



BROKEN CONTRACTS: SMALLER BUSINESSES AND SCOTTISH PROCUREMENT

A report by FSB Scotland

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Experts in Business

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OVERVIEW

For years small businesses have complained about problems selling to the public sector, feeling the odds are stacked against them by public sector organisations demanding ever more from suppliers at an ever lower cost. Despite a number of changes which were intended to make it easier for small businesses to bid for contracts, progress is slow. Scotland's micro businesses (93% of all Scottish firms) receive only 7 per cent of public contracts (by value), a figure that has barely changed over the last ten years.

While most parts of the public sector say supporting SMEs is a priority, there's an absence of specific objectives, action plans, monitoring or evidence from public sector organisations to back this up. And a number of obstacles in the system, such as clunky systems and disproportionately costly conditions, continue to make it harder for small businesses to bid. Thus, we don't believe a level-playing field exists yet for local firms seeking to win public contracts. We believe that Scotland's public sector can help small businesses win more contracts, whilst also delivering additional benefits for local economies from our public spending, without spending more on our goods and services. This requires clearer leadership and prioritisation from the public sector and action from the Scottish Government to provide incentives to make change happen.

INTRODUCTION

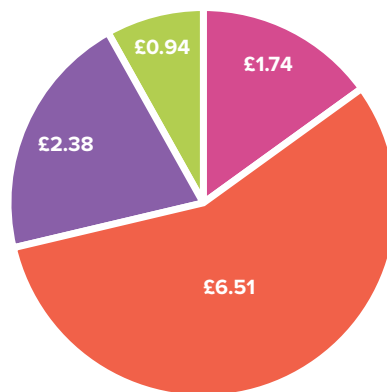
The devolved public sector in Scotland spends around £12bn each year purchasing goods and services. In recent years, public sector organisations have been expected to leverage additional benefits from this spending, from achieving efficiency savings to buying environmentally sustainable goods.

From an economic perspective, government’s role as a customer can be a powerful tool in stimulating markets and supply chains in the Scottish economy. Almost all of Scotland’s businesses (98%) are small, having fewer than fifty employees, though the vast majority (93%) of all firms are micro businesses (having fewer than ten employees). These small businesses account for a million jobs in Scotland, four out of five private sector jobs in rural areas, and contribute around £68bn to the economy.¹

Figure 1

**Public sector spending
(devolved) Scotland 2016-17 £bn**

- Central Gvt
- Local Gvt
- NHS
- HE & FE



FSB has consistently argued that spending with small firms brings a broad range of benefits to local economies in particular. For example, a recent FSB report highlighted that 82 per cent of Scottish FSB small businesses had volunteered or contributed to their local community or charities in the last three years. Yet despite the clear benefits to using our spending as an economic tool, the challenges facing smaller businesses trying to win public contracts, from multiple costly contract requirements such as accreditation schemes, to the sheer time it takes to complete a bid, are well known.

Moreover, the recent financial troubles of giant construction and outsourcing companies like Carillion and Interserve, has highlighted the vulnerabilities for both government and small businesses of long, complex supply chains which might not, ultimately, deliver the best outcomes for local economies.

The Scottish Government has been clear in its intention to create a level playing field for SMEs, most notably passing the Procurement Reform Act in 2014.

Five years on from the passing of the Act, this report looks at the extent to which this has been achieved. It finds that:

- The Act has eradicated the worst practices facing small businesses bidding for contracts and shifted SME access to contracts up the priority list for public sector organisations. However, as yet the limited evidence available doesn't suggest small businesses are actually winning a greater share of contracts.
- Further, there's a lack of clear direction from many public sector organisations about what they want to achieve in terms of supporting small firms, and how they're going to achieve this; there seem to be few objectives, action plans or innovative ideas about engaging with small businesses.
- The Scottish Government needs to tighten up the legislative requirements on public sector buyers to provide stronger incentives for them to prioritise actions to support small firms. This should include a requirement for thorough spend analysis, objective-setting and monitoring in annual procurement reports produced by the public sector.
- At a Scottish level, we should aim to boost total spending by the devolved public sector with micro businesses by 1% by the end of the current parliament.
- Despite the Scottish Government's commitment to getting greater leverage from combined public sector spending at local level (often referred to as 'community wealth building'), there's been little concrete progress on this front. Getting public sector organisations to work together to use their spending power to build new local supply chains and achieve greater community benefits, is key to achieving a more inclusive economy. By the end of the current parliament we should see real progress on establishing a least two pilot projects in different parts of Scotland.
- Late payment of invoices continues to be a major problem for small businesses across Scotland. While some action has been taken to improve payment practices, we need to ensure that all possible avenues to minimise late payment in public contract supply chains are followed up, such as demanding clear evidence of payment practices of large contractors at bid stage.

BREAKING DOWN THE BARRIERS TO SMALL BUSINESS SUCCESS

The need for transparency and accountability around public money means that selling goods and services to government will often require additional steps not present in standard B2C or B2B transactions. For years, smaller businesses have complained that these conditions have been disproportionately cumbersome in relation to potential risk, making it difficult for them to bid. Additionally, public procurement has often been seen as excessively bureaucratic and inefficient.

In response to these longstanding challenges Scotland has been in an ongoing process of procurement reform for the last 13 years, most notably shaped by the 2006 McLelland report and the 2014 Public Procurement Reform (Scotland) Act² which FSB strongly supported.

Throughout this period of change, FSB Scotland has sought to put the needs of the country's small businesses at the heart of reform.³ We have also highlighted the valuable role local spending power can have on developing local economies. For example, an FSB report showed that for every £1 local authorities spent on goods and services with local SMEs, an additional 63p was generated for the local economy.⁴

The worst problems associated with public procurement by smaller businesses, such as finding contract opportunities, understanding the process and charging for tender documents, have largely been removed either by legislation or new processes.

Important changes introduced by the Scottish Government before the 2014 Act include:

- Development of Public Contracts Scotland (PCS) to advertise and source contracts.
- Development of the standard pre-qualification questionnaire (SPQQ) to ensure all public sector organisations asked the same questions at bid stage, and the ability to store company profile information (to prevent having to input basic details over and over) via PCS, as well as development of new procedures such as Quick Quote.
- Introducing a Supplier and Buyer journey and the Supplier Development Programme to help provide advice and support to SMEs and third sector bidders.
- Establishment of the 'Single Point of Enquiry' to provide an anonymous complaint procedure for businesses which had a negative experience of bidding for public contracts.



For every £1 local authorities spend on goods & services with local SMEs an additional 63p is generated for the local economy

However, helpful as these changes were, firmer action was required to tackle persistent problems. Further, new problems had emerged, such as the increasingly large regional and national sectoral contracts, which, for many small businesses, became a hallmark of the post-2006 reform programme.⁵

Thus, while the Act passed in 2014 did cover a range of technical and strategic aspects of procurement, it also attempted to tackle the emerging problems outlined above. In particular, the Act introduced a raft of new responsibilities for public sector organisations.

The new rules which are particularly relevant to helping SMEs sell to the public sector include:

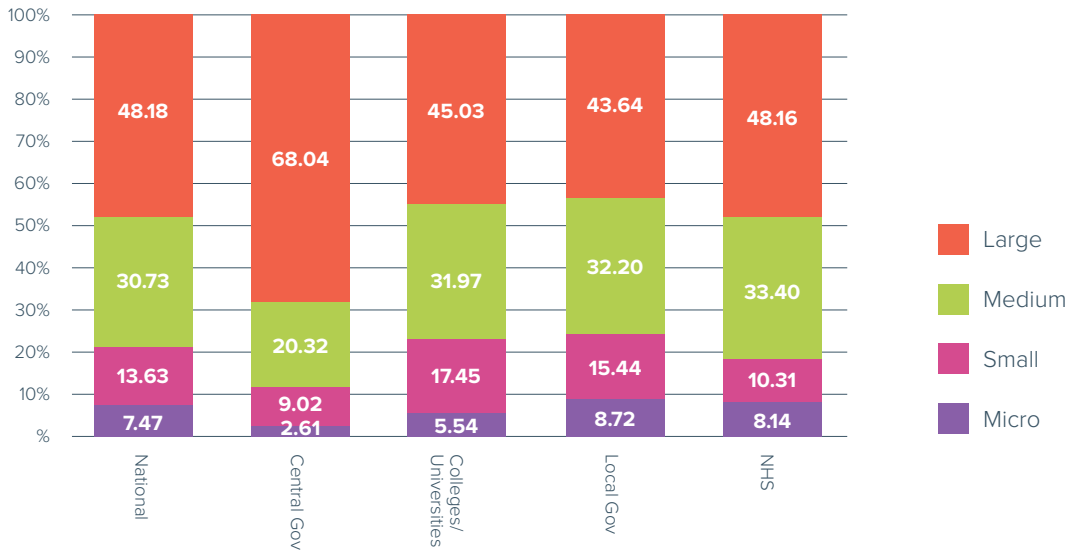
- Requiring public sector organisations to have a procurement strategy and to publish an annual report on the strategy.
- Requiring public sector organisations to report on how they are complying with a new 'sustainable procurement duty'. In other words, considering how their procurement approach supports economic, environmental and social wellbeing, with a specific requirement regarding access to contracts for SMEs.
- Requiring public sector organisations to behave proportionately and transparently when undertaking procurement.
- Requiring the use of Community Benefit Clauses, such as requiring a certain number of apprenticeship places during the construction of a new public sector building, for larger contracts.
- Giving public sector organisations stronger powers to seek information about sub-contractors and the supply chain.
- Introducing new statutory guidance allowing public sector organisations to take certain matters into account when assessing bids. This specifically refers to the employment practice of suppliers, including payment of living wage, for contracts in which workforce matters are likely to have a significant impact upon the delivery of the contract.

Since the legislation was passed our interaction with public sector organisations suggests there has been a noticeable increase in their desire to open up more opportunities to SMEs. The limited statistical evidence available, however, suggests that this intent has not yet resulted in increased spending with local small businesses.⁶

The Scottish Government does not routinely publish spend analysis for the public sector, making it hard to monitor progress. However, statistics provided by the Scottish Government to FSB, suggest that in financial year 2016-17, 7.5 per cent of total spend was spent with micro businesses and a further 13.6 per cent spent with small businesses.

Figure 2

**% Spend with Suppliers by Company Size
Scottish Public Sector 2016-17**



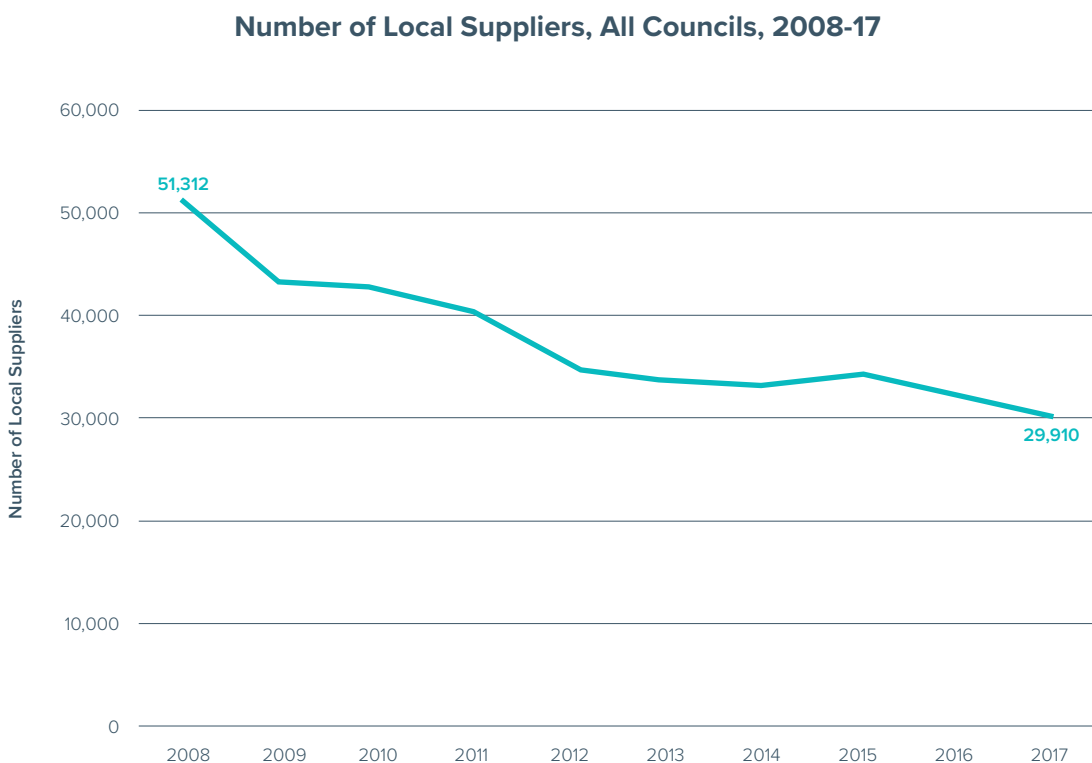
Similar figures provided for the financial year 2011-12, reveal spend with micro businesses at 6 per cent, with a further 13 per cent spent with small businesses; suggesting little change over the five year period. However, when statistics recorded for those suppliers providing a Scottish postcode are considered, the picture looks a little brighter for micro businesses which accounted for 10.6 per cent of spend recorded in 2016-17.

Another source of information about public spending is the Economic Outcomes Programme work by the Improvement Service.⁷ Specifically, the recently published Economic Footprint Overview Report examined the procurement spend of all Scotland’s local authorities over ten years with a view to using this spending more effectively to leverage economic development in their areas. While this work looks only at council spending, local

government is responsible for around half of all public spending in Scotland and smaller businesses are more likely to sell to councils than to other parts of the public sector.

Given the increased focus in procurement policy on supporting SMEs and developing more robust, resilient local supply chains, an increase in spending with small businesses might have been expected. Instead the statistics demonstrated a serious decline in local suppliers used by local authorities and an overall decline in local spending.⁸

Figure 3



Lastly, we asked smaller businesses about their views of public procurement in Scotland. While just under a quarter of businesses had bid for public contracts in the last two years, the majority described the process as difficult (61%).⁹

While this information provides only a limited snapshot of public spending with Scotland’s small businesses, it does not suggest that recent reforms aimed at opening up access to public contracts for SMEs and third sector organisations have had enough impact.

Post-implementation review is an important part of any regulatory framework and the remainder of this report explores how legislative measures could be tightened up to be more effective, as well as exploring non-statutory improvements and addressing emerging policy priorities in public procurement and economic development.

Lastly, Brexit may present another stage of change in Scottish public procurement. For example, new opportunities around advertising or conditions attached to contracts might be possible if adherence to EU rules is no longer required. However, this would need to be balanced against the opportunities for Scottish firms to bid for public contracts outwith the UK. We also need to ensure that we do not lose progress made in Scotland on transparency and consistency. Notwithstanding Brexit-related uncertainty around procurement policy, the Scottish Government should press on with reform, addressing the issues outlined in this report.



61%

share of small businesses who bid for public contracts and found the process difficult

BUILDING SMARTER SYSTEMS

As highlighted, a number of tools and processes are now in place to make it easier for small businesses to find and bid for public contracts. In discussion with users of these tools, we have heard evidence about improvements which could further develop our support structures for smaller businesses.

The replacement of the standard pre-qualification questionnaire¹⁰ with the European Single Procurement Document (ESPD) has created some challenges, particularly confusion over the meaning of some questions by both buyers using the questionnaire and businesses responding to it.

Similarly, while processes like Quick Quote¹¹ make it easier for local businesses to bid for lower value contracts, they nevertheless have to be able to find those opportunities.

Most are now available on PCS, however, matching up opportunities with firms who want to bid is heavily reliant on both buyers and suppliers having accurate information on PCS. For example, slight differences in categorisation of jobs can mean some businesses are not notified about relevant opportunities.

Similarly, businesses have told us that including too much information means they become bombarded with communications about opportunities, many of which are not relevant. More generally, increased interest from public sector organisations in developing their local supplier base means that supplier engagement needs to be a priority area of work. Some pockets of good practice exist amongst public sector organisations, notably in local authorities where economic development teams can provide a crucial link between buyers and potential local suppliers. However, such best practice is by no means consistent across local government, let alone in other public sector organisations which might have less well-developed links to local businesses.

While the Supplier Development Programme (SDP) has expanded and facilitates pan-Scotland activity, such as national Meet the Buyer events, we need to ensure that all parts of the public sector are consistently offering a good level of support and advice to smaller businesses. Currently, SDP's primary focus is working with local authorities and whilst this does account for the bulk of public contracts, we want to encourage a more proactive approach to supplier development across the public sector. The SDP should, therefore, be resourced to work with all of Scotland's public sector organisations and centres of expertise to achieve this. Similarly, public sector organisations need to be directed to work more closely with the SDP.

While certain bad practices relating to sky-high turnover requirements or other unfair criteria are far less common now than in the past, businesses frequently complain about a lack of proportionality in relation to insurance requirements in public contracts. These specifically relate to high thresholds for public liability and professional indemnity insurance, irrespective of the scale, nature of the service being procured and level of risk associated with the contract. For example, for a service-related, very low-risk, contract of under £10k, businesses might be asked for professional indemnity insurance of several million. This would be in excess of the standard insurance contracts held by the smallest businesses, including those without employees, and might double their insurance costs in a year. Businesses are usually told that these are standard corporate requirements of the organisation. While insurance is not required in advance of securing the contract, even if they were to have a successful bid, the cost to a small business of extending their insurance cover often outweighs any profit from the contract. The Scottish Government should investigate the extent to which this problem persists across public sector organisations and update guidance about proportionality accordingly.

Recommendations

- Across the Scottish public sector we need to see a renewed focus on improvements to systems and processes that support supplier engagement. This would include, for example, developing greater adoption of good practice to convert registration and bidding into increased business won, and a focus on how public sector organisations can work more effectively together to develop local/regional supply bases. A focus on supplier engagement should be reflected in national priorities, and feature in the procurement strategies of public sector organisations.
- The Scottish Government should also consider the potential of smarter systems in procurement; to reduce for buyers and suppliers both the time burden associated with finding opportunities and bidding, as well as the potential for errors in information.
- The Supplier Development Programme should be resourced by both the Scottish Government and public sector organisations to work with all public sector organisations to ensure a more consistent, proactive approach to supplier development by Scotland's public sector.
- The Scottish Government should check and remove (via guidance) any confusion regarding buyer and supplier understanding of the European Single Procurement Document (ESPD).
- The Scottish Government should investigate public liability and professional indemnity insurance requirements of public sector organisations; updating guidance on proportionality if required.¹²

TARGETING SUCCESS – MEASURING HOW WE SPEND

With ever-greater scrutiny of public contracts a robust approach to collecting and reporting upon spend data makes sense. Moreover, understanding how and where we spend public money on goods and services is fundamental to considering how we can use that spending more effectively as an economic development lever. Yet, there are a number of challenges around procurement data in Scotland.

As outlined earlier, no data about overall public spending with small businesses is routinely published by the Scottish Government. Some selective information is provided in reports, such as the new annual procurement reports required by the Act.¹³ Similarly, the annual reports of public sector organisations show a disappointing lack of spend analysis. We had hoped that the requirement to produce a procurement strategy and report on it annually, would be a useful way for public sector organisations to set clear objectives about opening up opportunities to SMEs, using data to monitor progress against these objectives and updating strategies as required. However, on the basis of reports published thus far, it is hard to determine the extent to which public sector organisations are using data to inform their procurement strategies.

Moreover, the data available is often subject to a number of limitations and often attracts criticism when published. This includes inaccuracies or lack of information about suppliers (e.g. not-for-profit, local ownership, size, local employment base), use of definitions (e.g. 'local' does not only mean within a local authority boundary) and spend data not currently captured by the information hub.¹⁴

Given the ongoing importance of this data, we believe the Scottish Government should consider how we can ensure a more consistent approach to recording data where there are inconsistencies at present, how current gaps in information could be addressed and whether further long term improvements are required regarding supplier information.

While 2018 was the first year in which annual reports were required from public sector organisations, our impression is that the content of many of these annual reports is limited to the minimum level of information statutorily required, rather than them being the tools to aid continuous improvement we had perhaps envisaged.¹⁵ We are particularly disappointed by the very poor level of information provided about how public sector organisations are complying with the sustainable procurement duty.¹⁶

Ideally public sector organisations should undertake analysis of all their spending (and not just ‘regulated’ procurement¹⁷); report this information in their annual report; and set out improvement targets in priority areas. Targets could cover a range of objectives but, at a national level, we have suggested that the Scottish Government should aim to increase Scottish spending with micro businesses by 1 per cent by the end of this parliament.

The requirements of the sustainable procurement duty, a strategy and annual reporting structure as set out in the Act, should have prompted public sector organisations to take a more thoughtful approach to considering how their procurement activity supported the economic and social wellbeing of their area; specifically what they could do to improve access to SMEs. We have found that despite good intentions, the requirements of new legislation have not yet had the desired effect on public sector organisations. We therefore believe that the statutory requirements in relation to strategies and annual reports need to be strengthened to bring a sharper focus to demonstrating progress on supporting small suppliers.

Recommendations

- The Scottish Government should publish data on spending by Scotland’s public sector, by sector and supplier characteristic, on an annual basis.
- The Scottish Government, in consultation with public sector organisations, should consider how to improve the collection of consistent, robust data by public sector organisations.
- To make it easier to access and compare the approach of different public sector organisations, the Scottish Government should make all annual reports publicly available by providing a link to reports on its website.
- Initial evidence would suggest most annual reports have been a tick-box exercise including only the minimum required information. Public sector organisations should instead consider how they use their strategy and annual report to demonstrate continuous improvement, by identifying priorities, targeted actions and progress.
- The Scottish Government should set itself a target of increasing total Scottish spend with micro business by 1% by the end of the current parliament.
- To help force change across the public sector, the Scottish Government should review the effectiveness of statutory guidance for annual reports and strategies and consider strengthening requirements on public sector organisations in the following ways:

Annual reports

- Reports should include relevant KPIs and targets to demonstrate incremental progress.
- As a minimum, reports should publish spend with suppliers broken down by locality and business size (including micro and small businesses).
- Publish collaborative spend/spend with central purchasing bodies e.g. Scotland Excel.
- Demonstrate where approaches have changed to respond to feedback and complaints/appeals associated with procurement.

Strategies

- Should cover the approach for all procurement spend by the organisation in the strategy, not just 'regulated' procurement.
- Be clear about priorities for particular types of contract, such as financial savings, user satisfaction, sustainability or local employment.
- Specifically outline how they monitor and report on 30 day payment terms in the supply chain.
- Set out the organisation's approach to breaking contracts into lots, including the process for reaching decisions on lotting.
- Use spend analysis to inform the strategy, particularly spend with local micro and small businesses.
- Set out qualitative measures of success e.g. user feedback.
- Set out training/capability issues within the organisation in relation to delivering the priorities of the strategy.
- Ensure that the whole organisation, as well as customers and end users, have a chance to input to the strategy's development and that feedback is reflected in the strategy.

SUPPLY CHAINS – LEARNING LESSONS FROM CARILLION

The Carillion collapse highlighted the problems small businesses can experience when part of long, complex supply chains for public contracts. While Scottish procurement legislation does place requirements upon primary contractors in relation to their suppliers, more could be done to support businesses in supply chains for public contracts, as well as developing healthier, more robust supply chains in Scotland.

Late payment continues to be a major problem for small businesses across the UK. FSB research suggests that the average amount of each late payment to each Scottish business is £5,718 and that if payment practices similar to Norway were adopted in Scotland, over 2000 businesses would be saved from closure each year.¹⁸ Overall, evidence from small businesses suggests that the recent appointment of a Small Business Commissioner to tackle late payment has not yet had an impact.

A recent FSB report exploring supply chains found that two thirds of payments due to small businesses were late. Indeed, customers failing to pay was the top risk cited by small supply chain businesses. Only 4 per cent had seen payment terms reduce over the last two years – suggesting there is still some way to go to tackle this problem.¹⁹

While the Scottish Government reports that it paid 99 per cent of all valid invoices within ten days of receipt, there is little detail about its success in enforcing a requirement that supply chain payments are completed within 30 days.²⁰ Similarly, there is little detail available about the payment performance of other public sector organisations and their supply chains, beyond a commitment by local authorities to pay within 30 days. While most problems with late payment relate to B2B contracts, nevertheless invoices from public sector organisations paid outwith 30 days, should have interest automatically added.

The UK Government has announced additional measures to tackle late payment in public procurement, including a requirement for bidders for large contracts to provide evidence of their payment performance to suppliers. The Scottish Government should ensure its own monitoring and reporting mechanisms at least match measures announced by the UK Government, such as reporting on late payment by the public sector, including interest paid and liability for late payment interest on outstanding invoices.

Lastly, while introducing and committing to expanding Project Bank Accounts in Scotland (where the public body pays supply chain firms directly, rather than payments being passed down the chain by contractors) has been a positive move, the Scottish Government should establish a review point to consider further improvements.

Most smaller supply chain firms hold at least one externally verified standard e.g. ISO 9001. As the small business grows, the more likely it is to hold more standards, particularly in certain sectors such as construction. While most businesses acknowledge the benefit standards can bring, it is also clear these schemes can become a net cost to small businesses. This is often because of complexity, time and cost of achieving standards required by customers, as well as their lack of interoperability. In other words, different customers may require different standards to be held by suppliers – despite these standards covering the same issues. As customers, Scottish public sector organisations should review standards required of suppliers (and those in supply chains) to ensure additional costs on smaller suppliers are minimised. This would be in line with the Act's duty to ensure procurement is proportionate.

Just under a third (30%) of small suppliers report they receive some form of innovation support from their customers (both public and private). Support is most likely to come in the form of time and expertise of the customer's workforce, as well as collaborative design. However, supporting skills and workforce development of the supplier is far less common and there is scope to consider how public procurement could encourage greater benefits in this aspect of supply chains.

Recommendations

- The Scottish Government should take additional action to reduce late payment in public contracts, reporting on action taken in its 2020 Annual Procurement Report. Actions should include:
 - Requiring evidence of good payment practice from those bidding for major contracts and encouraging such companies to assign responsibility for payment practice and supplier relationships to a non-executive director.
 - Issuing stronger guidance to the public sector on monitoring and enforcing requirements of supply chain payment practices.
 - Ensuring invoices paid after 30 days have interest added automatically, to reduce the stigma associated with businesses requesting this.
 - Reporting on the total amount of interest paid, as a result of late payment, by the public sector.
 - Reviewing the effectiveness of Project Bank Accounts to explore scope for further improvement and expansion of PBAs.

- Public sector organisations should assign responsibility for supporting suppliers and driving a culture of prompt payment across the organisation to an elected member or board member, as appropriate.
- The Scottish Government should investigate whether there are further opportunities to streamline the standards required by public sector organisations, to ensure a consistent approach and minimise the cost to potential suppliers.
- The Scottish Government and public sector organisations should consider how skills and workforce innovation can be further developed through public procurement supply chains.

INCLUSIVE LOCAL ECONOMIES – A PLACE BASED APPROACH

Public procurement has increasingly been seen as an important economic development tool as governments consider new approaches to economic recovery post-recession. Specifically, leveraging public spending to create business and jobs became more important as constraints upon public spending restricted traditional regeneration and economic development approaches. Additionally, boosting local economies is also key to improving outcomes for local people and reducing demand on certain public services.

The recession also led to a stronger focus on becoming more resilient to economic shocks, as well as reflection about the economic fragility of many communities, despite years of growth. In our manifesto ahead of the 2016 Scottish elections, we highlighted that:

“...a more inclusive and resilient economy needs a more nuanced economic approach; one which recognises the importance of successful local economies and the role of small businesses, who are living, investing and rooted there.”²¹

Notwithstanding the benefits of a different approach to procurement, the vulnerabilities of lengthy, complex supply chains in public contracts were revealed with the collapse of the national contractor Carillion in 2018. This has been further underlined by the recent failure of large outsourcing specialist Interserve.

There are a number of well-known examples where a more focused, economic development-led approach to procurement has been implemented. The Preston approach, where public sector ‘anchor institutions’ (such as a hospital, university and council) combine their spending to stimulate local supply chains, is probably the most high-profile example.²² However, the sustained policy change adopted in Manchester provides particularly useful learning for Scotland’s public sector organisations.

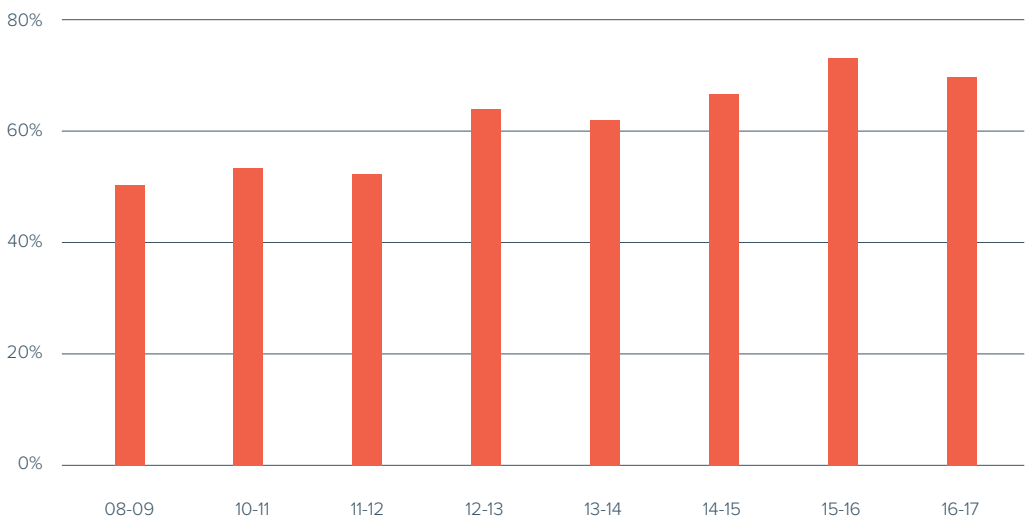
This policy shift, started a decade ago by Manchester City Council and supported by the economic think tank CLES, has enabled the council to realise a range of additional benefits from its spending on goods and services. Without compromising on cost, risk or bureaucracy, Manchester sought to link procurement with the wider socio-economic challenges facing the city. Critical to achieving this was detailed spend analysis to understand the impact of its, then, £900m annual spend; specifically, looking at how much Manchester spent with its top 300 suppliers and what happened to the money once it reached the supply chain. Once this analysis was completed, it enabled Manchester to consider how much top suppliers spent in the local area, and whether this could be increased.

Accompanied by policy and culture shift internally, as well as building closer relationships with suppliers, by 2017/18 this approach resulted in 71 per cent of spending going to organisations with a Manchester footprint; up from 52 per cent in 2008/09. Similarly, spending with SMEs is up from 47 per cent in 2014/15 to 62 per cent in 2017/18.

Crucially, the added value of re-spending by suppliers (through local supplier and employee spending) has increased from 25p for every £1 spent in 2008/09, to 43p per £1 spent in 2015/16.²³

Figure 4

Proportion of total procurement spend with firms with Manchester footprint



While some deride these benefits as being protectionist in nature, instead this approach considers how we use our public spending to best effect. Clearly defined regional and local economies, e.g. Highlands and Islands, can use this policy to expand local supply chains and embed resilience into local economies. Similarly, such an approach could boost economic activity in the most economically-disadvantaged areas.

The Scottish Government has indicated its support for such a policy shift, by including a section on Community Wealth Building in its 2017 Programme for Government:

“We will seek to maximise the benefits of economic activity for local communities by:

- working with anchor institutions to consider how procurement activity can be better used to support local economic activity
- helping local enterprises to supply goods and services to these anchor institutions – keeping money within communities”²⁴

The Welsh Government also recently announced its commitment to exploring how new approaches to economic development, such as using public procurement, could boost local economies.²⁵

However, despite some isolated examples of working together and expressions of intent, we are not aware of any substantial progress on this policy in Scotland. For example, as highlighted earlier, there is little evidence of spend analysis being routinely undertaken or used to inform procurement strategies. If anything, Scotland still seems pretty far away from public sector organisations working together in communities to gain maximum benefit from their public spending. Furthermore, our sectoral approach to procurement, where public sector organisations are part of central purchasing bodies, such as NHS National Procurement and Scotland Excel, could actually exacerbate place-based approaches.

Community Planning Partnerships (CPPs) are ideally-placed to enable progress on community wealth building, however emerging regional economic partnerships might also play a role in this policy, as might city region managing authorities. As a first step and to test the concept in practice, CPP partners in Scotland could map their spending on goods and services across different parts of their geographic area. For example, this might involve reviewing how much is spent by the public sector with suppliers in most economically-disadvantaged areas. Alternatively, CPP partners might identify areas of spend on goods or services, which routinely 'leaks' outwith their geographic area and whether there is any scope to identify potential local supply chains.

Recommendations

- The Scottish Government should facilitate the development of two community wealth building pilot projects, focused on procurement, by the end of the current parliament.
- All Community Planning Partnerships should commit to scoping a pilot project for their area, such as mapping aspects of their combined spending in their geographic area and exploring how to boost the local spending of supply chains.
- Scotland's public procurement sectoral centres of expertise, which also act as buying bodies for their sector, need to support and enable these pilots. The Scottish Government's coordinating group, the Public Procurement Group, also needs to discuss how they guide and encourage this work.
- Public sector organisations should report upon joint-working with other parts of the public sector in their local and regional area in annual reports.

JARGON BUSTER

Public Contracts Scotland (PCS)

The Scottish public sector's portal for advertising public sector contract opportunities.

Quick Quote

Quick Quote is an online request for quotation facility via Public Contracts Scotland. It is used to obtain competitive quotes for low value/low risk procurement exercises or for mini competitions within framework agreements.

Standard Pre-Qualification Questionnaire (SPQQ)

A single, streamlined version of questions businesses have to answer when bidding, replacing multiple, complex PQQs used by public sector organisations.

ESPD

The Europe-wide replacement for the SPQQ.

Public sector organisations

This covers a range of public sector organisations purchasing goods and services, including: national and local government, the NHS, FE & HE, emergency services, agencies and regulators.

Sustainable Procurement Duty

Section 9 of the Procurement Reform (Scotland) Act 2014 asks public sector organisations to consider how its procurement activity can help to:

- (i) improve the economic, social, and environmental wellbeing of the authority's area,
- (ii) facilitate the involvement of small and medium enterprises, third sector bodies and supported businesses in the process, and
- (iii) promote innovation.

Centres of Expertise

Organisations such as Scotland Excel which advise their sector (e.g. local government, health service) on procurement. They also develop regional and national sector-wide contracts often used by public sector organisations and are sometimes referred to as central purchasing bodies.

Supplier Development Programme (SDP)

A programme delivering advice and training to SMEs and third sector organisations to help them bid for public contracts.

ENDNOTES

- ¹ The Scottish Government, Businesses in Scotland 2018, <https://www2.gov.scot/Topics/Statistics/Browse/Business/Corporate>
- ² See McLelland Review of Public Procurement in Scotland <https://www.gov.scot/Publications/2006/03/14105448/24> and the Procurement Reform (Scotland) Act 2014 <http://www.legislation.gov.uk/asp/2014/12/contents>
- ³ See: https://www.fsb.org.uk/docs/default-source/Publications/cr_procurementrules_apr2015.pdf?sfvrsn=1
- ⁴ See: https://www.fsb.org.uk/docs/default-source/Publications/publi_spec_scotprocure_july2013.pdf?sfvrsn=1
- ⁵ FSB Scotland Written Evidence to the Infrastructure and Capital Investment Committee, November 2013
- ⁶ Supplier size range definitions: >10 employees – micro, 10-49 employees – small. Data source: Scottish Procurement Information Hub.
- ⁷ See: <http://www.improvementservice.org.uk/economic-development.html>
- ⁸ Improvement Service, Economic Outcomes Programme Overview Report, 2018 <http://www.improvementservice.org.uk/documents/econdev/eop-overview-report-aug18.pdf> The data source for this report is the Scottish Procurement Information Hub.
- ⁹ Survey of FSB members undertaken in November 2018. Businesses who have bid for public contracts in the last 2 years: (sample size 195) • Bid – 22.1% • Not bid – 77.9%. How businesses found bidding for public contracts: (sample size 43) • It was easy – 4.7% • It was okay – 34.9% • It was difficult – 60.5%
- ¹⁰ A single, streamlined version of questions businesses have to answer when bidding, replacing multiple, complex PQQs used by public sector organisations.
- ¹¹ Quick Quote is an online request for quotation facility via Public Contracts Scotland. It is used to obtain competitive quotes for low value/low risk procurement exercises or for mini competitions within framework agreements.
- ¹² Section 8 of the Act places a general duty on public sector organisations to behave transparently and proportionately when contracting.
- ¹³ Scottish Government, Procurement Annual Report 2018 <https://www.gov.scot/publications/scottish-government-procurement-annual-report-2018/>
- ¹⁴ The hub includes data on suppliers with whom a total of £1000+ has been spent over the financial year, potentially excluding a significant amount of low-value contracts from spend data.
- ¹⁵ Links to guidance and information about annual reports: <https://www2.gov.scot/Topics/Government/Procurement/AnnualProcurementReportGuidanceandTemplate>.
- ¹⁶ Section 9 of the Act outlines the terms of the sustainable procurement duty which requires public sector organisations when undertaking regulated procurement to consider how they can: (i) improve the economic, social, and environmental wellbeing of the authority's area, (ii) facilitate the involvement of small and medium enterprises, third sector bodies and supported businesses in the process, and (iii) promote innovation
- ¹⁷ Regulated contracts are those which exceed £50,000 (goods) or £2,000,000 (public works) in value.
- ¹⁸ See: <https://www.fsb.org.uk/media-centre/press-releases/fsb-research-2075-firms-saved-every-year-if-scotland-paid-like-norway>
- ¹⁹ 66.6% reported that up to half of payments were late, while 10.8% report over three quarters of payments are late.
- ²⁰ p30, Scottish Government Procurement Annual Report 2018
- ²¹ FSB Scotland Manifesto for the 2016 Scottish Parliament elections: Resilient Economies, Resilient Communities https://www.fsb.org.uk/docs/default-source/Publications/fsb_manifesto2016db323cba4fa86562a286ff0000dc48fe.pdf?sfvrsn=0
- ²² See: <https://cles.org.uk/tag/the-preston-model/>
- ²³ CLES, The Power of Procurement II, 2018 https://cles.org.uk/wp-content/uploads/2017/02/The-Power-of-Procurement-II-the-policy-and-practice-of-Manchester-City-Council-10-years-on_web-version.pdf and https://cles.org.uk/news/manchester-city-council-spend-building-local-wealth/?utm_source=CLES+News&utm_campaign=5587cf7475-EMAIL_CAMPAIGN_2019_01_24_10_06&utm_medium=email&utm_term=0_c6380b5395-5587cf7475-43101709
- ²⁴ The Scottish Government's Programme for Scotland 2017-18, p109 <https://www.gov.scot/publications/nation-ambition-governments-programme-scotland-2017-18/>
- ²⁵ See: <https://www.bbc.co.uk/news/uk-wales-47225507>


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