



**July 2013**

***LOCAL PROCUREMENT: MAKING THE MOST OF SMALL BUSINESS, ONE YEAR ON:  
SCOTLAND REPORT***

Final report prepared by

**Centre for Local Economic Strategies**

Presented to

**Federation of Small Businesses Scotland**

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## EXECUTIVE SUMMARY

The Centre for Local Economic Strategies (CLES) is pleased to present this final report to the Federation of Small Businesses in Scotland (FSB). The report follows on from a wider project and survey being undertaken by the FSB, exploring the relationship between local authority procurement processes and small to medium sized enterprises (SMEs) across England, Scotland, Wales and Northern Ireland. The executive summary follows the lines of inquiry for the survey and details specifically the findings for the Scotland area. This is the second year the survey has been undertaken and thus change is also assessed.

### Spend

- ❑ 50% of local authorities in Scotland spend between £100 million and £250 million annually on procuring goods and services.
- ❑ The 24 local authorities who participated spend a combined £3.8 billion on procuring goods and services.
- ❑ The average total annual spend of local authorities in Scotland on procuring goods and services is £158 million, which is lower than the national average of £172 million, and lower than the 2012 figure of £214 million. For authorities where findings can be directly compared, total average procurement spend has decreased 13% between 2012 and 2013 from £180 million to £156 million.
- ❑ 92% of local authorities in Scotland record the amount of spend within their own local authority boundary, which is higher than the national average of 62% and higher than the 2012 figure of 86%. For authorities which can be directly compared, the figure has decreased from 90% in 2012 to 80% in 2013.
- ❑ On average, local authorities in Scotland spend 27% of their total procurement spend in their own local authority boundary; lower than the national figure of 31.1% (Scotland is the third lowest geographical area when it comes to local spend) and lower than the 2012 figure of 31%. For authorities where findings can be directly compared, this figure has fallen from 30% in 2012 to 20% in 2013.
- ❑ 45% of authorities in Scotland have set targets for improvement in local spend, which is higher than the national average of 42%.
- ❑ 96% of local authorities in Scotland record the amount of spend with SMEs, which is higher than the national figure of 60% and higher than the 2012 figure of 79%.
- ❑ On average, local authorities in Scotland spend 53% of their total procurement spend with SMEs, which is higher than the national figure of 47% and higher than the 2012 figure of 51%. For authorities where findings can be directly compared, this figure has decreased from 59% to 47%.

### Barriers and engagement

- ❑ 55% of local authorities in Scotland felt that SMEs face barriers in accessing procurement opportunities, which is lower than the national figure of 60% and also lower than the 2012 survey figure of 57%. For authorities which can be directly compared, this figure has increased from 56% to 67%.
- ❑ 95% of the local authorities in Scotland have initiatives in place to support SMEs in tendering, which is higher than the national figure of 91% but lower than the 2012 survey figure of 100%. 90% of Scottish authorities have introduced new initiatives over the last twelve months.

### Process

- ❑ All of the authorities in Scotland used a Pre-Qualification Questionnaire (PQQ).
- ❑ 72% of authorities require independent accreditations as part of the procurement process, which is higher than the national average of 52%.
- ❑ 85% of local authorities in Scotland adopt different processes for below EU threshold tenders; the same as the national figure of 85%, and higher than the 2012 survey figure of 71%.

- ❑ Use of framework agreements has stayed the same in 55% of local authorities in Scotland over the last year. Incidences of contract aggregation have stayed the same in 70% of local authorities in Scotland over the last year.
- ❑ 100% of local authorities in Scotland 'regularly' or 'occasionally' break contracts into lots, which is higher than the national figure of 86%.
- ❑ The most important contemporary issues in the procurement process for local authorities in Scotland are achieving cost savings and delivering corporate priorities which mirror the responses nationally.

### Payment

- ❑ 95% of local authorities in Scotland have policies in place for the payment of suppliers - the same as the national figure of 95% but lower than the 2012 figure of 100%.
- ❑ 50% of local authorities in Scotland seek to pay suppliers in less than 28 days, higher than the national figure of 45%.
- ❑ 50% of local authorities in Scotland seek to pass on their payment terms to their main contractors, which is higher than the national figure of 39% but lower than the 2012 figure of 57%. For authorities where responses can be directly compared, this has remained constant at 56%.

### Improvement

- ❑ 90% of local authorities in Scotland are aware of the FSB's publication entitled '*Local procurement: making the most of small business*', higher than the national figure of 74%.

### Conclusion

In the national level report<sup>1</sup> and using the findings of other CLES research<sup>2</sup>, we calculated the additional benefit small local firms brought to local economies when compared to large local firms. We identified that £4.1 billion invested nationally in small local firms brought £2.6 billion of benefit for local economies or 63.4 pence for every £1 invested. In comparison, investing £4.63 billion in large local firms brought £1.86 billion of benefit for local economies or 40.1 pence for every £1 invested<sup>3</sup>.

For local authorities in Scotland, additional research was undertaken to ascertain the direct value procurement spend, on average, yielded for local economies. It found that an average spend of £158 million on procurement brought an average of £59.7 million of direct benefit for local economies through spend with local firms and the re-spend of those firms back in the local economy. A case study was also conducted in the Scottish Borders (detailed in section 7) which found that investment of £104 million in procurement brought £45.1 million of benefit for the Borders economy or 43.4 pence for every £1 invested.

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<sup>1</sup> Federation of Small Businesses (2013) *Local Procurement: Making the most of small business, one year on*.

<sup>2</sup> Centre for Local Economic Strategies (2012) *Progression in Procurement: Manchester City Council*.

<sup>3</sup> These figures are also applicable to Scotland as the proxies used to calculate them are nationally defined.

## 1 INTRODUCTION

### 1.1 Introducing the procurement and small business project

The Centre for Local Economic Strategies (CLES) is pleased to present this final report to the Federation of Small Businesses in Scotland (FSB). The report follows on from a wider project being undertaken by the FSB, exploring the relationship between local authority procurement processes and small to medium sized enterprises (SMEs). CLES was commissioned by the FSB to supplement the research project by undertaking and reporting upon a survey of local authority procurement directors and heads from across England, Scotland, Wales and Northern Ireland. This report details the findings of that survey, specifically for Scotland.

This is the second year the FSB has undertaken a survey of local government procurement practitioners, with the initial findings detailed in the publication *Local procurement: making the most of small business*<sup>4</sup>. The analysis described throughout the report also details change from the baseline picture where applicable.

A copy of the final survey issued is detailed in Appendix 1.

### 1.2 Response rate

From the 32 local authorities in Scotland asked to participate in the survey, a total of 24 responded to the questionnaire – a response rate of 75% – which marks a significant increase on the 2012 figure where 14 councils responded. The response rate in Scotland was the highest of all the geographical areas. The lowest proportion of responses came from Yorkshire and Humber, with 32.7% of authorities responding.

### 1.3 Report structure

The following sections of the report highlight the headline findings of the survey for Scotland. Analysis closely follows the lines of inquiry for the survey:

<b>Section 2</b>	Spend
<b>Section 3</b>	Barriers and engagement
<b>Section 4</b>	Process
<b>Section 5</b>	Payment
<b>Section 6</b>	Improvement
<b>Section 7</b>	Scottish Borders case study
<b>Section 8</b>	Concluding thoughts

<sup>4</sup> [http://www.fsb.org.uk/policy/rpu/scotland/assets/publi\\_spec\\_procurabridjuly2012.pdf](http://www.fsb.org.uk/policy/rpu/scotland/assets/publi_spec_procurabridjuly2012.pdf)

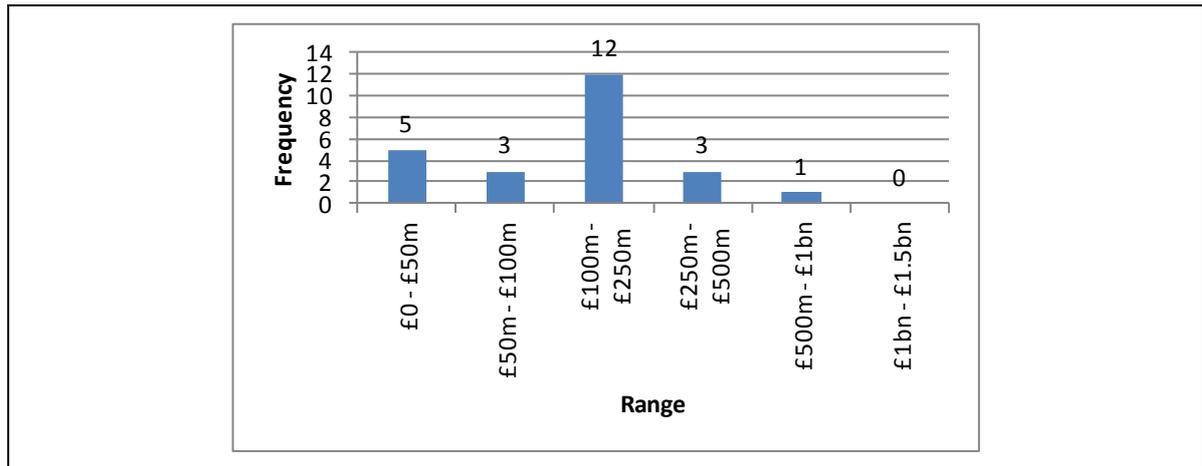
## 2 SPEND

Local authorities were asked how much they spend on an annual basis on procuring goods and services, and whether they recorded spend in their local authority boundary and with SMEs.

### 2.1 Total spend

Figure 1 details the ranges which local authority spend on procuring goods and services in Scotland fell within. The largest proportion of authorities (50%) spend between £100 million and £250 million on procuring goods and services, followed by 21% which spend less than £50 million. The range with the highest number of authorities in the 2012 survey was also between £100 million and £250 million (43% of responding authorities).

**Figure 1: Annual spend on procuring goods and services**



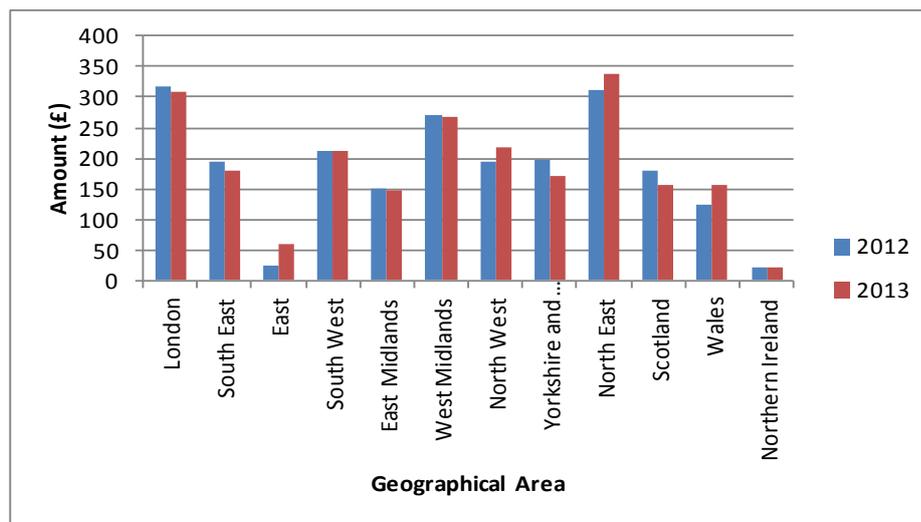
The average spend of authorities in Scotland was £158 million, with the 24 local authorities questioned spending a combined £3.8 billion on procuring goods and services. The average spend figure is lower than the 2012 figure of £214 million. Local authorities in the North East spend an average of £317 million, which is the highest of the geographical areas. County authorities in England spend an average of £506 million on procuring goods and services.

**Change over the period 2012 to 2013: total spend**

For the 10 local authorities that responded to the survey in both 2012 and 2013, it is possible to determine changing levels of total spend. In 2012, these authorities spent a total of £1.8 billion procuring goods and services, an average of £180 million per authority. In 2013, the total spend of these authorities decreased to a combined £1.56 billion, an average of £156 million. This represents a decrease in total spend of 13% and marks Scotland as the geographical area with the greatest decrease in spend.

In Wales, the average total procurement spend of authorities has increased from £124 million in 2012 to £155 million in 2013, representing a 25% increase. Change in total spend across the geographical areas of the UK is detailed in Figure 2.

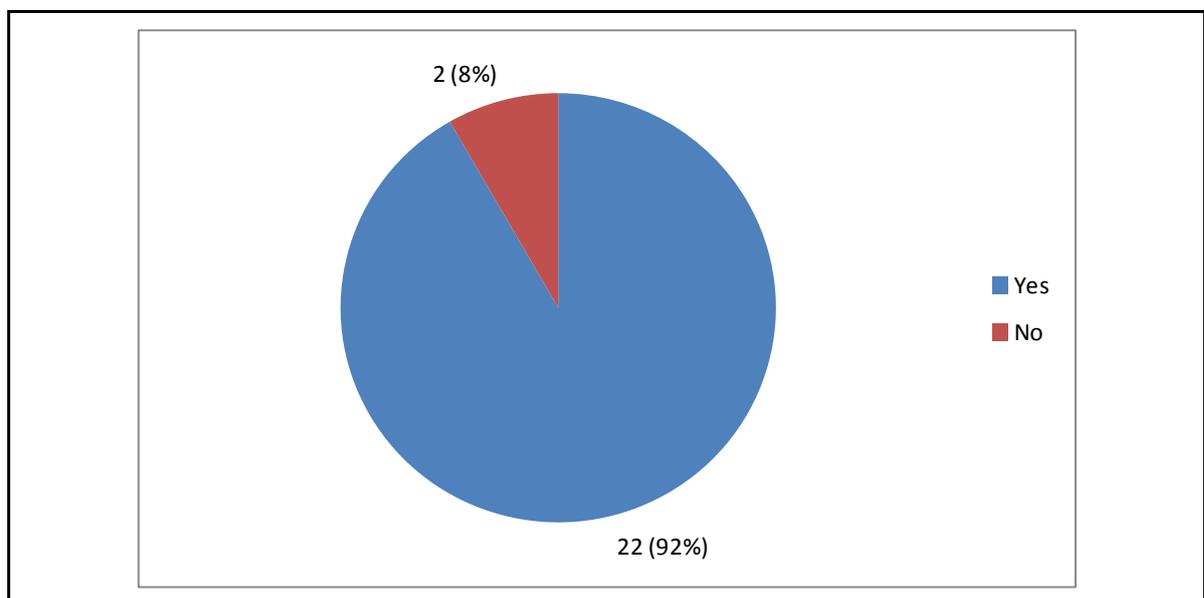
**Figure 2: Change in average total spend by geographical area**



**2.2 Local spend**

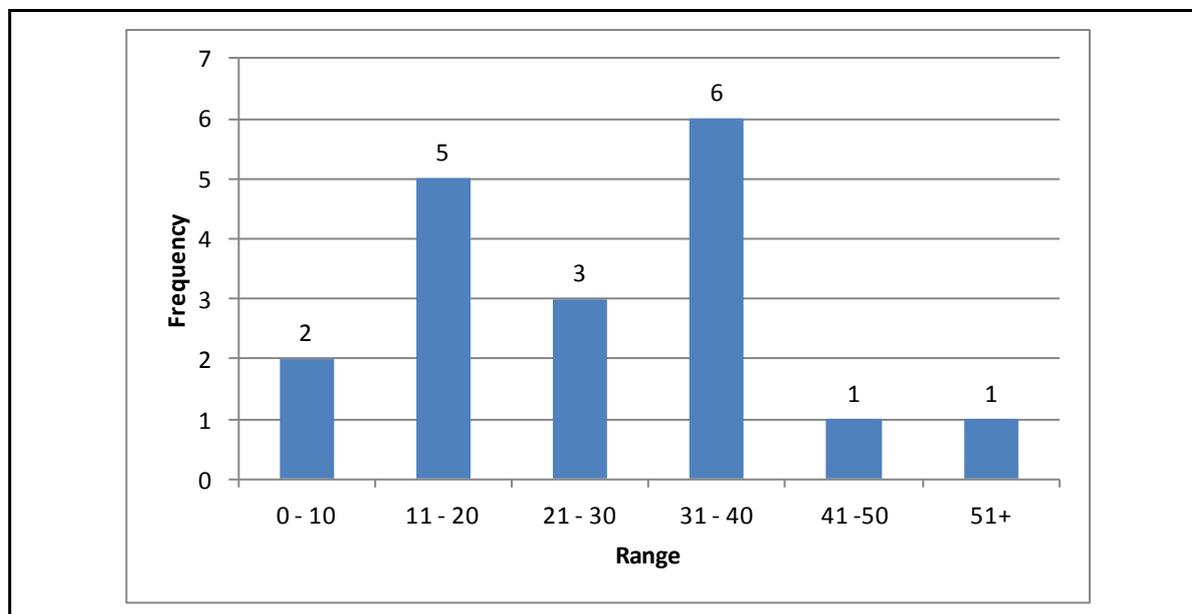
Figure 3 details the proportion of local authorities in Scotland (92%) that actively record the amount of annual procurement spend within their own local authority boundary, an increase of 6% from last year’s survey. Although this is higher than the national figure (62%), it is lower than authorities in Yorkshire and Humber and the North East, where all authorities record local spend levels.

**Figure 3: Proportion of authorities recording local spend**



Of the 22 local authorities in Scotland that suggested they record local spend, 18 provided data for the proportion of their total procurement spend within their local authority boundary. Figure 4 highlights the ranges within which the proportion of local spend fell within: 6 authorities (33%) spent between 31-40% of their total procurement spend in their own local authority boundary while 5 authorities spent between 11-20%.

**Figure 4: Proportion of spend with local suppliers**



On average, local authorities in Scotland spent 27% of their total procurement spend in their own local authority boundary. This is lower than last year's survey, where the figure was 31%, and also below the national average of 31.1%. Indeed, it is the third lowest of all the geographical areas. Authorities in Wales spent on average 42% of their total procurement spend in their own local authority boundary.

#### **Change over the period 2012 to 2013: local spend**

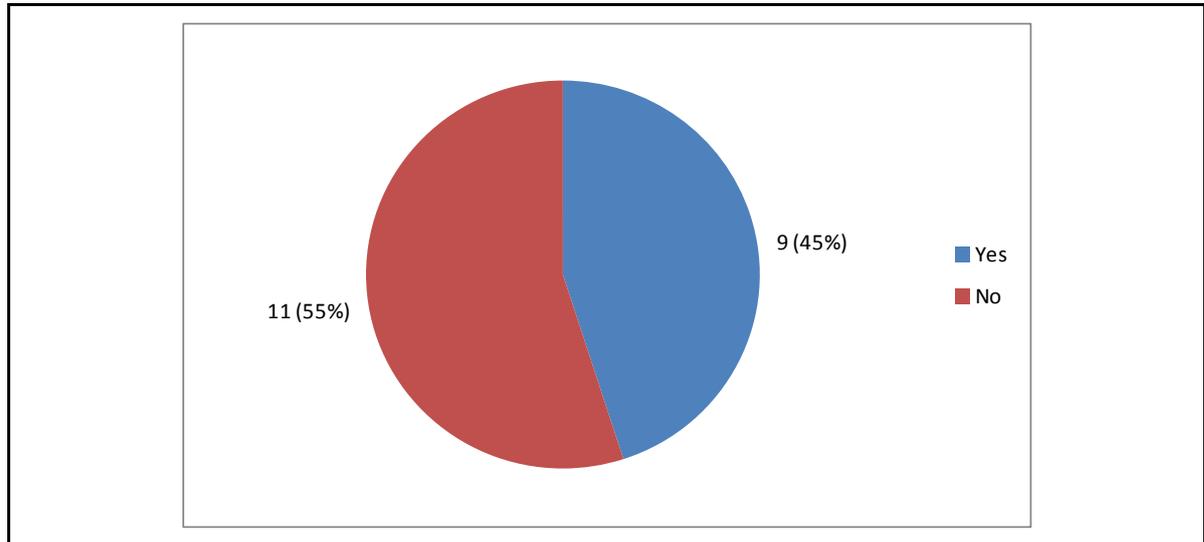
For the authorities which responded to the survey in both 2012 and 2013, it is possible to determine change in the recording of local spend and in levels of spend by authorities in their own boundary. Overall, 10 local authorities in Scotland provided a response to the question of whether they recorded local spend in both years. In 2012, the proportion of these authorities recording local spend was 90%; in 2013 this has decreased to 80%.

Seven authorities in Scotland provided data for both years for the proportion of spend with local suppliers. The results show a 33% decrease in local spend between 2012 and 2013 with authorities spending 20% of their total procurement spend in 2013 in their own local authority boundary, compared to an average of 30% in 2012.

In Yorkshire and Humber, the proportion of spend with local suppliers has increased from 27% in 2012 to 38% in 2013, representing a 41% increase.

Authorities were asked whether they had set any targets to improve levels of spend with firms based in their local authority boundary. Figure 5 details that 45% of authorities in Scotland had set targets for improvement which is higher than the national figure of 42%.

**Figure 5: Proportion of authorities setting targets for improvement**



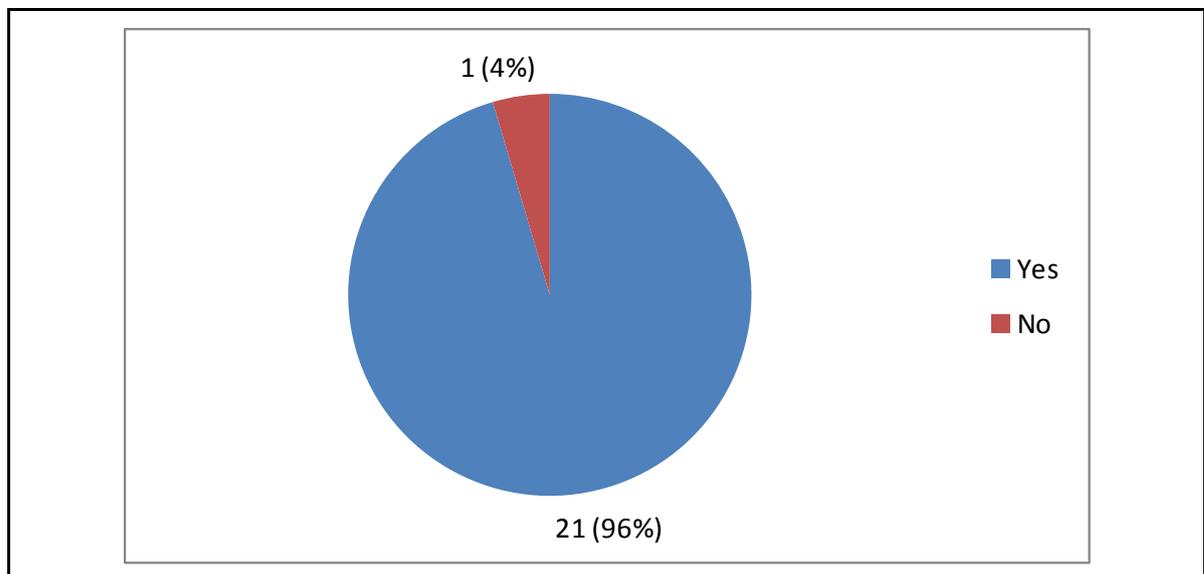
Of the 9 authorities which suggested they had set targets for improvement, 5 provided numerical information as to the nature of these targets (with others providing non-numerical information). It is not possible to robustly analyse the range of these targets as some are over a single year period and others over a lifetime of a procurement strategy. However, general targets are for an increase of 5% in spend with local suppliers, or an aspiration for 40% of total procurement spend to be with local organisations.

Authorities were also asked whether they undertook analysis to explore supplier re-spend back in their local authority boundary, with no authorities in Scotland suggesting they did such analysis. Nationally, only 12 authorities perform this analysis.

### 2.3 SME spend

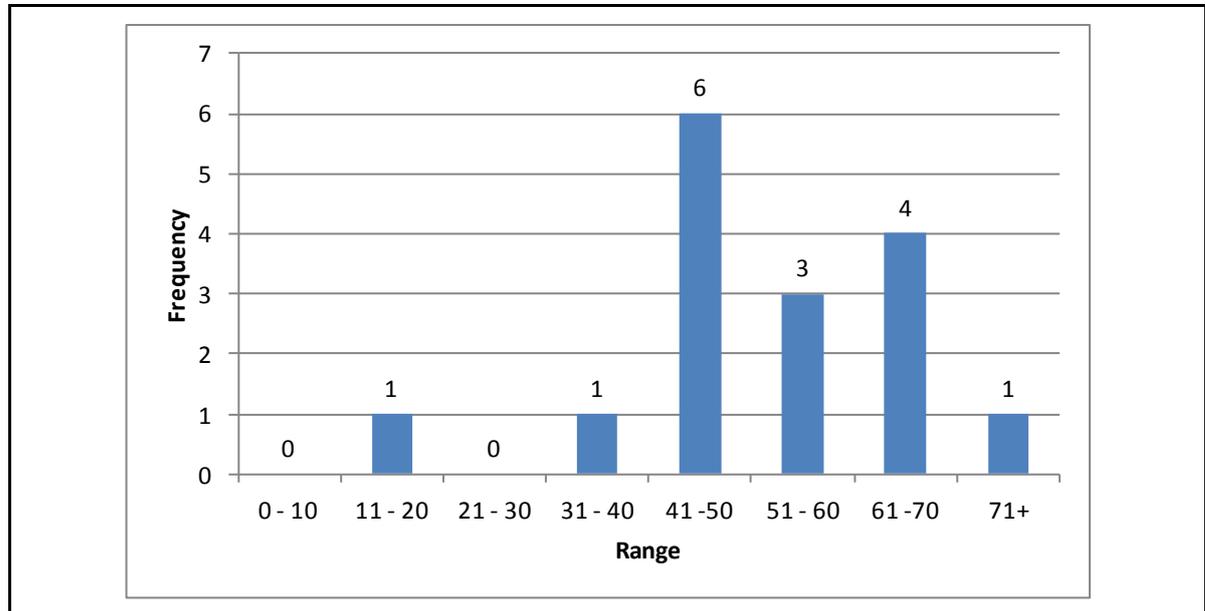
Figure 6 details the proportion of local authorities in Scotland which actively record the amount of their procurement spend with SMEs, with 96% of authorities recording the amount spent with SMEs. This is higher than the 2012 figure of 79% and significantly higher than the national average where 60% of authorities record spend levels with SMEs.

**Figure 6: Proportion of authorities recording SME spend**



Of the 21 authorities that suggested they recorded SME spend, 16 provided data for the proportion of their total procurement spend with SMEs. Figure 7 highlights the ranges within which the proportion of SME spend by local authorities in Scotland fell within, with 6 authorities spending between 41-50% of their total procurement spend with SMEs. The range with the highest proportions in the 2012 survey was 51-60%.

**Figure 7: Proportion of spend with SMEs**



Local authorities in Scotland spent on average 53% of their procurement spend with SMEs. This is higher than the 2012 figure of 51% and higher than the national figure, with authorities on average spending 47% of their total annual procurement spend with SMEs. Authorities in Northern Ireland spent on average 85% of their total procurement spend with SMEs.

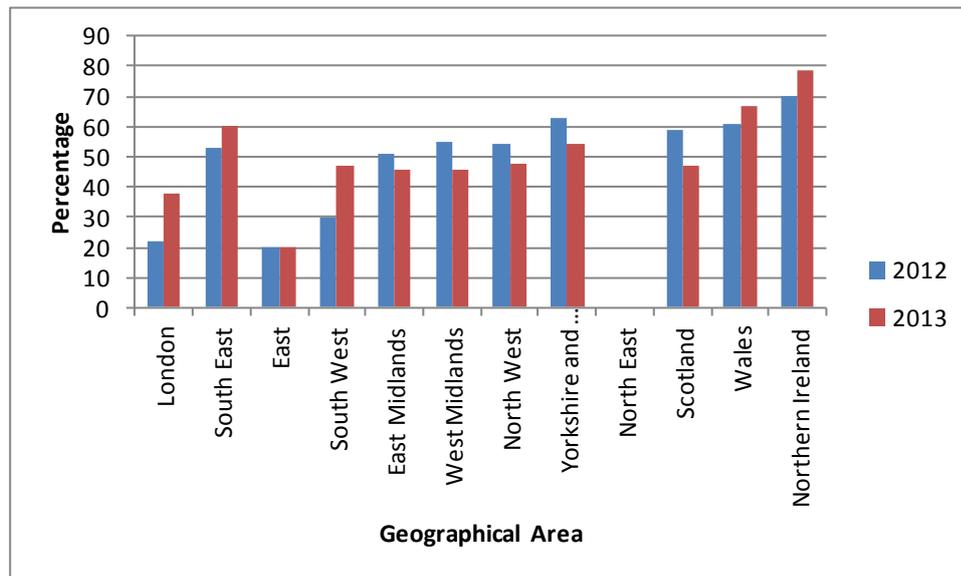
Of the 21 local authorities in Scotland which actively record the amount of their procurement spend with SMEs, 13 further break it down by business size.

**Change over the period 2012 to 2013: SME spend**

For the authorities which responded to the survey in both 2012 and 2013, it is possible to determine change in levels of recording SME spend and in levels of spend by authorities with SMEs. 10 local authorities in Scotland provided responses in both years as to whether they recorded levels of spend with SMEs. In 2012, the proportion of local authorities in Scotland recording SME spend was 70% and in 2013 this figure has increased to 90%.

Six authorities provided data for both years for the proportion of spend with SMEs. On average, the authorities responding to the survey in 2012 spent 59% of their total procurement spend with SMEs. The figure for 2013 was 47%, representing a 20% decrease, making Scotland the geographical area with the greatest level of decrease in spend with SMEs. The largest increase in spend with SMEs was in London, with an increase from 22% to 38%. Change in SME spend across the geographical areas of the UK is detailed in Figure 8.

**Figure 8: Change in levels of spend with SMEs by geographical area**



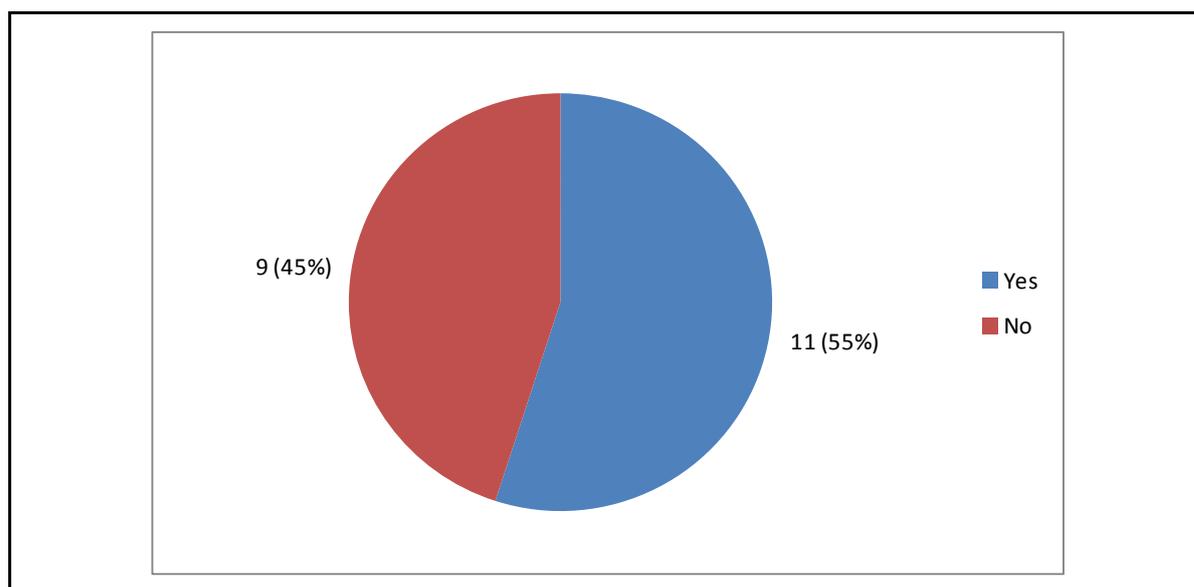
### 3 BARRIERS AND ENGAGEMENT

Local authorities were asked whether they felt there were barriers for SMEs in accessing procurement opportunities and whether they had any processes and initiatives in place to address those barriers.

#### 3.1 Barriers

Figure 9 details the proportion of local authorities in Scotland which felt there were barriers for SMEs in accessing procurement opportunities. 11 of the 20 responding authorities from Scotland (55%) felt that SMEs faced barriers in accessing procurement opportunities, which compares to the 2012 survey figure of 57% and the national level figure of 60%. 88% of authorities responding from Yorkshire and Humber felt that SMEs faced barriers.

**Figure 9: Barriers for SMEs**



#### **Change over the period 2012 to 2013: barriers**

For the authorities that responded to the survey in both 2012 and 2013, it is possible to determine change in the proportion who felt SMEs faced barriers in accessing procurement opportunities. 9 local authorities in Scotland provided responses in both years with 56% feeling SMEs faced barriers in accessing procurement opportunities in 2012. In 2013, this had increased to 67%.

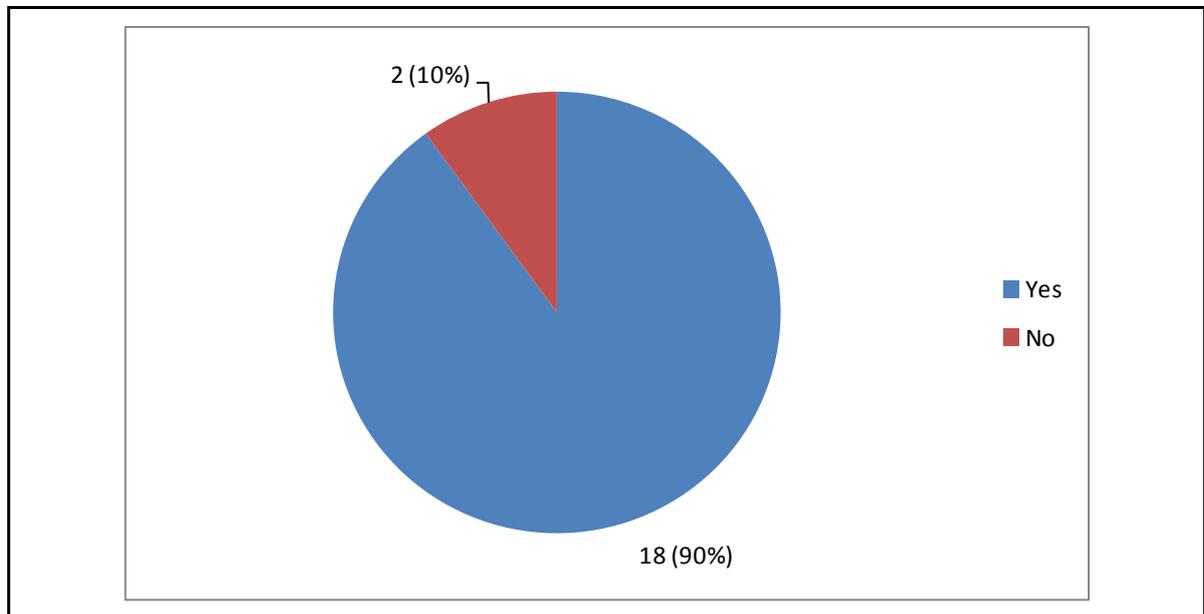
#### 3.2 Engagement

Nineteen of the twenty local authorities in Scotland (95%) had initiatives in place to support SMEs in the tendering process and in delivering services. This is lower than the 2012 survey figure of 100% but higher than the national level figure of 91%. Local authorities in Scotland suggested that the initiatives they had implemented have had an impact in relation to five themes:

- 1) they have improved the chances of getting SMEs to bid for opportunities and potentially win contracts;
- 2) they have raised awareness of opportunities which are relevant to the activities of SMEs;
- 3) they have led to jobs being created and the viability of SMEs;
- 4) they have enabled a dialogue between local small businesses and procurers;
- 5) they have enabled a better relationship with economic development teams.

In the 2013 survey, we asked authorities whether they had introduced any new initiatives over the course of the last twelve months. Figure 10 details that 90% of local authorities in Scotland had introduced new initiatives. This is the highest of all the geographical areas and above the national average of 75%.

**Figure 10: Proportion of authorities introducing new initiatives**



The new initiatives introduced by local authorities in Scotland relate to five themes:

- 1) workshops and events, including with other procurers;
- 2) supplier development programmes;
- 3) adopting the national pre-qualification questionnaire (PQQ);
- 4) removing bureaucracy and making procurement more SME friendly;
- 5) online tendering and advertising processes.

## 4 PROCESS

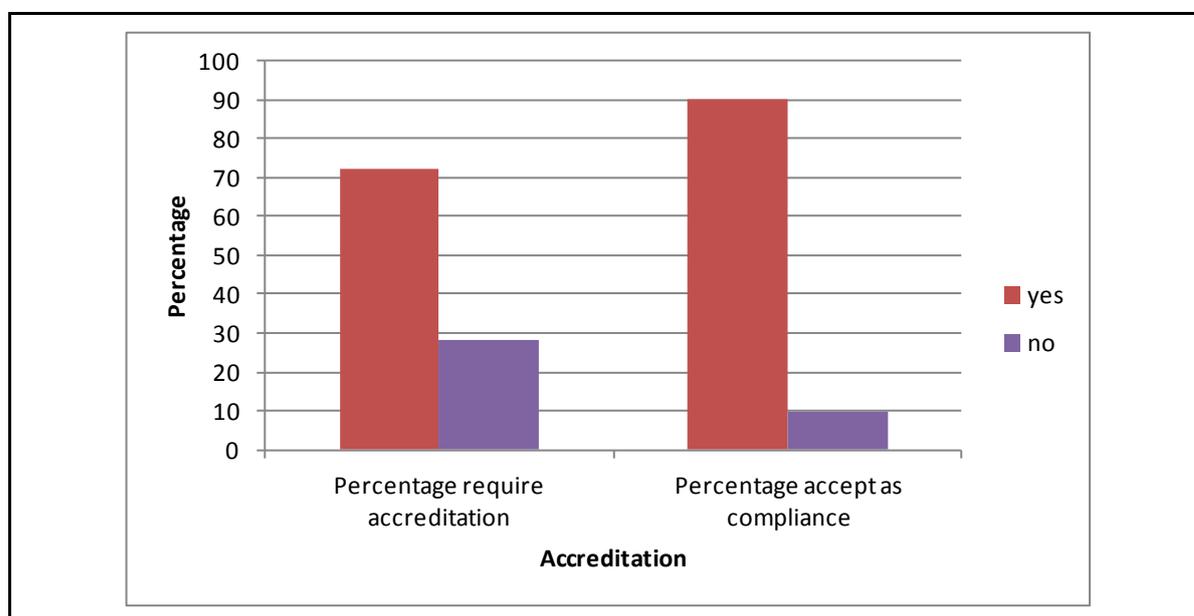
### 4.1 Pre-qualification questionnaire and accreditations

Authorities were asked whether they used a PQQ and if they did whether they had adopted any innovative practice as to when it was required. All 20 local authorities in Scotland responding to the question indicated that they used a PQQ (the national figure was 99%). In terms of innovative practice, the majority have either simplified PQQs or removed the PQQ requirement for tenders below certain thresholds to support SMEs to bid.

Authorities were also asked about accreditation requirements in the pre-qualification stage of the procurement process. In particular, they were asked whether the required independent accreditations were part of the procurement process, and whether they accepted accreditations as evidence of compliance with their own standards.

Figure 11 details that 72% of authorities require independent accreditations as part of the procurement process, with 90% accepting independent accreditations as evidence of compliance with their own procurement standards. Both these figures are higher than the respective national averages of 52% and 77%.

**Figure 11: Proportion of authorities requiring and accepting independent accreditations**

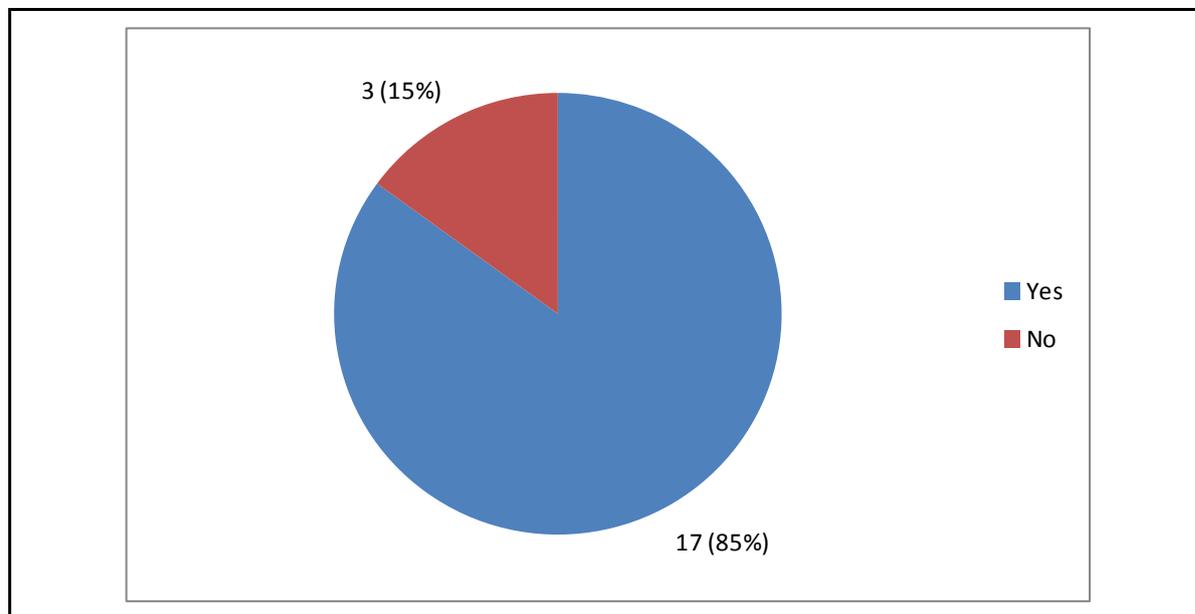


In authority type terms, Welsh Unitary authorities (88%) were more likely to require independent accreditations.

## 4.2 Below EU threshold practices

Figure 12 details the proportion of local authorities in Scotland which adopt different procurement practices for opportunities below the EU thresholds, with 85% doing so. This is an increase on the 2012 survey figure of 71% and in line with the national figure of 85%.

**Figure 12: Proportion of authorities using different processes for below EU threshold tenders**



County authorities are more likely to adopt different practices for below EU threshold tenders than other types of authority, with 88.9% of responding authorities doing so.

The different processes adopted by local authorities in Scotland for below EU threshold opportunities are largely around reducing the number of quotes required to make it competitive and open. Many local authorities in Scotland are using a three quote process, of which one needs to be from a local organisation. They are also utilising Quick Quotes through Public Contracts Scotland.

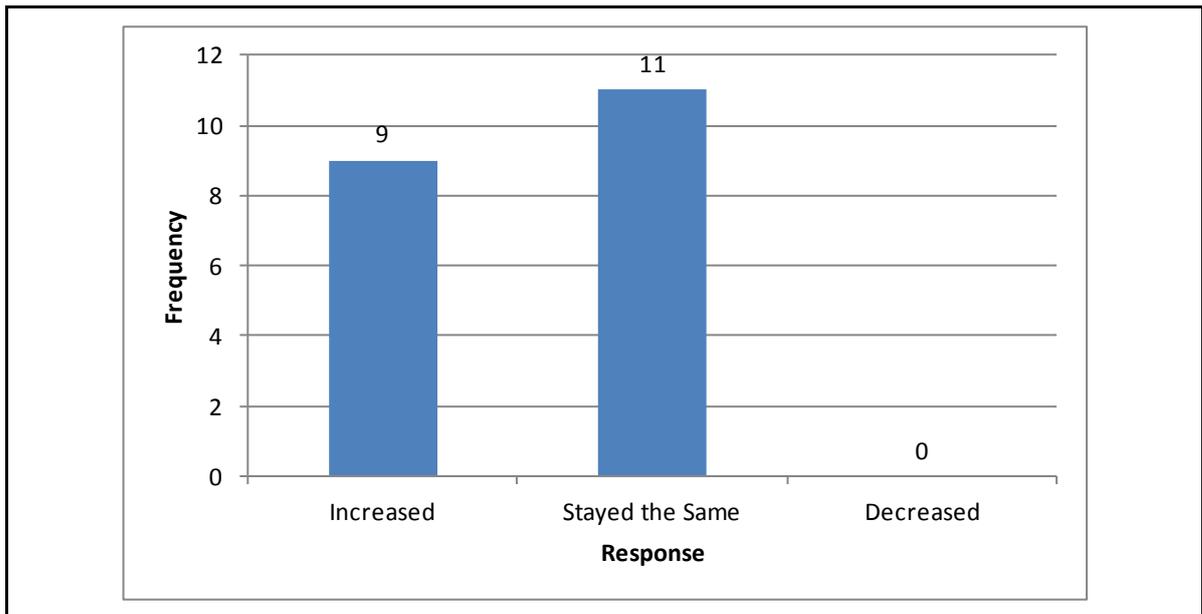
### **Change over the period 2012 to 2013: below EU threshold opportunities**

For the authorities that responded to the survey in both 2012 and 2013, it is possible to determine change in the proportion which utilise a different approach to tenders below the EU threshold. 9 local authorities in Scotland provided responses in both years with 78% utilising a different approach for below EU threshold tenders in both 2012 and 2013.

## 4.3 Frameworks, aggregations and lotting

Authorities were asked to detail the extent to which their use of framework agreements has changed over the last twelve months. Figure 13 highlights that the use of framework agreements has stayed the same for 55% of local authorities in Scotland, which is slightly lower than the national figure of 57%. In 9 authorities (45%), the use of framework agreements had increased, which is higher than the national figure of 40%.

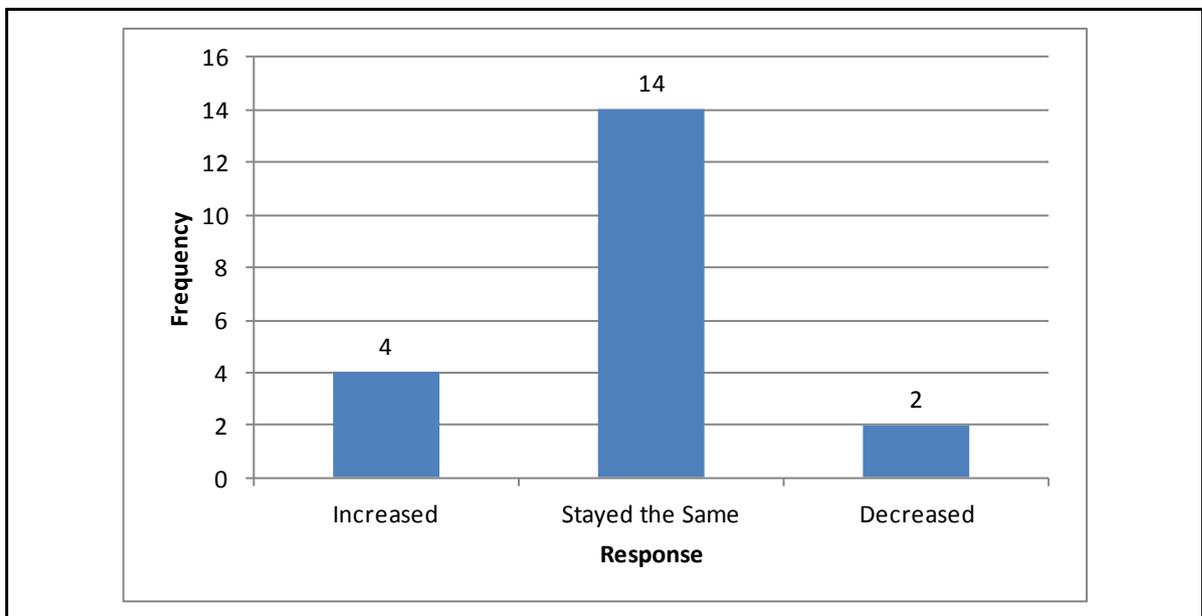
**Figure 13: Change in use of framework agreements**



In authority type terms, the greatest increase in the use of framework agreements was amongst Welsh Unitary authorities, with 6 authorities (67%) stating their use had increased over the last twelve months.

Authorities were asked to detail the extent to which instances of contract aggregation had changed over the last twelve months. Figure 14 highlights that for 70% of local authorities in Scotland, instances of contract aggregation had stayed the same, which is slightly higher than the national figure of 69%. In 4 authorities (20%) instances of contract aggregation had increased, which is lower than the national figure of 25%.

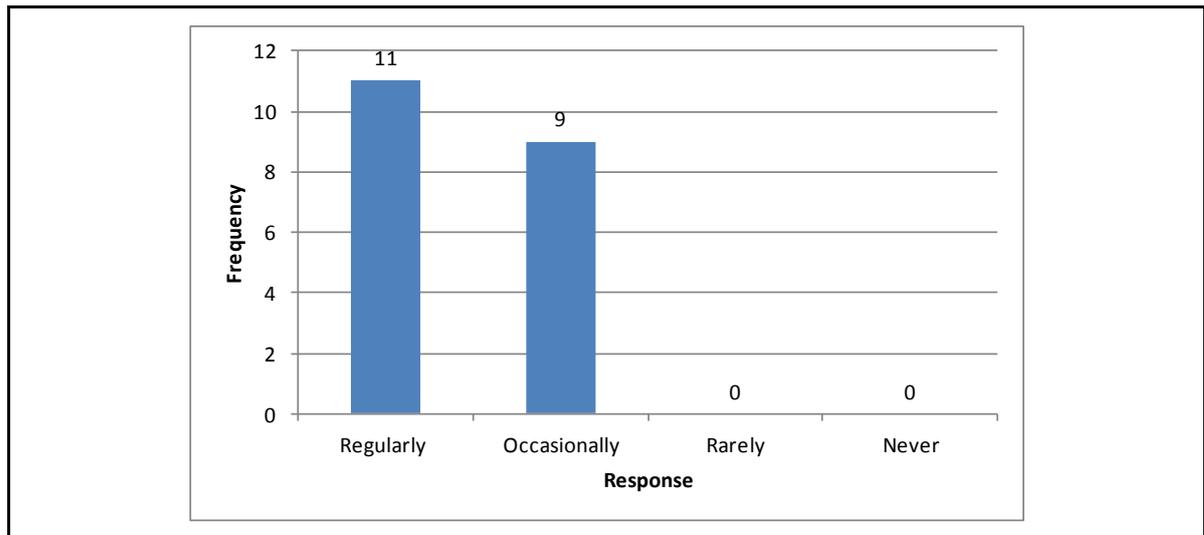
**Figure 14: Change in instances of contract aggregation**



In authority type terms, the greatest increase in instances of contract aggregation was amongst Welsh Unitary authorities with 3 authorities (33%) stating instances had increased over the last twelve months.

Authorities were asked to detail the extent to which they broke contracts down into smaller lots to assist SMEs to bid, with 100% of local authorities in Scotland stating that they 'regularly' or 'occasionally' break contracts into lots. This is above the national figure of 86%.

**Figure 15: Regularity of breaking contracts into lots**



In authority type terms, District authorities in England and Northern Ireland councils were least likely to break contracts into lots, with 25% of both types of authority stating that they lotted either 'rarely' or 'never'.

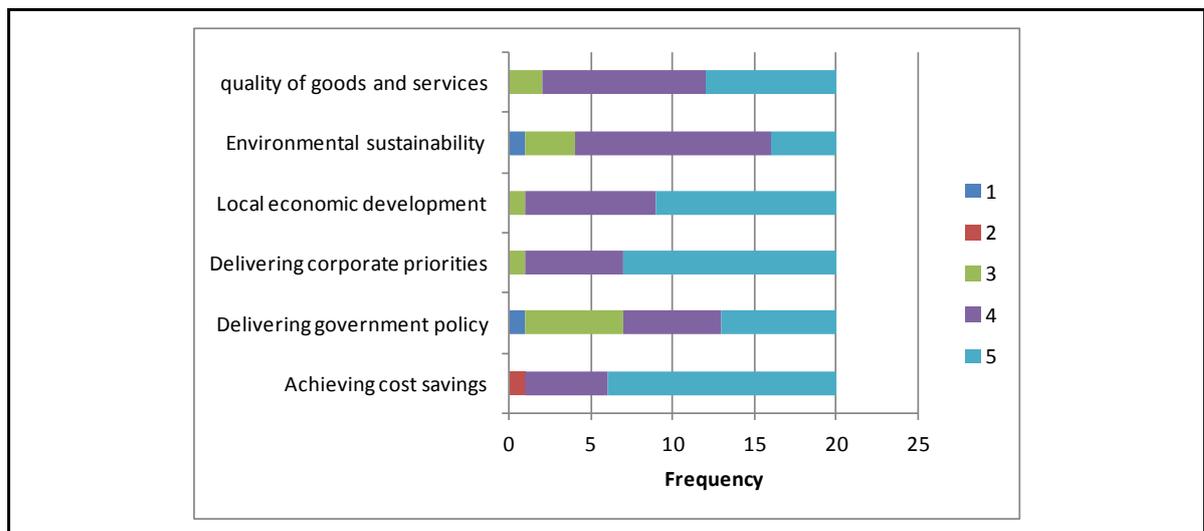
**4.4 Advertising and portals**

A key question in the survey was around the extent to which local authorities used different forms of portal for advertising. All of the responding authorities used a national portal (Public Contracts Scotland) for advertising opportunities and the use of such portals is higher in Scotland than any of the other geographical areas.

**4.5 Issue importance**

Figure 16 highlights the extent to which particular issues are important for local authorities in the procurement process. Authorities were asked to score issues on a scale of 1 (low importance) to 5 (high importance). The key issue of importance for local authorities in Scotland was achieving cost savings, with 14 out of 20 authorities scoring this of high importance (a 5 on the scale). 13 out of 20 authorities also scored delivering corporate priorities as a 5. The issue deemed less important by local authorities is delivering government policy through procurement (with 6 out of 20 authorities scoring it a 3).

**Figure 16: Extent to which issue is important in procurement process**



This tallies largely with the findings from the national level survey, with 126 local authorities suggesting that achieving cost savings was of high importance (scored 5). The issue of cost savings was also the most important identified issue for local authorities in Scotland in the 2012 survey.

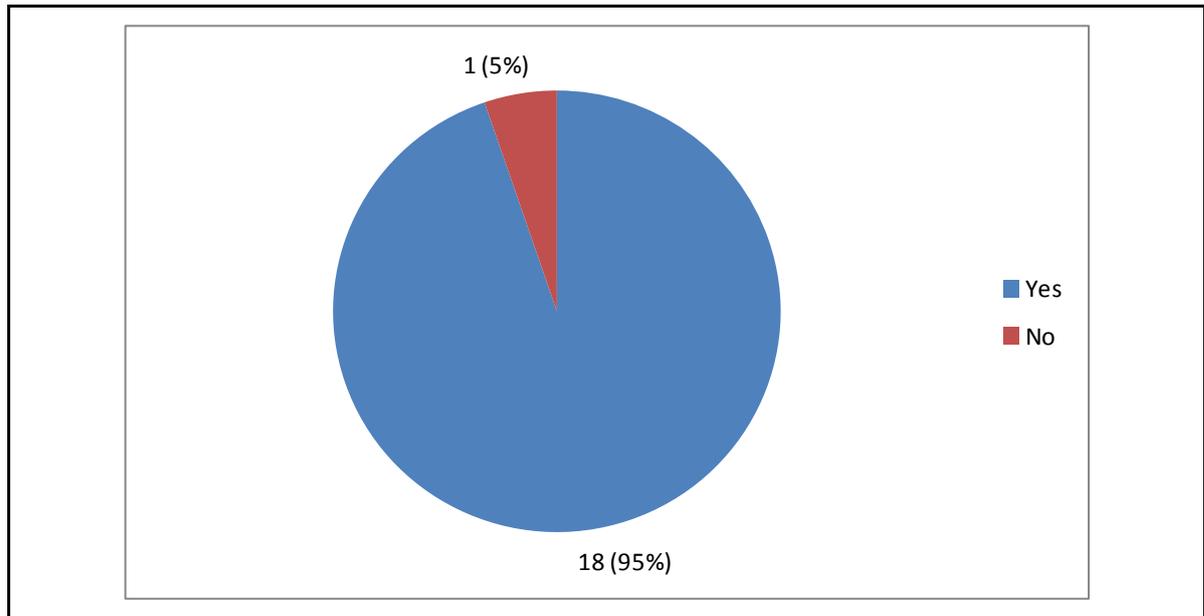
## 5 PAYMENT

Local authorities were asked to detail their policies and schedules around the payment of suppliers.

### 5.1 Payment policies and schedules

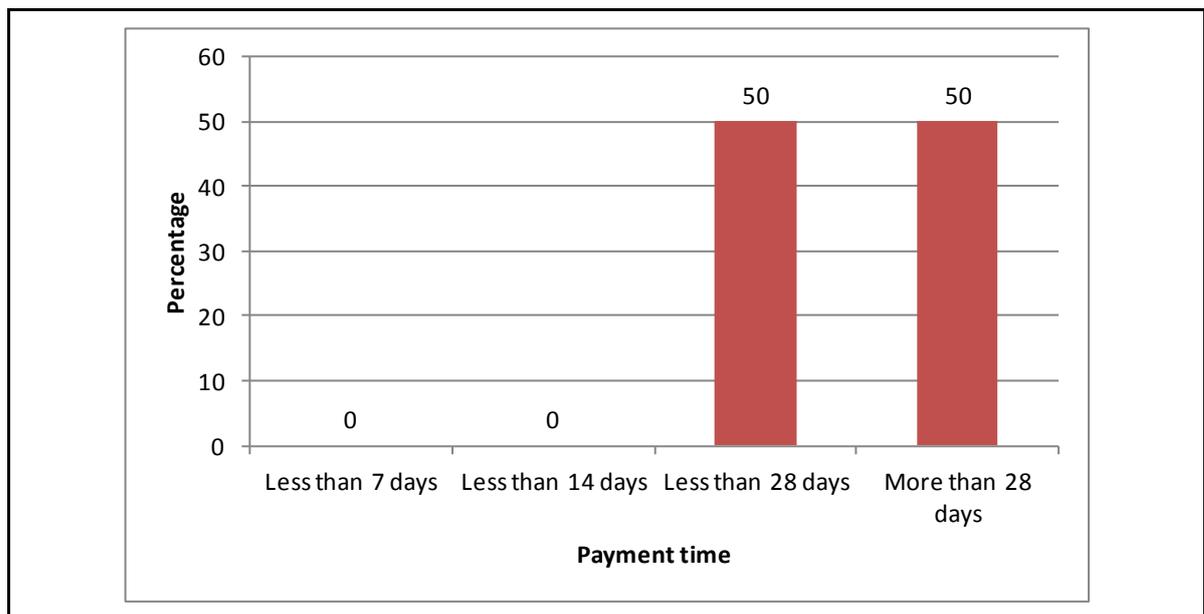
Figure 17 highlights the extent to which local authorities in Scotland have policies in place for the payment of suppliers. 95% of local authorities in Scotland have in place such policies which is slightly lower than the 2012 survey figure of 100% and the same as the national survey figure of 95%.

**Figure 17: Use of payment policies for suppliers**



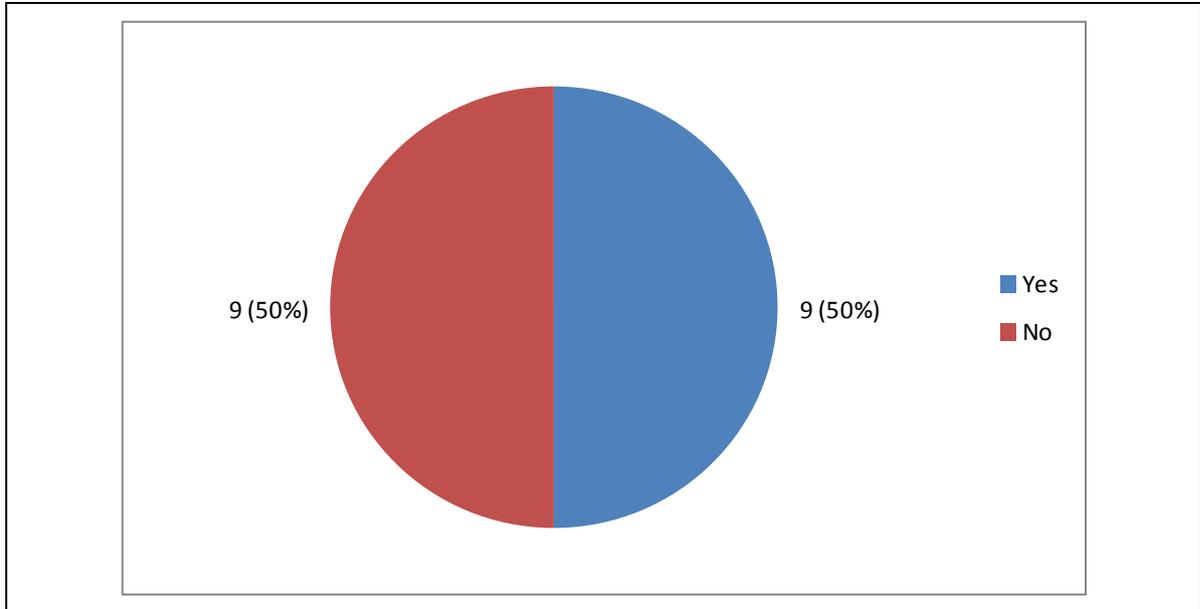
All 18 of the authorities in Scotland that had policies in place for the payment of suppliers, provided data for the length of time it took to pay suppliers. As detailed in Figure 18, 50% of local authorities in Scotland have a payment schedule of less than 28 days. This is higher than the national level figure where 45% of authorities seek to pay in less than 28 days, but lower than the figure from the 2012 survey of 64.3%.

**Figure 18: Payment schedule of authorities**



All 18 of the local authorities that had policies in place for the payment of suppliers provided an answer to the question of whether they passed their payment policies onto their main contractors. As detailed in Figure 19, 50% of local authorities in Scotland suggested that they expected their main contractors to follow the authority's code of payment. This is higher than the national survey figure of 39%, but lower than the 2012 survey figure of 57%.

**Figure 19: Proportion of authorities asking main contractors to pass on payment policy**



**Change over the period 2012 to 2013: passing on payment policy**

For the authorities that responded to the survey in both 2012 and 2013, it is possible to determine change in the proportion which passed on their payment policies to their main contractors. 9 local authorities in Scotland provided responses in both years with the proportion of authorities passing on their payment policies to their main contractors showing no movement at 56%.

## 6 IMPROVEMENT

### 6.1 Awareness of publication

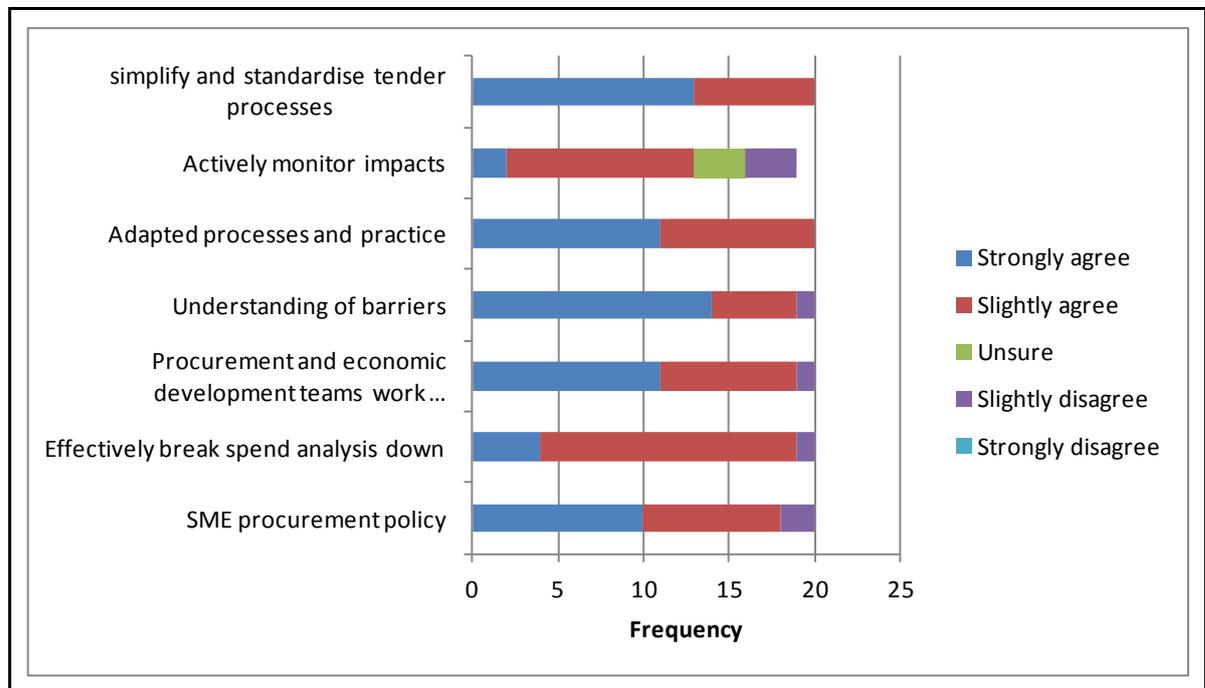
Authorities were asked whether they were aware of the FSB’s 2012 publication *Local procurement: making the most of small business*; with 90% of responding local authorities in Scotland aware of it, which is higher than the national figure of 74%. All responding authorities in the North East and Yorkshire and Humber were aware of the publication.

In the 2012 publication, the FSB detailed a series of recommendations for local authority practice when it came to small business in procurement. These were effectively expectations as to how local authority procurement teams should operate when it comes to analysing spend, engaging small business, and monitoring impact. In the 2013 survey, we asked authorities to detail the extent to which their practice was reflective of a number of the recommendations. In particular, we explored the extent to which there was agreement with the following statements:

- we have an SME procurement policy with clear links to wider corporate objectives;
- we effectively break spend analysis down by locality and type of business procured;
- our procurement and economic development teams work together collaboratively;
- we have an effective understanding of the barriers facing SMEs in procurement;
- we have adapted processes and practice to support SMEs to bid;
- we actively monitor the economic, social and environmental impacts of our spending;
- we have sought to simplify and standardise our tender processes.

Figure 20 illustrates the statements which the largest number of local authorities in Scotland agreed with in relation to their practice, were simplifying and standardising tender processes, and effective understanding of the barriers facing SMEs. All of the responding authorities either ‘strongly agreed’ or ‘slightly agreed’ that they had sought to simplify and standardise their tender process. This is above the national figure of 96%.

**Figure 20: Extent of agreement with statements around practice**



## 7 SCOTTISH BORDERS COUNCIL CASE STUDY

### 7.1 About the authority

The Scottish Borders area covers around 4,743 square kilometres, is served by approximately 3,000 kilometres of road, and has a population of around 113,000. This council area comprises a number of different towns with diverse histories and demographic structures, the largest of which has a population of around 14,000. Due to the nature of businesses which are managed and resourced locally within the council area, the procurement team consider that there is a very significant re-spend back into the local economy from the Council's procurement activities.

The procurement service in the Scottish Borders is managed as a centralised and corporate function. The team is relatively new, at four years old, and comprises 10 staff. There is a mix of category managers and procurement specialists across: Corporate Indirect; Learning and Care; and Construction, Transport and the Environment. This centralised method allows the team to embed a consistent approach across the Council, with a strong focus on: ensuring best value; early stakeholder engagement; and compliance with national and EU legislation and local standing orders. The procurement service collaborates with professional, technical and specialist commissioners to ensure the appropriate internal stakeholders input and knowledge to each procurement activity. External providers are used to support a number of requirements, such as homecare services.

There is no internal Building Services (STO), therefore local trade companies provide services to support the property and maintenance portfolio; this is one of the key reasons for their high proportion of local spend – all of the Council's trade services and minor works contracts are provided through the private sector.

The key objectives of the Scottish Borders current procurement strategy ensure the local dimension and the need to think locally is well recognised. There are a number of further objectives which focus on: achieving best value; developing procurement capability; compliance with regulation; and the reduction of bureaucracy. The team is an added value resource, supporting departments right across the Council. Departments access the procurement team for the provision of support to their strategic and operational activities, with early engagement benefiting all parts of this arrangement. The procurement team is developing a project with a draft title of 'Maximising the benefits of procurement across the Scottish Borders'. The project has a number of strands including: considering and developing a community benefit policy; reviewing current standing order thresholds; and further activity around supplier development and support.

### 7.2 Spend

Scottish Borders Council spent approximately £104 million on procuring goods and services in financial year 2012/13. Around a quarter of this was spent on capital procurements (£26 million), with the remainder on the revenue side. Scottish Borders Council actively records the amount they spend with organisations based within the authority boundary. In financial year 2012/13, 31% of total procurement spend was with organisations based in the Scottish Borders local authority boundary.

While internal systems for measuring local spend are recognised as requiring further development, the team have access to a national database, the Spikes Cavell Observatory; these analytics allow the profiling of spend and contract management. The Council is currently considering piloting a new post, which will have responsibility for enhancing the authority's use of this resource to measure and map local spend. Scottish Borders Council is further considering appropriate procurement performance indicators which could include a measure of spend with local suppliers.

One area the authority intends to review is identifying what the potential maximum procurement spend in the local area is. Currently achieving 31%, Scottish Borders want to set a realistic target for local spend. Analysis of supplier re-spend in the local economy is on the team's agenda but has not yet been conducted. There is a mechanism through Spikes Cavell to record spend and breakdown across the SME sector; the Council knows the local suppliers well, and thus is able to accurately monitor this information.

In 2012/13, Scottish Borders advised that the majority of local spend was with SMEs and this was a result of the nature of the local environment and economy. Indeed, much of this local spend is with micro and small businesses.

### **The value of procurement to the Scottish Borders economy**

Using CLES' research work elsewhere<sup>5</sup> into the local economic impact of procurement spend, we can work out a figure for the amount of benefit procurement spend brings for the Scottish Borders economy. This can be done by utilising the figures provided by Scottish Borders for total spend and proportion of spend in their local authority boundary; and by utilising proxies developed by CLES for the re-spend of local suppliers back in the local economy. CLES research elsewhere has found that local firms will re-spend 40 pence in every £1 received back in the local economy. The value of procurement spend to the Scottish Borders economy is therefore calculated as follows:

- **Step 1 – Spend in local authority boundary (tier 1)**

Total spend of local authority on procuring goods and services x proportion of spend by local authority in own boundary:

$$£104,000,000 \times 31\% = £32,240,000$$

- **Step 2 – Re-spend of local suppliers in local economy (tier 1 to tier 2)**

Spend in local economy x proxy re-spend of local organisations in local economy:

$$£32,240,000 \times 0.40 = £12,896,000$$

- **Step 3 – Local economic benefit of procurement spend**

Spend in local authority boundary + re-spend of local suppliers in local economy:

$$£32,240,000 + £12,896,000 = £45,136,000.00$$

Therefore investment of £104,000,000 in procurement brings £45,136,000 of benefit for the Scottish Borders economy or 43.4 pence for every £1 invested.

## **7.3 Barriers and engagement**

Scottish Borders Council believes that some SMEs can face barriers in accessing procurement opportunities and have therefore introduced a number of initiatives, particularly over the last 12-24 months, to support SMEs with the procurement process.

A key benefit of engaging local SMEs in the procurement processes of the Council is the vast subjective and contextual local understanding which they bring, which can often create a much more tailored and appropriate bid than a larger firm without that local knowledge. The key barrier for SMEs can be the process of tendering, specifically the complicated paperwork. Traditional markets such as construction are not necessarily comfortable with online processes, thus the Council runs events to support suppliers with what is required during the process.

The initiatives adopted by Scottish Borders Council to support SMEs in tendering are both national and local in their nature. At a national level, the local authority is seeking to raise awareness amongst SMEs of the Scottish Government's national procurement portal and the opportunities it presents. They are also seeking to reduce the burden placed on SMEs in the tender process by simplifying and streamlining documentation in line with national legislation.

To further support local providers to access opportunities, the Council has introduced (in collaboration with the Borders Voluntary Community Care Forum) a two session training package, initially for the third sector. This training package is presented by way of both providing information and explanation of the process, alongside discussion and debate of the benefits that can be achieved by the Council working with the sector, dispelling any perceived barriers to engagement. This seeks to explore developing a truly collaborative approach between providers and the Council.

<sup>5</sup> Centre for Local Economic Strategies (2012) Progression in Procurement: Manchester City Council

Alongside the development of the Borders Railway project and more generally, there is a desire to ensure that sub-contracting or consortium based opportunities are available for small and local organisations. Scottish Borders Council is undertaking a range of activities to open up the market to SMEs and raise their capacity and capability to bid. These include:

- ❑ the development of a procurement training package for SMEs and voluntary and community sector organisations;
- ❑ engagement with prime contractors to encourage them to offer sub-contracting or small work packages to SMEs;
- ❑ lotting contracts into smaller chunks to enable SMEs to bid for opportunities;
- ❑ supporting 'meet the buyer' and networking events in relation to the Borders Railway project.

The Borders Railway project (estimated cost between £235-295 million) incorporates 30 miles of new railway connecting the Scottish Borders, Midlothian and Edinburgh. Alongside the main contract, managed by Network Rail, a number of pre-construction smaller packages of work have been managed locally, allowing local contractors access to the work as part of the wider project. Work packages from the main contract are also available through sub-contracting opportunities advertised by the main contractor via Public Contracts Scotland.

## 7.4 Process

Scottish Borders Council does use a PQQ when a restricted process is required; however they are seeking to adopt a number of innovative practices to reduce the burden of the selection process. The Council has adopted the Scottish Government's standard PQQ and will be carrying out a pilot of the Scottish Government's PCS tender system, which allows any supplier to store information for re-use. They take the view that the Scottish Government's standard PQQ is a very effective tool, allowing local authorities across Scotland to take a consistent approach. At a local level, lower value requirements use quotation procedures rather than formal tendering, and the authority is currently reviewing the thresholds at which formal tendering is required.

The Council is considering whether information submitted via a PQQ could have a lifespan of six months, to remove the need for suppliers to continually resubmit the same information time and time again over a short period. This would allow for some base information, such as financials, insurances, and health and safety policies, to be submitted only once or twice per year and not on every occasion.

Use of framework agreements and incidences of contract aggregation by Scottish Borders Council has stayed roughly the same over the course of the last twelve months. The Council regularly breaks contracts down into lots to assist SMEs to bid. Framework agreements are in place for all property repairs and maintenance, with around 200 suppliers participating in these agreements, the majority of which are SMEs. Frameworks are also in place to support small plant and equipment hire and the provision of homecare services, amongst others.

Scottish Borders Council utilise their own website and the national procurement portal (Public Contracts Scotland) to advertise tender opportunities. They view Public Contracts Scotland as a very effective vehicle to raise awareness of procurement opportunities to SMEs. Advertising is entirely necessary to allow access to opportunities, and this website is used as the main resource for advertising opportunities.

## 7.5 Payment

Scottish Borders Council has a policy in place detailing the number of days it takes to pay suppliers. This can be passed through the supply chain as appropriate, by inclusion in contract terms and conditions, and a requirement for main contractors to sign a prompt payment certificate. The payment terms in place for the Council are 30 days.

The Council is currently scoping further integration of P2P (purchase to pay) and procurement processes to explore further opportunities for process improvement (e.g. considering reducing the number of transactions by working with suppliers on consolidated invoicing).

Scottish Borders Council is aware of the FSB's publication '*Local procurement: making the most of small business*'. Table 1 details the extent to which they agreed their procurement practice reflected the following statements:

**Table 1: Scale of agreement with statements: Scottish Borders Council**

Statement	Strongly Agree	Slightly Agree	Unsure	Slightly Disagree	Strongly Disagree
We have an SME procurement policy with clear links to wider corporate objectives	✓				
We effectively break spend analysis down by locality and type of business procured		✓			
Our procurement and economic development teams work together collaboratively	✓				
We have an effective understanding of the barriers facing SMEs in procurement	✓				
We have adapted processes and practice to support SMEs to bid	✓				
We actively monitor the economic, social and environmental impacts of our spending	✓				
We have sought to simplify and standardise our tender processes	✓				

Scottish Borders Council is currently developing a project mandate to address one of the key objectives of the new Administration's 'Ambitious for the Borders' Partnership Agreement. The objective is '*we will ensure that economic development is the key driver for the new Council Administration*' and this will be supported by activity across the following proposed work streams:

- the development of a 'Maximising community benefits in the Scottish Borders' policy;
- a review of standing orders relating to procurement;
- developing and supporting the Scottish Borders business base.

The Corporate Procurement Service at Scottish Borders Council intends to undertake a detailed market segmentation exercise to fully analyse the current supplier base. This work will enhance current knowledge of procurement spend with SMEs and provide further quantitative data of spend with micro/small/medium businesses across the supply base. This activity will support the procurement team's strategic links to wider corporate objectives, specifically collaborative activities, with economic development supporting supplier development.

It is worth noting that the Borders have a particular environment to consider, and all policies are rural proofed using the Rural Proofing policy. The nature of the local area has a strong relationship to how procurement practices are managed. The Council shares best practice with other local authorities. The three key areas which the authority feels are of utmost importance to their strategy are:

- packaging and lotting projects to open opportunities up for local suppliers, supporting the key priorities of the local authority;
- using and analysing data and market information to support the identification of opportunities;
- widening the breadth and depth of procurement involvement by communicating and engaging with stakeholder groups, internal and external, in advance of and post-tendering.

## 8 CONCLUDING THOUGHTS

As a way of concluding the findings of the survey from a Scottish perspective, this section sets out some of the core findings and patterns, when compared to other localities and authority types as well as change over the last year. A figure is also provided for the overarching average benefit procurement spend brings for local economies in Scotland. This is supplemented by the overarching findings from the national level report as to the value of small and local businesses compared to large and local businesses.

### 8.1 Scottish authorities

These authorities will:

- have lower levels of spend on procuring goods and services, with total spend levels decreasing over the last year;
- be more likely to record local spend;
- have lower levels of spend in their local authority boundary and decreasing levels of local spend;
- be more likely to set targets for improvement;
- have higher levels of spend with SMEs and more likely to record SME spend;
- be more likely to require independent accreditations as part of the procurement process;
- be less likely to have increased the use of frameworks or incidences of contract aggregation;
- be more likely to be aware of the FSB publication.

### 8.2 The value of procurement to local economies

In the national level report<sup>6</sup> and using the findings of other CLES research<sup>7</sup>, we calculated the additional benefit small local firms brought to local economies when compared to large local firms. We identified that £4.1 billion invested nationally in small local firms brought £2.6 billion of benefit for local economies or 63.4 pence for every £1 invested. In comparison, investing £4.63 billion in large local firms brought £1.86 billion of benefit for local economies or 40.1 pence for every £1 invested<sup>8</sup>.

For local authorities in Scotland, additional research was undertaken to ascertain the direct value procurement spend, on average, yielded for local economies (formula detailed in the box below). It found that an average spend of £158 million on procurement brought an average of £59.7 million of direct benefit for local economies through spend with local firms and the re-spend of those firms back in the local economy.

#### **The value of procurement to local economies**

Using CLES' research work elsewhere<sup>9</sup> into the local economic impact of procurement spend, a figure can be established for the average amount of direct benefit procurement spend brings for local economies. This can be done by utilising the figures provided by local authorities in Scotland for average total spend and average proportion of spend in local authority boundaries; and by utilising proxies developed by CLES for the re-spend of local suppliers back in the local economy. CLES research elsewhere has found that local firms will re-spend 40 pence in every £1 received back in the local economy. The average value of procurement spend to local economies in Scotland is therefore calculated as follows:

- **Step 1 – Average spend in local authority boundary (tier 1)**

Average total spend of local authorities on procuring goods and services x average

<sup>6</sup> Federation of Small Businesses (2013) *Local Procurement: Making the most of small business, one year on*.

<sup>7</sup> Centre for Local Economic Strategies (2012) *Progression in Procurement: Manchester City Council*.

<sup>8</sup> These figures are also applicable to Scotland as the proxies used to calculate them are nationally defined

<sup>9</sup> Centre for Local Economic Strategies (2012) *Progression in Procurement: Manchester City Council*.

proportion of spend by local authorities in own boundary:

$$£158,000,000 \times 27\% = £42,660,000$$

- **Step 2 – Re-spend of local suppliers in local economy (tier 1 to tier 2)**

Average spend in local economy x proxy re-spend of local organisations in local economy:

$$£42,660,000 \times 0.40 = £17,064,000$$

- **Step 3 – Local economic benefit of procurement spend**

Average spend in local authority boundary + re-spend of local suppliers in local economy:

$$£42,660,000 + £17,064,000 = £59,724,000$$

Therefore average spend of £158,000,000 in procurement brings an average of £59,724,000 of direct benefit for local economies.

# **APPENDIX 1**

## **Copy of survey**

## LOCAL GOVERNMENT AND PROCUREMENT PROJECT

The Federation of Small Businesses (FSB) is currently working on a project with the Centre for Local Economic Strategies (CLES) exploring the relationship between small business and procurers in local government. Through this survey we are interested in understanding the extent to which small and medium sized enterprises (SMEs) are successful in accessing local government procurement opportunities; the extent to which local government monitors levels of procurement business with SMEs; and the extent to which it has strategies and initiatives in place to support this. We will also explore the extent to which local government recognises the different scale of SMEs and associated barriers to procurement, particularly for small and micro businesses.

### About your local authority

**1 What is the name of your local authority?**

### Procurement spend

**2 Approximately how much (£) did the local authority spend in the last financial year (for which data is available) procuring goods and services?**

**3 How has this figure for the local authority's spend on procuring goods and services changed compared to the same figure for the financial year that preceded it?**

- Increased
- Stayed the same
- Decreased

**4 Approximately what proportion (%) of procurement spend in the last financial year (for which data is available) was the following?**

Capital expenditure	
Revenue expenditure	

### Local spend

**5 Do you record the amount that you spend with suppliers based within your local authority boundary?**

- Yes
- No

- 6 **If yes, approximately what proportion (%) of your total procurement spend in the last financial year (for which data is available) was with local suppliers (suppliers based within your local authority boundary)?**

- 7 **Have you set any targets to improve levels of spend with organisations based in your local authority boundary?**

- Yes  
 No

**If yes, please detail these targets**

- 8 **Have you undertaken any analysis to understand the extent to which your suppliers re-spend back in your local area upon local suppliers and local employees of their own?**

- Yes  
 No

**If yes, what proportion of supplier re-spend is within your local area?**

### **SME spend**

- 9 **Do you know which of your suppliers are small and medium sized enterprises (SMEs)?**

- Yes  
 No

- 10 **If yes, approximately what proportion (%) of your total procurement spend in the last financial year (for which data is available) was with SMEs?**

- 11 **Do you know which of your suppliers are micro business (0-9 employees), small business (10-49 employees) and medium business (50-249 employees)?**

- Yes  
 No

- 12 If yes, approximately what proportion (%) of your total procurement spend in the last financial year (for which data is available) was with the following?**

Micro business (0-9 employees)	
Small business (10-49 employees)	
Medium business (50-249 employees)	

### Barriers and engagement

- 13 Do you think SMEs face barriers in accessing procurement opportunities?**

- Yes  
 No

- 14 Do you have any processes and initiatives in place to support SMEs in tendering?**

- Yes  
 No

- 15 What impact do you think these processes and initiatives are having upon the ability of SMEs to access procurement opportunities?**

- 16 Over the course of the last twelve months has your authority introduced any new processes and initiatives to support SMEs in tendering?**

- Yes  
 No

- 17 If yes, please provide examples of these initiatives**

### Process

- 18 Does your authority use a pre qualification questionnaire?**

- Yes  
 No

- 19** If yes, have you adopted any innovative practice as to when a PQQ is required (e.g. above certain values) and do you have any means of reducing the burdens associated with PQQ for SMEs?

- 20** In relation to independent accreditations, such as ISO, does your authority?

Yes No

Require any independent accreditations as part of your procurement process

Accept any independent accreditations as evidence of compliance with your own procurement standards/criteria

- 21** Do you utilise a different approach to tenders below the EU threshold?

Yes

No

- 22** If yes, please provide examples of such approaches and other more local authority defined practices (e.g. for contracts under £50,000 you may only require 3 bids, with one being from an SME)

- 23** How has your use of framework agreements changed over the last 12 months?

Increased

Stayed the same

Decreased

- 24** How have instances of contract aggregation changed over the last 12 months?

Increased

Stayed the same

Decreased

**25 How often do you break contracts down into smaller lots in order to assist SMEs to bid?**

- Regularly
- Occasionally
- Rarely
- Never

**26 Do you use any of the following for advertising tender opportunities?**

- Council's own website/portal
- Regional portals (collaboration between neighbouring authorities)
- Government backed national portals (Contracts Finder, Public Contracts Scotland, Sell2Wales, eSourcing Northern Ireland)
- Other privately provided portals

**Other ways of advertising (please specify below)**

--

**27 How effective do you think each of these are in raising awareness of procurement opportunities to SMEs?**

	Very effective	Effective	Neither effective or ineffective	Ineffective	Very ineffective
Council's own website/portal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Regional portals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Government backed national portals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other privately provided portals	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**28 To what extent are the following currently important in your procurement practices? (1 being low importance and 5 being high importance)**

	1	2	3	4	5
Achieving cost savings	<input type="radio"/>				
Delivering government policy through procurement	<input type="radio"/>				
Delivering the Council's wider corporate priorities	<input type="radio"/>				
Local economic development considerations	<input type="radio"/>				
Environmental sustainability	<input type="radio"/>				
Improving quality of goods/services provided	<input type="radio"/>				

## Payment

**29 Do you have a policy stating the number of days it takes to pay suppliers?**

Yes

No

**30 If yes, which of the below does your payment schedule for suppliers fit within?**

Less than 7 days

Less than 14 days

Less than 28 days

More than 28 days

**31 Do you make it a requirement that main contractors pass these terms on to their sub-contractors?**

Yes

No

**32 If yes, how do you enforce this requirement?**

## Improvement

**33 Are you aware of the Federation of Small Businesses publication 'Local procurement: making the most of small businesses'?**

Yes

No

**34 To what extent do you agree the following statements reflect the practice of your local authority when it comes to procurement?**

	<b>Strongly agree</b>	<b>Slightly agree</b>	<b>Unsure</b>	<b>Slightly disagree</b>	<b>Strongly disagree</b>
We have an SME procurement policy with clear links to wider corporate objectives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We effectively break spend analysis down by locality and type of business procured	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Our procurement and economic development teams work together collaboratively	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have an effective understanding of the barriers facing SMEs in procurement	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have adapted processes and practice to support SMEs to bid	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We actively monitor the economic, social and environmental impacts of our spending	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
We have sought to simplify and standardise our tender processes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Please note: this question applies to local authorities in England and Wales only. All other authorities, please click 'next'**

**35 Have you changed any of your procurement processes and practices as a result of the Public Services (Social Value) Act?**

- Yes
- No

**If yes, how have you changed your procurement processes and practice?**

**Further comments**

**36 If you wish to add any further comments relevant to the survey or any of your responses, please do so below**