasing process and about the renewal/readvertising of 'framework' tenders.
2. There should be a named person to whom one can go with questions.
3. Tenders should be broken down into small units so that small businesses are capable of undertaking the volume of work.
4. Pre tender qualification should be fit for purpose in that it is appropriate to the type of work to be done or goods to be supplied, and proportionate to any risk to the council
5. Tender documents should be written in plain English, only using technical terms where this is necessary for accurate specification.
6. Tender documents should include a decision timetable and when appropriate, a payment schedule
7. Tender documents should include a clear explanation of the criteria on which the contract is to be awarded.
8. Certification such as EMAS, ISO 9000 should only be used when indicated by risk assessment.

The problems faced by the Public Sector, especially Local Councils

1. Pressure to restrict rises in Council Tax to no more than inflation.
2. Confusing messages from central Government. Some days they are told that local purchasing is good and can save money, other days they are told local purchasing can never save money and is always bad.
3. The assumption that central purchasing and buying more from fewer suppliers will always save the Council money by Central Government, by the Audit Commission, by the council's own auditors and by peer group scrutineers
4. Combination of the e-commerce targets and increasingly rigorous performance targets.
5. Political decisions (by Councillors) not to impose any redundancies
6. The 'nobody ever got sacked for choosing IBM' attitude, which encourages the use of large firms.
7. Ignorance and/or lack of knowledge resulting in tenders that require irrelevant, inappropriate certification
8. Council staff under pressure to meet targets with few extra resources
9. Council purchasing staff unlikely to have any appreciation of small business sector
10. Lack of procurement expertise amongst many LA staff being made responsible for procurement (better pay in the private sector for qualified "buyers")



Policy Points to make

1. Linking the economic development strategy with the purchasing strategy can dramatically increase the amount of money being spent directly against regeneration. It can be described as a 'plugging the leaks' or 'multiplier' effect within the local economy and of the money the council has to spend.
2. Linking the economic development strategy with the community involvement strategy can improve local business engagement with local government
3. The purchasing strategy can be used to increase the proportion of local businesses with training plans and with business plans
4. Local purchasing improves the local Council's 'visibility' with local people and with local businesses
5. Where research has been carried out, councils have been shown to get a better service, faster and at 10 – 15% less cost when they use a small local business
6. To a small business, the Council is a very important customer and is treated accordingly
7. To a small business, doing work for the local Council is something to be proud of and the end result shows it.
8. Demanding irrelevant paperwork and /or irrelevant certification increases the cost to the Council
9. 'List' systems usually require excessive amounts of paperwork, which is frequently irrelevant, as well as charging business to appear on the list. It all increases the cost of work done for the Council.
10. 'List' systems of their very nature are standardised and can only reflect the needs of the local authority after considerable 'tailoring'
11. 'List' systems need to be 'tweaked' to enable small businesses to continue to supply the council at an economic price.
12. Most of the above comments can also be applied to other public sector bodies.

'Crib sheet' for objections

1. EU rules do not permit splitting contracts up so small businesses can tender. - **Not True.** - Provided that the contracts are advertised in the same way as they would be if they were one big contract and it states that they can be grouped together, EU rules are satisfied.
2. EU rules do not allow preference to be given to local suppliers - **Not True.** It depends how you write the tender. Council policy relating to any of the following can legitimately favour local businesses: - 'Agenda 21', environmental sustainability, healthy living, community strategy, promoting environmental awareness, promoting skills awareness. I'm sure there are more.

Example – School meals service wants to buy locally. The Council has a policy requiring the use of fresh food. The Council's Agenda 21/Environment Policy



specifies minimum packaging. Put those 2 requirements in a tender and it is very difficult for any producer other than a local firm to supply.

3. Using small businesses costs more money. - **Not True.** Where this has been tested, small businesses have completed the contracts to time, to a higher specification and 10-15% cheaper.
4. Using small businesses takes more time – this has not been tested. In any case, as shown in item (3), the savings from using small businesses should more than pay for any extra management costs

Background

The focus on 'Public Procurement' has been brought about by 2 movements; the requirement by Government that Local authorities engage more closely with small businesses and the drive towards greater purchasing efficiency.

Small businesses currently have little contact with their local authorities except as collectors of UBR. If they were able to view Councils as potential customers, they might be more likely to 'engage'.

In the private sector greater purchasing efficiency has often meant restricting suppliers to those on a list or to those found by open tender; and, whichever method is used, by buying more from fewer suppliers. The same seems likely to happen with the public sector. The Government has tried to counter balance this by pushing the 'e-commerce' route, but that brings its own issues.

This document discusses these issues in relation to small businesses, exploring the background and detailing how councils (and other public sector bodies) can better engage with small businesses by becoming their customers.

In practical terms that means 'fit for purpose' accreditation procedures, prompt payment, small contracts, jargon free information on tendering procedures, open advertising and honest feedback.

The FSB recognises that the purchasing process for public bodies frequently changes, often as result of the EU. However the FSB considers that this could be viewed as a competitive barrier and that those responsible for introducing such changes need to make them more small business friendly.

Evidence shows that councils using local small firms benefit from greater flexibility, better quality through local pride, lower prices, as they do not have the management superstructure to pay for and a higher priority. This is in addition to the improvement in 'engagement' and a significantly greater economic development effect.



Benefits of using small businesses

The public sector is being urged to formalise its purchasing in order to improve competition and get a better deal for the tax payer's £. However, many of the resulting changes work against small businesses.

By their very nature, small businesses are innovative. A good tender or purchase order should not be too specific about the 'how', but very precise about the required end product or service. This will enable all the businesses to propose and cost the solution that best fits their abilities, including the smallest. We understand that the process known as 'competitive dialogue' enables and facilitates such a process. We trust it is made suitably small business friendly.

Ironically, one of the reasons small businesses can often offer a better price is that they have lower management costs. Yet a more formal buying process actually requires more management time on the part of the supplier, pushing prices up.

By definition, small businesses have shorter management chains, they are therefore more flexible and likely to be much more responsive. These are frequently the characteristics that give them their competitive edge. A purchasing system that excludes small businesses makes a council much less responsive to the needs of its customers.

Never underestimate the value of proud workmanship. A local supplier knows he will be looking at the results of his work for the next 'n' years. The manager of a large business will not pass the fruits of his labour each day, able to smile or cringe as appropriate. Clearly this difference has benefits for the public sector. You might call it the 'civic pride' ingredient!

To a small business, the public sector is an important customer and will be treated accordingly. For a large business, the public sector carries less weight and so less attention is paid to their needs.

Ironically, a council contracting with a large business may even find the work being done by small local firms. This is frequently the case with building or maintenance contracts. While the council may think they benefit from somebody else doing the managing, the local economy will be losing out and the local tax payers will be paying more.

Competition can be a 2-edged sword. Strict tendering and reverse auctions can not only drive prices down, but can also drive businesses out of a market or out of business all together. In the end, a council may be left with just one supplier, with the inevitable effect on prices. Careful buying will save money, but ensure continued competition. This is especially important for geographically isolated public sector bodies, such as those in the far South West, where there will be fewer businesses willing to supply. The FSB has been pleased to learn that the Police Service is required to take this into account when making buying decisions.



Buying can be a tool for economic development. Budget pressures leave Councils with little to spend directly on economic development. However, they can use their purchasing systems and processes to develop local small businesses.

'Fit for purpose' accreditation procedures

Accreditation procedures should be about ensuring that the business is meeting its legal obligations and is capable of fulfilling the contract. This implies a congruity between accreditation and the task to be performed or the service provided.

All too often, the requirements are the same for the repair of 2 fences as for the erection of 300 new fences.

Accreditation is not a cheap process. It takes time, on both sides. With the 'list' system being explored by some councils, there is also an annual fee to be paid. This up front cost makes it even more important for that process to fit the size of contract and the type of purchase being made.

The FSB is very concerned that some people are suggesting that the possession of certain certificates become standard. While this may be appropriate for the very largest contracts, by placing this burden on small businesses, councils are likely to lose them as potential suppliers. Examples of inappropriate certificates are EMAS, ISO9000 etc

List Systems

Some councils are adopting a 'list' system where an outside body charges a business for accreditation at a certain level. The example we have so far quotes £50 for the 'bronze' level for business worth up to £5000pa, £150 for accreditation at the silver level for business up to £25,000 and £500 for accreditation at the Gold level.

Talking to several Councils, we understand the 'list' system is being adopted to simplify and to 'dumb down' the accreditation process. Local Authorities have adopted this policy in the face of severe cost and budgetary pressures and staff recruitment pressures. In criticising the adoption of any list system, members would do well to bear this in mind. However, the FSB does have several concerns.

There is no allowance made for existing suppliers who have been supplying the council very satisfactorily for a number of years. We have an example in Somerset. A member has been dealing with his local council quite happily for some 14 years doing some £3000 - £5000 pa. He now has to spend time fulfilling the accreditation process and pay an extra fee for the privilege of continuing to so do. This is not acceptable.

These fees have to be paid annually, which makes them very like a 'licence to trade'.



They have been likened to marketing costs. However, all too often, marketing continues to be an extra cost.

From evidence to date, the accreditation process is large business oriented and very general. Public sector bodies using this process are likely to lose the benefits of dealing with small businesses as noted above and find it even harder to 'engage'.

The FSB welcomes the approach originally shown by Bristol Council. They used the whole public procurement, e-commerce agenda as an economic development project. They were working with the small business community, the local Business link and other Public Sector bodies in the old Avon area to develop common formats, procedures and systems, plus the necessary training and advice.

The object was to make this an opportunity to become e-enabled with access to business opportunities with all Avon public sector bodies as an end result.

Despite this much appreciated work, they are now using one of the third party accreditation firms.

Prompt payment

It ironic that some list managers will drop a business if their credit rating 'wobbles'; yet late payment continues to be a real problem for UK small businesses.

The public sector is required to settle its bills in 30 days, however payment achievement varies considerably from Council to council.

Councils must pay their small businesses suppliers on time. They have the least time to spend chasing overdue payments, and such delays affect them the most.

Small contracts

Local Authorities often seem to think that big is beautiful. Others blame EU rules for their inability to reduce tenders to a size that small businesses can manage.

Clearly it is easier to manage one large contract than several small ones, but is it cost effective? Evidence from Belfast indicates that small businesses deliver on time to a higher specification and at a price 10-15% lower than their larger competitors. Such savings more than compensate for any higher management costs.



EU rules forbid contracts being split to avoid the EU cross border advertising rules and are intended to encourage competition. It is perfectly acceptable for Councils to break a contract down into a number of small contracts, provided that they advertise the contract as if it were one large one and clearly state that firms can tender for the totality.

Some councils have used this as a business development opportunity. The Belfast example required small businesses to have an environmental policy as part of the tendering procedure, with the results detailed above.

More recently councils are being pushed into e-commerce. The more active councils are using this as an opportunity to link with Business Links and other Business development agencies to educate and encourage small businesses to use e-commerce and get e-enabled.

Thus Councils can use their buying power for economic or business development purposes.

Jargon free information on tendering procedures

Small businesses do not have the management time of larger businesses. By virtue of their size, they do not employ specialists. Use of jargon is therefore more likely to be a problem for them than for larger businesses.

Councils might like to note how the use of inappropriate language is an offence under Anti Discrimination laws. The FSB considers that inappropriate language could well be an offence under the Competition Act.

Open Advertising

Not only must tenders be advertised in an open way, but also the advertising must be seen to be open, by being easily accessible.

As previously noted, time is at a premium in small businesses, so the FSB considers that Councils need to be pro active in informing businesses of when, where and how they advertise work. Councils should decide they will advertise on x day each week in y paper and publish this widely. They need to make sure it is clearly and prominently on their website and that all switch board staff are properly briefed.

Local Councils will shortly be required to publish tenders on their websites and we welcome this. Other public sector bodies should follow suit.

Honest Feedback Where a small business plucks up the courage to ask why they did not succeed, they deserve an honest, straight answer. If that cannot be provided, the Council should ask why this is.



Economic Development Benefits

Buying can be a tool for economic development. Budget pressures leave Councils with little to spend directly on economic development. However, they can use their purchasing systems and processes to develop local small businesses. In any case local purchasing has what is known as a 'plugging the leaks' or a multiplier effect.

Many Economic Development Officers are analysing local economies to see how much money just flows through the Council without affecting the local economy.

'Plugging the leaks' comes from studying the effect of money 'flows'. In many a poor, run down community, the money flows in from the state, only to flow straight out again to loan sharks and supermarkets.

In the case of a local authority, it can spend money with a business based outside its area and the money comes in from Council tax or central Government and goes straight out through the out of area firm. Even if the money is spent with a firm based in the area, frequently only the wages stay locally. But if the money is spent with a local business, then the whole of the sum less any raw materials, power etc, stays in the area and circulates through other businesses. By staying in the area, it has a much greater effect on the local economy.

The 'multiplier' effect can be seen in 2 ways. Using purchasing to back up economic strategy increases the amount of money available to implement the strategy. Secondly, if we consider how the money circulates when locally spent, it goes round several times before leaving the area through a supermarket or through a bank. This its effect is 'multiplied' by the number of times it goes round, creating more economic activity and profit and employment.

This effect has been verified by the New Economic Foundation. They have produced a workbook called LM3 to enable the value of the multiplier to be quantified for any local authority. It can be found at:- <http://www.pluggingtheleaks.org/>

Vivienne Rayner
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Amended August 4th 2005 re Bristol

Amended 23rd January 2007 following Alun Pritchard's comments

Amended 27th February 2007 to include information on LM3 workbook