



Federation of Small Businesses
The UK's Leading Business Organisation



Local Procurement
***Making the most
of small businesses***



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Foreword

A recent survey by the Federation of Small Businesses (FSB)¹ of more than 11,000 members found that the time and cost involved with the public sector tendering process remains a major barrier to participation, as does the difficulty in finding and accessing public sector contracts. Too many small businesses are left bruised by the impenetrable wall of bureaucracy and the widespread conviction that big is beautiful. Coupled with strict eligibility criteria, this leaves small businesses unable to compete with larger ones and locked out of public procurement contracts.

To investigate these long-standing problems, the FSB undertook a survey of public sector procurers in local government to supplement the small business view, identify spend and explore the issues and practice from their perspective. We chose local government for a variety of reasons, but most pertinently because it is often the area of government with which small business owners have most contact and to whom they are most likely to provide goods and services.

The FSB is extremely grateful to all those councils that gave up time to answer our survey, providing us with the information that formed the bulk of this work. We intend the survey to become a regular exercise because we believe it can help strengthen the relationship between councils and their local business communities by increasing understanding on both sides.

The key theme of the FSB's long running Keep Trade Local campaign is the belief that money spent with local businesses stays in the local economy, creating positive knock-on effects for jobs and prosperity in those areas. Austerity measures mean that procurers must increasingly become more aware of what they spend and how they spend it, and their impact on the wider economy. Chief among these procurers are local authorities whose democratic mandate and accountability mean that they are acutely aware of

“Money spent with local businesses stays in the local economy, creating positive knock-on effects for jobs and prosperity”

¹ The UK 'Voice of Small Business' member survey (February 2012) FSB

this challenge. Local authorities can take the lead in stimulating sustainable growth in their economies by encouraging a greater proportion of local businesses in their economic development strategy, buying more of their own goods and services locally, and working with prime contractors to encourage greater supplier diversity and best practice – for example, in the case of payment times.

The challenge is to ensure that this economically sustainable approach is embraced across the public sector. Many councils already do excellent work in this area. The FSB wants to encourage them to improve further by identifying trends and communicating the practices that would make things easier for small businesses.

The recommendations in this report take the agenda forward. Most important, in our view, is the need for all councils to gain a better understanding of how their money is spent. This could be achieved through more accurate recording and by ensuring that this information properly informs their strategy and decision making in order to embed an understanding of the links between procurement and local economic development.

No council is likely to be doing everything we recommend, but we would very much like to see as many as possible work with their local small businesses and the FSB to see what can be done to help them with the procurement process. We strongly urge councils to read this report and collaborate with us to see what can be improved.

Mike Cherry



FSB Policy Chairman



View from the Centre for Local Economic Strategies: The importance of procurement

The Centre for Local Economic Strategies (CLES) was delighted when the FSB asked us to develop a survey as part of this innovative research study of small business and procurement. Effective and locally responsible procurement spend should lead to a range of benefits for small business and local economies. It can:

- Create new jobs and sustain existing ones
- Contribute to tackling issues such as worklessness and deprivation
- Support the creation of new businesses
- Boost spending in local shops and on local services
- Support the development of local labour through apprenticeships

For procurement to be more effectively linked to economic development, local authorities should be looking to understand levels of spend with local organisations and small and medium enterprises (SMEs) and embed economic development considerations into the procurement cycle. Evidence is the starting point for a more progressive approach to public procurement. It not only means that local authorities know where their spend is going but also supports a procurement process that reflects the economic challenges – worklessness, low skills and small business sustainability – in their locality.

To enable these local economic benefits to be realised, local authorities should think strategically about procurement and, importantly, should proactively influence how the supply chain responds the income it receives through the procurement process.

Strategically, procurement should be based on cross-departmental relationships, particularly between corporate procurement and economic development, to enable economic considerations to be fed more effectively into the procurement decision. Economic, social and environmental benefit should also be embedded in the Sustainable Procurement Strategy.

Supplier networks, engagement with suppliers in areas of deprivation and gap analysis are methods of passing on economic priorities to suppliers so that they can enable neighbourhood economic change through procurement. These are a means of influencing the extent to which suppliers think about local communities and the unemployed in their recruitment policies, the extent to which they consider SMEs and local firms in their own supply chain and the strength of focus on the environmental costs of purchasing.

This approach to procurement based on place, economic development and influence is working in particular authorities. Indeed, as a result of cross-departmental working and supplier engagement, the spend back into the Manchester economy of Manchester City Council's suppliers has increased from 25p to 42p in every pound. Suppliers are also increasingly working to support long-term unemployed people into employment opportunity through apprenticeships and job brokerage activities.

The response rate to this research signals a commitment from local government to understand procurement spend, support SMEs in accessing opportunities, and enhance local economies through procurement strategy.

There is, however, much to be done and the recommendations presented in this publication highlight a key opportunity for local government to become more effective 'place stewards' when it comes to procurement strategy and purchasing goods and services.

Matthew Jackson

Matthew R. Jackson

Head of Research, Centre for Local Economic Strategies



Executive summary

This report is the product of the Federation of Small Businesses' (FSB) long-standing interest in public procurement. It recognises the important role that local government plays as a local decision maker and as an area of government with which small businesses deal regularly.

The report draws together the views of small businesses and those of local authority procurers before going on to recommend what the FSB would like to see councils do to help improve the experience for small businesses in the future.

It sets out the barriers that FSB members have been highlighting for some time – namely, the bureaucracy involved in the process, the difficulties in identifying opportunities, and the fact that many procurers increasingly set conditions that favour the use of larger contracts and suppliers rather than small businesses. It draws comparisons with the views of local procurers, highlighting that although not universal, there is clear recognition within local government of the issues small businesses face.

The data collected from the survey points to some interesting patterns in terms of how procurers approach procurement and the drivers for their behaviour. It reveals in particular that:

- The procurement spend of many councils is significant and averages £185 million for each local authority responding
- It is common, but by no means universal, for councils to record where and with whom they spend their money. A significant proportion of councils do not record the size or location of the businesses they spend with
- Cost savings are overwhelmingly the biggest driver of procurement policy, outweighing other factors such as quality of goods and services, and economic development
- Although the barriers for small businesses are often acknowledged, there are still a large number of councils that are not aware of them

The report draws on these factors and puts forward an argument for a greater focus by councils on the role that procurement can play in supporting local economies – in particular, small businesses. It puts forward a view that this should be embedded in procurement strategies and in the wider priorities of every council. The FSB believes that the starting point is for councils to gain a more informed view of their local economies and their potential supply chain by actively recording where their procurement spend goes and the impact it has.

The report makes a series of further recommendations designed to promote positive outcomes both for small businesses and for councils. In particular, it calls for immediate work to streamline and standardise approaches such as pre-qualification, utilising 'lots' where possible (because these are more accessible to small business) and putting in place initiatives to help small businesses maximise the potential of the local supply chain. The FSB also calls for the relevant governments in the UK to take an active role in supporting and monitoring councils so they follow best practice.

The report concludes with two short sections. The first puts forward what the FSB believes is a model approach for councils when it come to procurement. The second is a focus on common procurement myths and misconceptions that need to be addressed.

Recommendations

- Councils to adopt a procurement strategy that recognises the significant benefits of procuring from local small businesses when tendering for goods and services.
- Local authority economic development strategies to take account of the needs of the existing local economy and inform procurement strategy based on a comprehensive analysis of spend.
- Councils to consider actively how much of each procurement decision should be assigned to social value considerations.
- All authorities to have mechanisms in place to record and analyse where and with which businesses their money is spent. This should include measuring the size of enterprise – medium, small or micro.
- Councils to make information on spend publicly available and easily accessible, at least annually.
- Councils to monitor and take account of the economic impact of their key spending decisions.
- All authorities to adopt the relevant government-led, streamlined and standardised pre-qualification questionnaires (PQQ), with further effort made to ensure simplified processes are in place for smaller procurements below EU thresholds, including specific approaches for the lowest value contracts.
- All councils in the UK to use the relevant national portal to advertise their procurement opportunities (Contracts Finder, Public Contracts Scotland, Sell2Wales, Esourcing NI).
- Council procurement strategies to set out how they will ensure best practice is followed and how they will monitor that progress.

- **Local authorities to ensure their use of selection requirements is proportionate and based purely on the needs of the contract.**
- **Councils to ensure they have initiatives to support local SMEs with the tender process and to develop the potential of their local small business supplier base.**
- **Councils to provide detailed, specific and timely feedback to all businesses that tender unsuccessfully so they are better placed to bid next time.**
- **Councils to break down contracts into smaller lots wherever possible.**
- **Councils to put in place and monitor specific payment policies for small business suppliers, ideally following the lead of national government pledges to pay within 10 days of receipt.**
- **Councils to use spending power to ensure that prime contractors pass on the council's payments terms to their subcontracted suppliers.**
- **Government to support councils in following good practice, including by issuing clear guidance and taking action to ensure it is followed if necessary.**

1. The policy context in the UK

The changes to procurement policy are taking place in an environment where councils across the UK face increasingly tight budget constraints.

As with all parts of the public sector, local government is in the middle of large cut-backs in funding as well as big reforms across a range of policy areas. The Spending Review of 2010 saw the Chancellor announce that local government in England would take a cut of 25 per cent in revenue funding over a four-year period. At the same time, the funding provided by the UK government to devolved administrations has been cut, with a knock-on effect for the funding they provide to local government. This level of spending reduction has had an inevitable behavioural impact on how councils operate across the spectrum. Reductions in staffing have occurred alongside increased rationalisation of service delivery and back-office functions, including procurement. Many authorities are increasingly looking to enter joint procurement initiatives and in some cases are sharing procurement functions.

This has created an inevitable challenge as councils seek to find ways to reduce service costs while retaining service provision. The FSB does not want to put forward an argument that ignores the current economic reality. Rather, we aim to show how local authorities can best foster relationships with local small businesses and learn from effective practice across local government in a way that benefits small business and the local economy.

There is an argument for saying that the tightening public sector spending environment has helped to focus the minds of decision makers who, faced with smaller budgets, are forced to think more carefully about how that money is spent. As a result there is a growing realisation of the potential of procurement as a lever to growth in the small business sector and of the wider economic, social and environmental benefits that procurement can bring.

The FSB believes that public procurement should be viewed and utilised as a key tool in stimulating business and wider economies. The public sector spends an estimated £240 billion each year on procuring goods and services.² Local authorities account for a significant proportion of this, spending some £68 billion on revenue activities together with a further £20 billion procuring capital projects.³

While the FSB supports the steps that UK and devolved governments are taking to open up the public procurement process, a fundamental change is needed across the whole public sector for action to benefit SMEs. Increasingly, many public procurers are thinking carefully about the decisions they make and the impact they can have. Chief among these are local authorities whose democratic mandate and accountability mean they are often already acutely aware of this challenge. The dynamic between local authorities and their business communities is a vital one. As local entities, councils have an important 'stewardship' role and can use their spending and commissioning decisions as one of the few powers available to shape and influence their area and the services people receive.

“The dynamic between local authorities and their business communities is a vital one”

There is much excellent work going on within the local government sector, often in conjunction with local business groups including the FSB. However, there is clearly also room for improvement in many areas. As a result, the FSB explored the relationship between small businesses and procurers in local government, carrying out a survey of local authorities to ascertain how they spend their money – in particular with small businesses – and the approach they take to procurement. The intention behind this report is to ensure that a pro-small-business approach to procurement becomes the norm within local authorities. By establishing the barriers and identifying good practice, we can work with local authorities to ensure that small businesses have the best possible opportunities to access local government contracts.

The importance of small businesses

The economy is dominated by small businesses. Across the UK, small firms make up 99.3 per cent of all businesses, contribute 51 per cent of Gross Domestic Product (GDP) and employ 58 per cent of the private sector workforce. There is correctly a commonly accepted wisdom among politicians and decision makers that it is these businesses that will provide the engine for economic growth. The FSB strongly believes that procurement policy has a key role to play and that intelligent and creative use of the SME-friendly portion of the public sector's huge spending power can stimulate and support small business growth and innovation.

² *Public Procurement as a Tool to Stimulate Innovation* (May 2011) House of Lords Science and Technology Committee report, p. 26

³ Public expenditure statistical analyses (2011) HM Treasury, p. 98

There are numerous reasons why trading with small businesses can provide advantages and better value. Small businesses:

- Are often based locally, meaning:
 - Money is spent with local businesses and then stays in the local economy
 - There is face-to-face contact and a quicker response
 - Suppliers have a better knowledge of the local area and the needs of the buyer
 - There is a lower 'carbon footprint'
- Give a higher quality of service with a more dedicated and personal approach and easier access to senior management
- Provide innovative and customised solutions to problems, often much more quickly than large companies

SME or small business?

This report mostly uses the term 'small and medium enterprise', as did the questions asked of local authorities, because it is the most commonly used definition in public policy. Nevertheless, most of the businesses in the UK are in fact small (fewer than 50 employees) rather than medium (50–249 employees) in size.

The terms 'SME' and 'small business' are often used interchangeably, particularly within government, but it is important to recognise the difference between them. A small business is an SME but an SME is not necessarily a small business. The barriers for a medium-size enterprise with 200 employees are entirely different from those faced by a small business with 20 employees or a micro firm with just five. It is at the smaller end of the scale that many of the issues characterised as affecting SMEs are most pronounced. If a solution works for a micro business it will almost certainly suit small and medium-size firms too. Although we refer to SMEs in this report, we firmly believe that the future focus of any reforms and measurement of success should primarily impact those businesses that are defined as small or micro.

Devolution

The development and application of public procurement policy in Scotland, Wales and Northern Ireland is a devolved matter. As a result, although the issues faced by small businesses and the structure of local government in those areas are similar, policy has emerged slightly differently and at different speeds over recent years.

Scotland

Scotland put in place a public procurement reform programme in 2006, following John McClelland's *Review of Public Procurement in Scotland*, with the aim of achieving a more professional and efficient approach. The

reform programme has now entered a second phase designed to speed up the delivery of change. One outcome of reform was the development of collaborative buying across the public sector, which has led to the aggregation of contracts. This often makes it harder for small businesses to compete.

However, a number of initiatives have also been introduced to improve public procurement for SMEs, including the launch of Public Contracts Scotland, attempts to standardise the pre-qualification questionnaire (PQQ) process, and the creation of a single point of enquiry (SPoE) to advise suppliers and informally resolve any concerns about specific tender exercises.

There are now proposals to introduce a Sustainable Procurement Bill which will embed community benefit clauses, mandate the use of Public Contracts Scotland and standard PQQs, and introduce obligations on bodies to demonstrate consideration of the economic, social and environmental wellbeing of the area. (A similar focus on an obligation to consider wider 'wellbeing' will occur in England and Wales through the recent Public Service (Social Value) Act.)

Wales

Maximising the economic development potential of procurement spend has been a priority for successive Welsh governments, with a strong focus on enabling the public sector to procure locally and allowing local businesses to bid for contracts. Figures indicate some progress, with Wales-based companies accounting for 52 per cent of expenditure in 2011 compared with 35 per cent in 2003.⁴ Local government is an important sector, accounting for around half the public sector procurement spend in Wales.⁵

As in Scotland, particular focus has been placed on encouraging wider use of Sell2Wales for smaller contracts and simplifying the pre-qualification process. There has also been a drive to create consistency among public sector bodies by moving towards the use of a common set of questions in the Supplier Qualification Information Database (SQulD) and the use of a risk-based approach. Wales has also taken a lead in encouraging the use of community benefit clauses, with the emphasis on introducing contractual obligations to use local supply chains and increase social outcomes.

Following the influential work done by John McClelland, looking at procurement in Scotland, the Welsh Government has now launched the McClelland Review as the next step in advancing Welsh Government procurement objectives.

⁴ Statement: *The Benefits of Public Procurement on the Economy and Local Communities* (21 February 2012) Jane Hutt, Minister for Finance

⁵ Welsh Local Government Association (WLGA) statistics for the 2007/08 budgetary year indicate that local government delivers around 53 per cent of Wales' £4.5 billion public sector procurement spend

Northern Ireland

Northern Ireland has undertaken a number of reviews of procurement policy and practices. Most recently, an Assembly Inquiry in 2009 resulted in a number of FSB's recommendations for improvement being accepted. Implementation of the proposals is slow but ongoing and these reviews and policy changes relate solely to central government and agency procurement. As with the rest of the UK, Northern Ireland councils are bound by EU regulations and guidance, and are expected to adopt best practice and take central government policy and procedure as a model. However, each of the current 26 councils sets its own procurement policy and there is no formal overall guidance for local government procurement.

Under the Northern Ireland Assembly's Review of Public Administration there will be major changes to the structures and powers of local government in Northern Ireland, and a reduction in the number of councils from 26 to 11. The FSB believes this will provide a unique opportunity to ensure that local government procurement is made efficient, fit for purpose and accessible to the micro and small businesses that constitute 99.9 per cent of the private sector in Northern Ireland.

England

The 2008 Glover Review⁶ led to a number of commitments to improve public procurement and make it easier for SMEs to supply to the public sector. Following the change in government in 2010, the Coalition continued and expanded that work, introducing a series of initiatives complemented by a transparency agenda and an overarching 'aspiration' that 25 per cent of government contracts should be awarded to small and medium-size businesses. Measures taken include the launch of the Contracts Finder portal; the launch of an SME Panel and a Mystery Shopper Service to address bad practice; and reforms to the process, including the launch of a standardised PQQ and a drive to eliminate the use of PQQs for procurement under £100,000.

One of the key issues to note is that the focus of reforms by the UK government has so far primarily been on central government departments. The overarching impression regarding procurement in Scotland, Wales and Northern Ireland is that although the relevant governments cannot currently mandate councils to adopt their practices, they take a more hands-on role in trying to influence public procurement policy and practice at a local level. The scale and complexity of local government in England and the prominence of a 'localism' agenda within public policy mean the government's task is more difficult than that of the devolved administrations. However, given the huge scale of public sector spending that sits outside UK central government, further reform of the wider English public sector will be required to realise a substantial change that benefits small businesses. Local authorities themselves have begun to take this challenge on board. Together with groups such as the Local Government Association, there are promising moves to establish and share best practice.

“The focus is on transparency, simplifying the process and increasing the awareness of opportunities”

⁶ *Accelerating the SME Economic Engine: Through Transparent, Simple and Strategic Procurement* (2008) Glover Report. HM Treasury, London: TSO

Common issues

Despite procurement policy being devolved and change emerging with different speeds and approaches, it is clear that the direction of travel is similar across England, Wales, Scotland and Northern Ireland. The focus is on transparency, simplifying the process and increasing the awareness of opportunities. The challenge all procurers face is that they must undertake their procurement within the boundaries of the EU Directives and Treaty Principles and in line with a national policy that is EU compliant. As a result, the context within which councils work is inevitably similar.

It is also clear that the challenges that small businesses face with public procurement endure up and down the UK. As a result, the FSB believes the issues raised and recommendations put forward in this report are applicable to councils wherever they are based and that there is much to be gained in calling for some consistent change.

2. The small business perspective

The issue of small business access to public sector contracts is a long-standing one. The FSB has been pushing for reform for some time and staff and members up and down the UK have been working with government policy makers and public procurers (such as local authorities and government departments) to try to improve the process. Research commissioned with other partners in 2008⁷ demonstrated the substantial barriers to SMEs winning public sector contracts, indicating that:

- 70 per cent of SMEs rarely or never bid for government procurement opportunities
- 76 per cent of SMEs felt that there were barriers that prevent SMEs from being fully aware of public procurement opportunities
- 55 per cent of SMEs felt that the process of bidding for government contracts required more time and effort/cost than their business could allow
- The lack of awareness of opportunities was the single most important reason for an SME not to bid for a public contract

The research also showed that SMEs are generally more successful when bidding to the private sector than the public sector:

- 51 per cent of SMEs reported a success rate of over 40 per cent when bidding for private sector opportunities
- 62 per cent had a success rate of 20 per cent or less when bidding for public sector opportunities

More recently, the FSB has undertaken its own research into the views of small businesses through the full member survey published in February 2012 and a follow-up panel survey in March 2012. This research indicates that the

⁷ *Evaluating SME Experiences of Government Procurement* (2008) Fresh Minds research for the Scorecard Working Party. The Working Party consisted of the British Venture Capital Association (BVCA), the FSB and the Confederation of British Industry (CBI)

same issues continue to arise. Members were asked about public sector procurement in general rather than specifically about local government.

When asked about their perceptions of barriers, 60 per cent of members indicated that there were barriers to small firms in bidding for public sector contracts.⁸ In particular, members indicated the following key problems:

- The tendering process is too long/costly (35%)
- FSB members are not always aware of the public sector contracts available (28%)
- They do not feel able to compete with larger suppliers (28%)
- The relevant eligibility criteria (e.g. level of turnover/relevant standards) tend to exclude them (27%)

These issues are particularly prominent among micro businesses. Micro businesses with fewer than 10 employees are significantly less likely to bid for public sector contracts than small and medium-size businesses. When they do bid, they are less likely to win. In essence, the smaller the business, the less accessible the procurement process appears to be.

The full results of the March 2012 panel survey is contained in the Annex. In summary:

- Over half of members always or almost always request feedback on unsuccessful public sector bids. Views about the quality of feedback are mixed
- The vast majority of members argue that the private sector procurement process is more straightforward than the public process
- The majority of members highlight personal contracts/referrals as the most useful tool to identify public sector opportunities
- The main reason members do not submit public sector bids is lack of awareness of appropriate contracts or suitable opportunities
- The most common suggestions for actions to tackle barriers are to:
 - Simplify the process
 - Proactively encourage use of SMEs
 - Ensure procurers evaluate tenders based on experience and ability rather than size

⁸ The UK 'Voice of Small Business' member survey (February 2012) FSB, p. 36

3. Survey of local authorities

The purpose of the FSB survey of local authorities was to gain a better understanding of the extent to which:

- SMEs are successful in accessing local government procurement opportunities
- Local government monitors levels of procurement business with SMEs
- Local government has strategies and initiatives in place to support SMEs
- Local government recognises the different scale of SMEs and the associated barriers to procurement, particularly for small and micro businesses

The survey was carried out against the backdrop of growing recognition that well-tailored procurement policies can influence economic growth and deliver savings for local government, and the ongoing problems that SMEs face when applying for procurement contracts.

To enable small businesses to take advantage of emerging opportunities in local government procurement, there is a need to develop an evidence base that scopes current levels of local authority spend with SMEs (specifically, small and micro businesses where possible), the means of collecting information about SME delivery of services, and local government processes for supporting SMEs to take advantage of procurement opportunities. The survey of procurement departments therefore sought to question local government along the following lines of enquiry:

- Level of spend on goods and services
- Whether the level of spend with SMEs is recorded and, if so, whether it is broken down by micro, small and medium-size enterprise
- Whether the level of spend in the locality is measured and, if so, the proportion it represents

- Perceptions of the barriers faced by councils and small businesses in the process
- Time taken to process SME invoices
- The priorities and drivers for councils when undertaking procurement
- Whether councils have any initiatives or strategies to improve access to SMEs and identify examples of best practice

Undertaking the survey

The FSB engaged the Centre for Local Economic Strategies (CLES) to help design and pilot the survey. The questionnaire used SurveyMonkey software and was sent electronically to each of the 432 local authorities in England, Scotland, Wales and Northern Ireland, based on a database compiled and updated by CLES. The email with the questionnaire link was sent out directly by CLES on Monday 16 April 2012, closing four weeks later. In order to maximise response rates and minimise gaps in successful contacts with councils, this was supplemented by FSB regional members and staff sending letters to local authorities and following up the survey with procurement teams. The Local Government Association also helped to promote the survey among local government procurement professionals.

From the 432 local authorities asked to participate, 148 completed the questionnaire. This is a response rate of 34 per cent, demonstrating key interest in the project from local authorities. Responses were received from councils in Scotland, Wales, Northern Ireland and all regions in England and from county, district, London borough, metropolitan and unitary authorities (including unitaries in Scotland and Wales and councils in Northern Ireland). Responses that contained insufficiently complete answers were excluded from the results.

The results

The survey yielded a large amount of data that provided a very good insight into the current situation. Annex A presents a full report of these findings and explores variations by geography and by authority type. It also includes the survey questions.

Initial observations

One of the key insights this survey brings is recognition of the hugely important influence of local authority spending decisions. The survey shows an average annual procurement spend for UK councils surveyed of £185 million, meaning there is a significant flow of money from the public to the private, voluntary and community sectors. In an environment where the outsourcing and commissioning of services continues to increase, the importance of local authority decisions about which businesses will deliver their contracts continues to grow.

Much of the overall picture is positive. Councils indicate an average of 49 per cent of total procurement spend with SMEs. To put this in context, UK central government department spend with SMEs is estimated at

13.7 per cent for 2011/12⁹, with an aspiration that eventually 25 per cent of government contracts should be thus awarded.¹⁰ Although not directly comparable because it incorporates wider Scottish public sector spend, figures from the Scottish Government indicate around 46 per cent of its spend went to SMEs in 2011/12.¹¹

Many local authorities also indicated a broad awareness of the various barriers that SMEs face and gave examples of a wide range of actions to help SMEs in the procurement process. However, it is worth highlighting the caveat that those that chose to respond to the survey perhaps have a more positive story to tell than those that did not.

The key headline findings of the survey follow.

Spend

- The average local authority spend on procuring goods and services is £185 million per annum. In total, the local authorities that responded to the survey and provided their spend data spent a combined £26.7 billion per annum procuring goods and services
- On average, local authorities responding to the survey use 26 per cent of their procurement spend on capital activities and 74 per cent on revenue activities
- 34 per cent of local authorities spend less than £50 million annually on procuring goods and services. There are therefore also some very high spenders with well over a quarter of councils spending more than £250 million per annum
- 62 per cent of local authorities actively record the amount of spend within their own local authority boundary
- On average, local authorities use nearly 35 per cent of their total procurement spend within their own local authority boundary. This varies from 20 per cent to over 50 per cent depending on geographical location
- 51 per cent of local authorities actively record the amount of spend with SMEs. Again, this figure is significantly higher in some areas than others, with almost four in five councils in Scotland and the North West of England recording SME spend
- On average, local authorities use 49 per cent of their total procurement spend with SMEs. However, only 49 authorities were willing or able to provide this information. The average spend varies significantly, ranging from less than 10 per cent in some council areas to more than 70 per cent in others

Barriers

- 66 per cent of local authorities feel that SMEs face barriers in accessing procurement opportunities. The biggest spending authorities (in excess of £500 million per annum) are more likely to think that SMEs face barriers (nearly 82% of such authorities)

⁹ *Making Government Business More Accessible to SMEs: One Year On* (March 2012) Progress report on enabling more SMEs to tender for government procurements, Cabinet Office

¹⁰ Coalition Agreement, 2010

¹¹ *Public Sector Spend in Scotland by Size of Business 2010–11* (2012) Scottish Procurement Information Hub, The Scottish Government

- The main barriers that are specific to SMEs were identified as:
 - The capacity and skills of SMEs to bid for and deliver contracts effectively
 - The SME sector's awareness of potential procurement opportunities
 - Lack of understanding or knowledge of the operation of local government
 - Insufficient business maturity, particularly in terms of engagement with 'big' business
- The main barriers that are specific to local authorities were identified as:
 - The bureaucratic nature of local authority procurement practices
 - A lack of awareness and understanding of SMEs, what they offer, and how to engage with them
 - The need for procurers to achieve economies of scale in their procurement practices

“66 per cent of local authorities feel that SMEs face barriers in accessing procurement opportunities”

Engagement

- 94 per cent of local authorities have initiatives to support SMEs in tendering. Of those, 68 per cent believe they adopt best practice. A number of themes were identified:
 - Simplifying procurement processes
 - Using specialist and smarter procurement programmes for SMEs
 - Producing toolkits and guidelines, and using e-procurement
 - Providing regular training and workshops for SMEs
 - Streamlining financial appraisal and adopting a 'lot' approach
 - Simplifying quotation requirements to accommodate SMEs
 - Using partnership working with business networks
 - Taking a cross-department approach to activities
- 74 per cent of local authorities adopt different processes for tenders below EU thresholds. Key approaches include advertising locally, reducing the bureaucracy and speeding up the process
- The vast majority of local authorities use council and regional portals as a means of advertising tender opportunities. However, use of the relevant main government-backed portal in each of England, Scotland, Wales and Northern Ireland varies significantly. Use is universal in Scotland and Wales but much lower in England and Northern Ireland

Economic, social and environmental benefits

- 86 per cent of local authorities feel their procurement strategy links 'well' or 'very well' to wider corporate objectives
- Overwhelmingly, the most important contemporary issue in the procurement process for local authorities is achieving cost savings. By contrast, environmental sustainability and delivering government policy, although significant, were rarely given the highest score for importance

Payment

- 93 per cent of local authorities have policies in place for the payment of suppliers
- 72 per cent of local authorities seek to pay suppliers in 28 days or less (22% in less than 14 days)
- 49 per cent of local authorities ask their main contractors to pass on payment terms to their subcontractors

4. Barriers to participation

The results present a broad insight into the approach and attitudes of local government procurers in the UK. They add new perspectives to the barriers that small businesses already say exist. This section highlights some of the key barriers that the FSB believes cause problems for small businesses in accessing the public procurement process.

Bureaucratic processes

Small business perceptions of bidding for public contracts are of an overly bureaucratic and cumbersome process. The tendering process is too long and costly and this is cited as the number one issue. FSB members also tell us that this is a significant factor in why many small businesses have decided not to bid for contracts at all. The key complaint that the FSB hears from members is about the amount of time and resource required to bid for contracts, which often prohibits them from competing effectively. This perception is particularly significant among micro businesses, which are also less likely to be successful when bidding.

It is not surprising, therefore, that 'simplifying the tendering process' is identified by small businesses as the top action to ensure that SMEs have the best opportunity to compete effectively.

The feedback from members shows quite clearly that, despite significant action on SME procurement policy by successive governments, the same issues and concerns persist and small businesses find accessing public sector contracts challenging and often prohibitive.

When asked for their views on the public sector procurement process compared with that of the private sector, only four per cent of FSB members thought the public sector easier and more straightforward. Significantly, 75 per cent disagreed or strongly disagreed with that view.

Member case study: a construction business in Scotland

“Our biggest issue in dealing with councils is pre-qualification questionnaires – they are extremely onerous and time consuming – they all want the same information – just asked from slightly different viewpoints. Time spent completing different formats with similar information is time lost on winning more business. The additional requirement now as opposed to five years ago means we need double the amount of administrative staff to deal with the same level of turnover. It is driving small business away from the public sector market.”

It was interesting to see that many of the authorities responding to the survey mentioned the burden of the process, raising issues about the complex nature of local authority tender documentation, particularly at PQQ stage, including:

- SMEs not having specialist bid writers for local authority procurement opportunities
- The high costs for SMEs of bidding for local authority procurement opportunities
- The complex nature of local authority tender documentation and requirements, particularly at the pre-qualification stage
- SMEs' lack of understanding of local authority procurement processes and how they operate

A gap in knowledge and understanding

It is undoubtedly true that many small businesses find the process confusing and inaccessible. For many, the additional requirements of doing business with the public sector make it extremely difficult to engage effectively.

The answers given by councils about the types of barriers they believe small businesses face certainly reflect the issues that many small businesses highlight as problematic. However, it is notable that a significant proportion of the barriers local authorities refer to are inherent in SMEs as potential suppliers, not imposed by the procurer. SMEs' lack of skills and knowledge about competing effectively for contracts are recurring themes throughout.

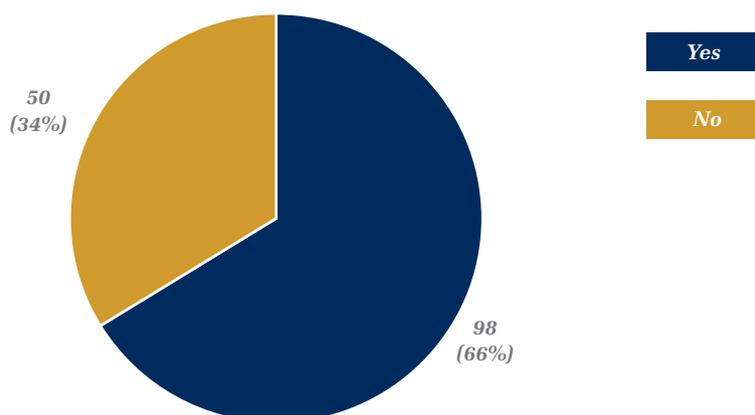
Nevertheless, it is not enough for procurers to say that 'SMEs do not have the knowledge or capacity to engage effectively' because the problem works both ways. Small businesses have long felt that those working in the public sector fail to appreciate the way they work and the challenges they face: 63 per cent of FSB members recently stated that they do not believe their local authority understands the needs of local businesses. The gap in understanding within councils is as relevant in procurement functions as in any other. It is therefore encouraging that some councils responding to the survey highlighted their lack of understanding of small businesses and their awareness of their potential.

This inadequate market intelligence about local SMEs means that councils do not know which SMEs are available, what goods and services they could potentially provide and what capacity they have to engage in the procurement process.

It is clear the knowledge gap on both sides inhibits successful relationships between buyer and supplier. Addressing this could help to maximise opportunities for small businesses and ensure buyers take advantage of the opportunities that a vibrant SME supplier market can provide.

Figure 1 indicates that almost two thirds of councils responding to the survey believe SMEs face barriers in accessing procurement opportunities, showing there is widespread recognition of the problem. However, that still leaves a third of authorities believing there is no problem to address. This presents a significant challenge for those seeking improvements and ensuring that the impact of policies is monitored.

Figure 1: Councils believing that SMEs face barriers in accessing procurement opportunities



Even if local authorities recognise the presence of barriers, it is difficult for them to know whether actions taken to address them are actually effective. As the survey reveals, only 51 per cent of councils responding actively record their spend with SMEs, so the remaining 49 per cent would have no way of measuring the effectiveness of their actions.

Selection requirements

Although there is the beginning of a change in pre-qualification processes, unnecessary barriers are still being put in place, often arbitrarily. One example is the use of disproportionate turnover requirements as a way to evaluate a bidder's financial standing. Rather than taking a genuinely risk-based approach to selection, local authorities sometimes set turnover requirements at a high blanket level. This immediately bars many small

businesses from even entering the process. FSB members consistently raise this issue and the use of financial requirements within the tender process. It was the biggest single issue reported to the Cabinet Office's Supplier Feedback Service in the past year (37% of all complaints received).¹²

Similarly, of the 31 per cent of complaints to the Scottish SPoE that focused on the PQQ process, the main theme was the proportionality of tendering requirements.¹³ The European Commission has identified such requirements as 'frequently a formidable obstacle to access by SMEs'.¹⁴ Instead, the FSB believes a more proportionate assessment is needed of the risk levels and subsequent impact, case-by-case.

This is a perfect example of the procurement process stifling the small business sector's potential to act as a catalyst for growth because it prevents businesses aspiring to something bigger or new. They are unable to bid for a new government contract, and in the process grow their business, because their turnover is currently not high enough. How, then, is a small business that wants to compete in the public sector market expected to push its business forward?

A second, often quoted, barrier is that of disproportionate insurance requirements. Small businesses that regularly compete in the private sector market, with adequate insurance for the type of work they undertake, are suddenly faced with massively increased requirements for cover that are out of proportion to the contract in question.

In some cases, simply not having a track record as a public sector provider can be enough to bar firms from competing. As Cabinet Office Minister Francis Maude has said, "unless you have shown that you have done almost exactly this kind of thing before in the public sector you don't even get on to the bidding list".¹⁵

Some of the local authority procurers responding recognise these issues, as shown in the following list of items identified:

- SMEs do not have sufficient financial capability and resource to deliver procurement contracts
- SMEs do not have a track record in delivering local authority contracts
- The financial requirements placed on SMEs are an issue in terms of the need for certain levels of turnover
- There is a lack of preparedness (on the part of the procurer) to take risks in the procurement process
- There is a greater perceived financial risk in using SMEs to deliver local authority contracts

¹² Annex A SME progress report Making Government Procurement More Accessible to SMEs (March 2012)

¹³ Single Point of Enquiry, report on activity, Scottish Procurement and Commercial Directorate (April 2012)

¹⁴ Proposal for Directive of the European Parliament and of the Council on Public Procurement (December 2011) European Commission, Com(2011) 896 Final, p. 11

¹⁵ House of Lords Science and Technology Committee, 'Public procurement as a tool to stimulate innovation', HL Paper 148, May 2011, p26

What is not clear from the responses is whether procurers view these as issues for SMEs or procurers to address. The FSB accepts that there will undoubtedly be instances where the procurer must protect themselves and the tax payer from undue risk by putting in place requirements that exclude some businesses. Nevertheless, it should be incumbent on those procurers to ensure that this only happens in exceptional circumstances and on a case-by-case basis. Requirements should be strictly proportionate to the needs of the contract and should not limit competition by acting as a barrier.

Member case studies: examples of disproportionate insurance requirements

Business A

“I was required to fill in a form requiring a minimum of £5 million worth of professional indemnity cover for a £25,000 contract for website design. This was in addition to having to face a 12-part, 75-page tender document that would have taken an estimated two days to complete and comply with. It was simply not worth my while.”

Business B

“A council in the north-east issued a PQQ for the architectural design of a unit with a build cost of around £200,000. These types of building are the most basic form or structure you can have. However, the level of professional indemnity insurance the architectural designers were expected to carry was £10 million. This was disproportionate to the contract value and potential risks and at odds with what happens in the normal market.

I queried this with the people issuing the PQQ but they didn't care – their response was ‘if you have not got it you can't tender’. The only architectural practices that carry £10 million personal insurance will be the mega firms. Are these the only companies that they want to tender for the works? They work at a price threshold that is easy for us smaller firms to undercut so you have to question if the tax payer is getting best value.

I looked at a few further PQQs after that and hit similar obstacles and soon decided it wasn't worth it.”

Awareness

FSB members perceive lack of awareness or visibility of the public sector contracts available as the next major barrier (28%). Many businesses would still not choose to bid for contracts even if they were aware of opportunities, but there is a clear imperative for public sector procurers to maximise competition and ensure that potentially innovative and competitive suppliers are at least aware of the opportunities that arise.

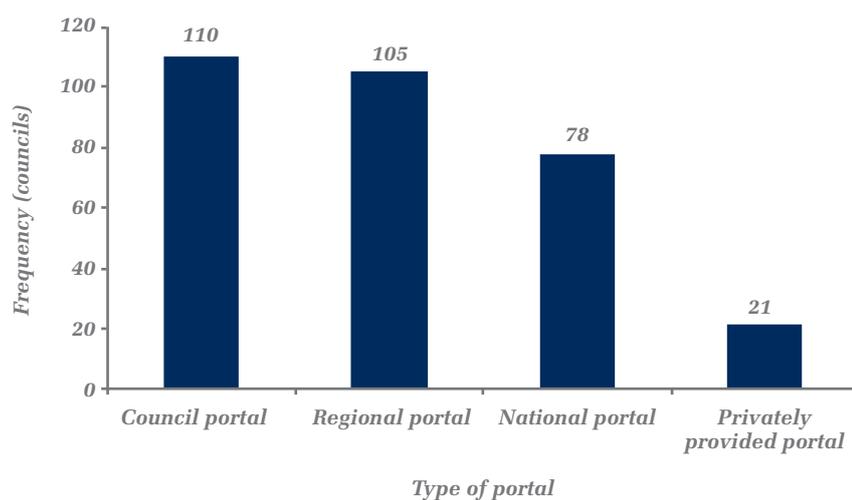
Other than personal contacts and referrals, electronic portals are the primary tools used by FSB members to identify contract opportunities. The way councils advertise their opportunities is therefore of vital importance to small businesses. As Figure 2 shows, the survey of local authorities revealed

a range of different approaches to advertising tender opportunities, with the councils' own website being the most popular route and a further high number also using 'regional' portals.

The FSB strongly believes that simplicity and consistency are the keys to ensuring that small businesses know exactly where to look for public sector opportunities. The FSB has continued to support the idea of a single portal in each of the relevant parts of the UK as 'one-stop shops' for contract opportunities. This has not yet been achieved, most particularly in England where only 53 of the 119 local authorities that responded use the relevant government-backed portal (Contracts Finder). Similarly, only three out of seven councils responding in Northern Ireland use eSourcing Northern Ireland.

By contrast, Public Contracts Scotland and Sell2Wales are well-established portals and all councils responding to the survey indicate that they use them to advertise contract opportunities.

Figure 2: Frequency of use of different types of portal for advertising



The recent survey of the FSB membership shows that awareness of the Contracts Finder portal in England is still relatively low (17%). By contrast, 31 per cent of FSB members in Scotland are aware of Public Contracts Scotland, perhaps because it has been in place for longer and is used more comprehensively by contracting authorities.

Size

The size of many public sector contracts continues to be a challenge for many small businesses. As with the rest of the public sector, councils are increasingly being encouraged to aggregate procurement or procure jointly with other authorities in the belief that this will bring economies and efficiencies of scale.

Many small businesses express concerns that when the value of contracts is increased in this way, it automatically puts them beyond the reach of small businesses which are unable even to compete. The FSB believes this is a very significant issue for small businesses and a major challenge to a policy of increasing access to contract opportunities for SMEs.

Efficiencies must undoubtedly be an important factor in procurement policy. However, centralised and/or joint procurement should mean a more coordinated and efficient approach to getting the best value for any particular service or product, not simply using a large prime contractor to deliver or subcontract all those services.

Research into public procurement paints a clear picture of the impact of contract size on the ability of small businesses to compete for contracts. The value of a public contract has a major influence – arguably, the greatest influence – on the extent to which small businesses can access it.¹⁶ It is inevitable that some contracts require a size and scale that will make it difficult for many small businesses to compete, but a trend towards aggregating smaller contracts will worsen the ability of small businesses to take part.

It is revealing that the UK has one of the largest average contract values. France and Germany both have similar sizes of economy yet have significantly lower average contract values (less than half the UK's, in the case of France) and perform far better than the UK in terms of SME access.¹⁷

A recent report by the Office of Fair Trading (OFT)¹⁸ also identified the problem of joint procurement contracts excluding smaller suppliers. OFT recommend that:

“Joint purchasing projects should therefore review the potential impact on smaller suppliers’ ability and incentives to compete in the procurement exercise. Consideration should be given by commissioners and procurers to dividing these contracts into separate lots to facilitate such entry, or at least weigh this option against potential economies of scale and scope arising from joint purchasing”.

There is a risk that freezing out a pluralistic market may negate any cost saving advantages in the long run. Aggregating contracts and limiting the range of suppliers in a given market increases the advantages for incumbents. The next time the contract comes up for renewal, the balance is heavily in favour of the incumbent supplier and the procurer’s ability to use competition to drive a good bargain and demand innovative solutions has diminished. In short, initial advantages to the public sector from this sort of arrangement may simply result in increased profits for the supplier in the long run.¹⁹

¹⁶ *Evaluation of SMEs’ Access to Public Procurement Markets in the EU* (2010) GHK, commissioned by the European Commission’s Directorate-General Enterprise and Industry, p. 29 (this research focused on above-EU threshold contracts)

¹⁷ *Ibid*, p. 35

¹⁸ *Commissioning and Competition in the Public Sector* (March 2011) Office of Fair Trading, p. 7

¹⁹ *Assessing the Impact of Public Sector Procurement on Competition* (September 2004) Office of Fair Trading, Volume 1, p. 109

The recent OFT report into commissioning identified quite clearly how lower levels of competition in procurement could be associated with both 'inefficiency and a lack of innovation' and 'incumbency advantages limiting the dynamism of service'. The OFT strongly links the latter to the fact that barriers for newer and smaller suppliers increase the risk that 'contracts will always be awarded to the same few suppliers, who in turn will not face sufficient competitive constraints and incentives to improve their offerings'.²⁰

Local authorities are alert to the challenges of size and identify the following as potential barriers:

- The increased use of long-term frameworks for major procurements, particularly in construction
- The sometimes large size and scale of procurement opportunities that SMEs are unable to bid for and deliver
- The increasing aggregation of contracts and sub-regional and regional expectations in relation to delivery

The counter to some of these concerns is, of course, that there will still be small businesses involved in the process as subcontractors. It is already well established that subcontracted SMEs can often find their margins are squeezed and the flexible and innovative approaches they offer are ignored. Additionally, they are forced to accept unfavourable terms and conditions and disproportionate delays in payment.²¹ The FSB fully accepts that a prime contractor model is necessary for some goods and services. However, if local authorities always prefer to contract directly with primes, this brings its own problems and challenges, particularly in the absence of strong and active contract management. More creative procurement would work directly with SMEs, getting them to deliver a better value service.

Instead, there is a risk of moving to a situation where large contractors are essentially procuring contracts on behalf of the buyer, but without any of the usual transparency and scrutiny. It then becomes increasingly difficult to see how much value the prime contractor is securing through the supply chain and how much of that is being passed back to the public sector or used to generate excessive profits for the prime contractor.

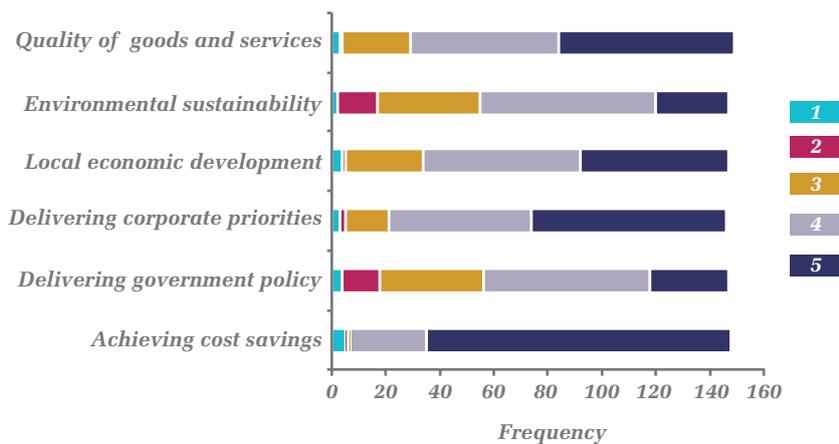
The importance of cost efficiencies

With the imperative of tight budgets, cost efficiencies are currently the primary driver for the vast majority of councils in the UK (Figure 3), with virtually all councils scoring it as a 4 or 5 in terms of importance (5 being high importance). The problem comes when this pressure overrides other important long-term considerations such as economic development and the quality of goods and services.

²⁰ *Commissioning and Competition in the Public Sector* (March 2011) Office of Fair Trading, p. 29

²¹ *Accelerating the SME Economic Engine: Through Transparent, Simple and Strategic Procurement* (2008) Glover Report. HM Treasury, London: TSO, p. 34

Figure 3: Extent to which issue is important in procurement process



Authorities were asked to score issues on a scale of 1 (low importance) to 5 (high importance)

The FSB believes a more balanced approach needs to be adopted to the issues that drive procurement policy. Cost savings were scored as of high importance by 76 per cent of councils, while only 37 per cent rated economic development as of high importance and 44 per cent scored the quality of goods and services as such. Despite recognition of the wider context in which procurement decisions should be made, the drive towards savings is inevitably placing pressure on the balance of this relationship.

Despite the pressure on councils' budgets, however, local economic development remains of significant importance within many authorities. For example, all councils in the North West of England scored cost savings as of high importance but 13 of those 14 also scored local economic development considerations highly.

It is interesting that in Scotland, where there is already a strong policy push to consider the wider benefits of procurement, cost savings and economic development were roughly equally balanced. Some councils – especially the smaller ones with limited resources – do not think this balance is particularly important, but it is vital it is encouraged and that councils remain mindful of the impact of their spending decisions. Policy makers must consider what support can be given to ensure councils are able to deliver both efficiency savings and a positive procurement policy in a way that is beneficial to residents and the business community.

Local authorities can take the lead in stimulating sustainable growth in their economies by engaging with and encouraging development of local businesses in their economic development strategy, buying more of their own goods and services locally, and working with prime contractors to encourage greater supplier diversity. The FSB's long-running Keep Trade Local campaign has always had at its heart the recognition that money

“Local councils have a huge scope to use their spending power in a positive way to support local economies”

spent with local businesses stays in the local economy, creating what the New Economics Foundation has termed a positive 'multiplier effect'.²²

By contrast, a large proportion of the money spent with large, often multinational, businesses flows onto the balance sheets but can then ebb out of the area. For example, a study by CLES for Manchester City Council²³ demonstrated that suppliers based in the Manchester and Greater Manchester area respent significantly more of every £1 invested by the council through procurement than those based nationally.

As one of the biggest spenders in any locality, local councils have a huge scope to use their spending power in a positive way to support local economies. Economic and social return can come in the form of:

- Economic growth through increasing small business delivery of services and thus output
- Addressing unemployment and worklessness through job creation
- Encouraging innovation and business start-up
- Reducing environmental emissions

The challenge is to turn this rhetoric into a sustainable and progressive reality at local level, effectively changing the culture of procurement departments. The FSB wants to work with the sector to identify the sorts of approaches which can be promoted to councils across the country.

²² *The Money Trail: Measuring your Impact on the Local Economy Using LM3* (2002) New Economics Foundation

²³ *The Power of Procurement, Towards Progressive Procurement: The Policy and Practice of Manchester City Council* (2010), Centre for Local Economic Strategies

5. *The solutions*

The FSB believes that councils need a clear vision of what they want to achieve before they can establish an effective procurement strategy. From that point, it becomes easier to decide on the action plan that will put the strategy in place. The FSB believes that a key goal should be to support small business and reap the benefits in terms of a strong supplier base and support for the local economy.

This section draws on some of the key information from the local authority survey, together with the issues FSB members themselves have identified, to recommend how local authorities should best approach their procurement policies.

Place economic development at the heart of procurement strategy and practice

The FSB believes economic development needs to be embedded within every council's approach to procurement, not just as a tool to drive efficiency but also recognising the benefits it can bring. For this to happen, there needs to be a detailed understanding of the council's spending, a commitment from the top to a holistic procurement policy, and strong links between procurement and other departments. Procurement departments alone cannot achieve the balance required.

It is heartening to see the extent to which local authority procurement professionals believe their procurement strategy links well to the council's wider corporate objectives (86% believing it linked 'well' or 'very well'). If this is correct, the goal should be to ensure that the wider corporate objectives recognise the important role of council spending in supporting economic development, and to ensure that such an approach is properly implemented.

There is also a need for council procurement strategies to recognise the important role of social value, bringing in wider considerations than cost. Procurement can provide councils with a secondary route to address worklessness, youth unemployment and skills development by giving potential suppliers the opportunity to demonstrate how they could contribute to these issues if awarded a contract. Social value should already be a consideration for procurers, but the Public Service (Social Value) Act and a potential Sustainable Procurement Bill in Scotland should mean that procurers are increasingly focusing on this dynamic.

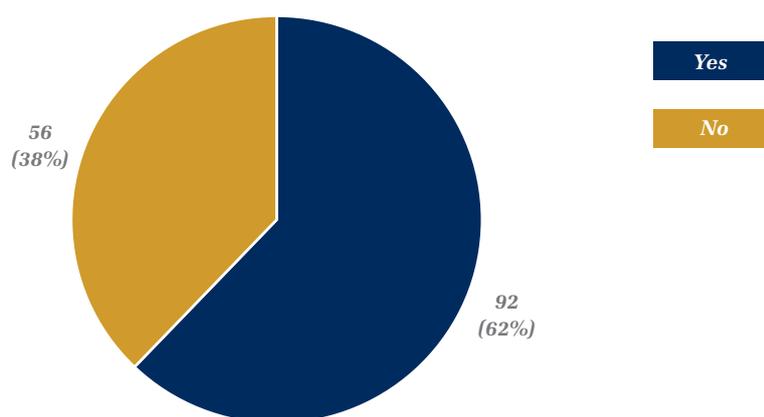
- **Councils to adopt a procurement strategy that recognises the significant benefits of procuring from local small businesses when tendering for goods and services.**
- **Local authority economic development strategies to take account of the needs of the existing local economy and inform procurement strategy based on a comprehensive analysis of spend.**
- **Councils to consider actively how much of each procurement decision should be assigned to social value considerations.**



Record and publish relevant spend data

The FSB believes local authorities' responses on measurement of spend reveal one of the key issues to address in local government procurement.

Figure 4: Proportion of authorities recording local spend (within authority boundary)



It was positive to see that 62 per cent of councils can account for where their money is spent geographically (Figure 4). As set out earlier, the FSB believes there are huge benefits in procuring locally where possible

and being able to measure the level of spend must be a vital aspect of a council's procurement strategy. There is widely available software to analyse spend based on postcode information and the vast majority of councils in Scotland and Wales, the North West and North East of England are able to make this assessment. It is therefore disappointing that the remaining 38 per cent of responding councils are not able to gauge their local spend – half of the London boroughs and more than half of the English district councils responding do not actively record this information.

This is not to say a high proportion of local spend alone should be taken as a measure of success. It is not unexpected that London borough councils, for example, have a significantly lower than average local spend within their boundaries (20%). Their large overall spend combined with a relatively small geographic area makes it likely they see London itself as their natural local market and they procure less from within their immediate boundaries. Nevertheless if, as the FSB believes, procurement policy should tie closely with local economic development policy, councils should have a sophisticated understanding of where their spend is being directed. As argued in this report, there are significant advantages to directing spend within the local business community wherever possible.

There is also a need for councils to understand the size of business that they procure with and it is therefore disappointing that nearly half (49%) of councils responding do not know the amount of their procurement spend with SMEs (Figure 5). As with geographic spend, a substantial majority of councils in Scotland and Wales, and parts of England such as the North West, record their spend with SMEs. The FSB hopes more councils can be encouraged to make the effort to record this information, particularly given that a good proportion of those councils who do record it indicate that over half their spend goes to SMEs (Figure 6).

Figure 5: Proportion of authorities recording SME spend

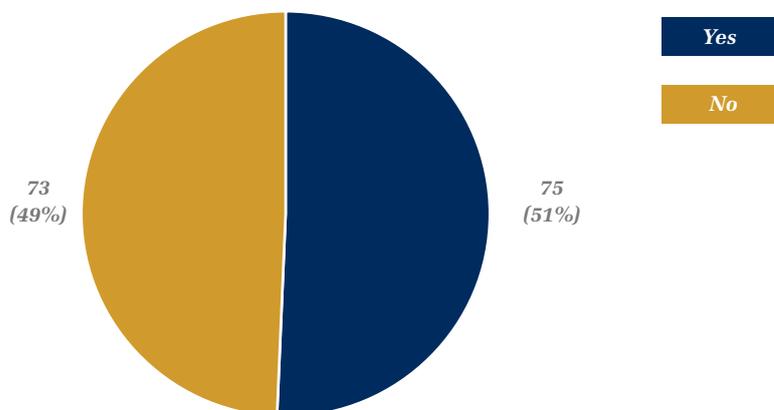
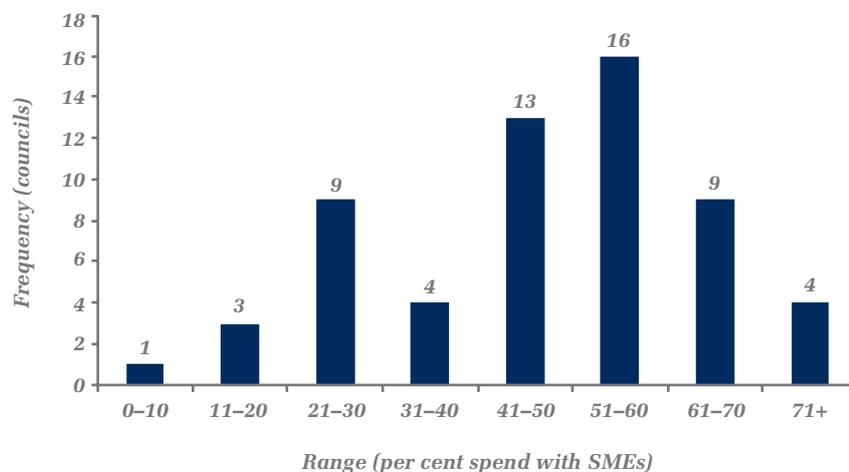


Figure 6: Proportion of spend with SMEs

Also concerning is the extremely small number of councils that break down the SME category further. The term 'SME' is a broad one, covering anything from businesses with 250 employees to sole traders. The survey results reveal that only 22 (29%) councils which record spend with SMEs break this down further: only 14 provided data for their spend with micro businesses and 18 for their spend with small businesses. Given that small businesses make up 99.3 per cent of all business in the UK and employ half the private sector workforce, this needs to be addressed. The FSB would like to see procurers gain a more sophisticated understanding by recording how much they spend with each of the categories within it – medium, small and micro business – because a more detailed picture will be better able to drive improvements.

The FSB believes it is absolutely paramount that local authorities are willing and able to analyse where they spend their money. In particular, the survey results show:

- Authorities which record their level of spend with SMEs are more likely to indicate that local economic development is important (scoring it as a 4 or 5) than those that do not
- Authorities with a more negative view of how well their procurement strategy links to wider corporate priorities were also more likely not to record level of spend with SMEs
- Authorities with a payment schedule of less than 14 days are more likely to record levels of spend with SMEs
- Authorities that actively record levels of spend with SMEs are more likely to ask their main contractors to pass on payments policies

Transparency is another important issue. The FSB not only believes all authorities should be able to understand where and how their money is spent, but also believes this information should be publicly available and

easily accessible. Of the 75 authorities that said they record SME spend, only 59 went on to provide the data – meaning only 40 per cent of all the councils that responded were able or prepared to provide data. Similarly, not all the councils which record spend within their boundary actually provided the data (83 out of 92).

Although the FSB is grateful to the authorities that shared their data, it believes this sort of information should be routinely recorded and publicly available. Some councils publish data but they are in the minority. The FSB believes that transparency of spend will help to focus the minds of public procurers and drive policy change.

Finally, there is scope for councils that can already analyse their spend to collect and monitor further information about its knock-on or ‘multiplier’ impact on local economies – for example, by exploring the extent to which key suppliers subcontract and recruit locally.

- **All authorities to have mechanisms in place to record and analyse where and with which businesses their money is spent. This should include recording the size of enterprise – medium, small or micro.**
- **Councils to make information on spend publicly available and easily accessible, at least annually.**
- **Councils to monitor and take account of the economic impact of their key spending decisions.**



Simplify the process

One of the key ways to ensure the procurement process is accessible for small businesses is to make it as straightforward as possible and councils outlined a number of steps they are taking to achieve this.

Some councils provide clear and easily accessible information on how best suppliers can identify opportunities and most effectively engage with the process.

The most important action must be to address the pre-qualification process. Councils mentioned a number of ways that they are tackling this issue, including:

- Standardising and simplifying PQQs and invitations to tender (ITTs)
- Providing examples and case studies of completed PQQs
- Streamlining financial assessment criteria
- Removing PQQ requirements

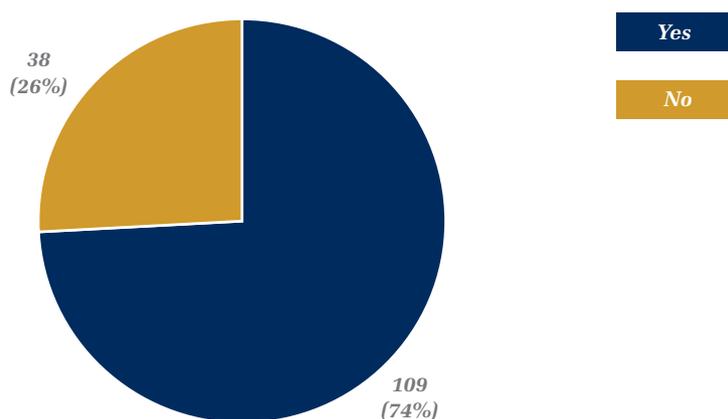
The FSB fully endorses these approaches and would like to see every council ensure it has made an active push to examine and improve its own processes as a matter of priority. We would particularly like to see all councils in the UK move towards standardised procurement documentation. This can best be achieved by the relevant UK governments rolling out standard PQQs and mandating them for use across the wider public sector, including local authorities.

In addition, the process underway in Wales to develop a SQulD will combine a standardised question set with a database so that suppliers can store their PQQ answers and reuse them later. A similar approach to standardisation is also favoured in Scotland. The FSB believes that this 'record it once' approach has considerable merit as a way of reducing the burden and would like to see work undertaken to ascertain whether it can be implemented more widely for councils in the UK.

Angus Council: small opportunities

Angus Council has changed how it advertises lower value contract opportunities to improve access for locally based SMEs. For contracts below £10,000 for supplies and services, and £20,000 for construction works the council seeks at least two quotes from locally-based suppliers and one from a national/non-local supplier where available. Since the introduction of the new policy SME spend has increased, in the past four years, by almost 12 per cent. All contracts above those thresholds are advertised on the Public Contracts Scotland portal.

Figure 7: Proportion of authorities using different processes for tenders below EU thresholds



It is surprising to see that over a quarter of councils say they do not alter their process for tenders that are below EU thresholds (Figure 7), given that there is then significantly greater leeway to reduce bureaucracy. All

councils should be seeking to make procurement for smaller contracts more straightforward, particularly where the detailed provisions of the EU rules do not apply. The FSB would also like to see councils implement specific, simple, straightforward processes for their very low value contracts.

- **All authorities to adopt the relevant government-led, streamlined and standardised PQQ, with further effort made to ensure simplified processes are in place for smaller procurements below EU thresholds, including specific approaches for the lowest value contracts.**



Make it easier to identify suitable contract opportunities

In order to increase simplicity and reduce confusion, the FSB believes there is significant merit in providing small businesses across the UK with access to every relevant public sector contract opportunity free of charge through one of the four national portals.

Local authorities can achieve this by advertising their contract opportunities directly on the portal or by linking to it from their existing portals. This need not exclude other methods and routes for advertising procurement opportunities.

- **All councils in the UK to use the relevant national portal to advertise their procurement opportunities (Contracts Finder, Public Contracts Scotland, Sell2Wales, Esourcing NI).**



Address poor practice and myths

Urgent action is needed to address the prevalence of unnecessary selection practices such as disproportionate turnover and insurance requirements. Procurers also need to be familiar with what is and is not permissible within the procurement procedure.

Some unnecessary approaches seem to become permanently embedded in the procurement process, resulting in myths and misconceptions about what is permissible. What starts out as guidance has in some cases become ingrained so that it is treated as a public procurement rule that cannot be diverted from. This situation is compounded by the fact that many SMEs also believe these 'rules' and therefore do not participate in the process.

There are number of issues that the FSB believes need to be addressed and these are set out in more detail in Section 7, 'Myths and misconceptions to dispel'.

- **Council procurement strategies to set out how they will ensure best practice is followed and how they will monitor that progress.**
- **Local authorities to ensure their use of selection requirements is proportionate and based purely on the needs of the contract.**



Help to support small businesses and maximise their potential

The capacity of small businesses to engage with the procurement process was identified as a barrier to competing effectively for contracts. The FSB believes that procurers themselves have a competitive imperative to address these gaps within their local business community.

The most basic solution is to ensure that unsuccessful bidders are offered swift and constructive feedback so they are able to react appropriately in the future. However, there is more that can be done. A number of councils identified ways in which they try to help small businesses be more effective during the procurement process. These included:

- 'Selling to the council' websites and guides
- Support with developing a consortium
- Pre-procurement working groups with SMEs
- Clear and transparent feedback processes for unsuccessful bidders
- Providing SMEs with support and training in building capacity, including:
 - Training related to procurement processes
 - One-to-one tendering support

Work to support small businesses and enhance their effectiveness in bidding is particularly welcome.

In order to understand their local business community and potential supplier market better, local authorities should also see what they can do to support more effective engagement by SMEs.

As has already identified, small businesses have a lot to offer procurers. However, as some authorities themselves have identified, councils' understanding of this and of the demands small businesses face is not as high as it could be. The FSB believes that better engagement between procurers and their local business community can help. Local authorities put forward a number of initiatives which the FSB would like to see adopted more widely:

- Market testing with SMEs
- Pre-procurement working groups with SMEs
- Engagement through business forums and networks such as the FSB and local Chambers of Commerce
- 'Meet the buyer' events

Cookstown District Council (Northern Ireland): one-to-one tendering support for SMEs

In direct response to the procurement issues raised by the local SME sector, Cookstown District Council's Local Economic Development Department was successful in 2010 in accessing 50 per cent match funding to deliver a two-year pilot programme of bespoke one-to-one tendering support for SMEs. This resulted from an application to the Department of Enterprise, Trade and Investment (DETI) for funding from the EU Sustainable Competitiveness Programme.

The Multi-Sectoral Tendering Programme pilot aimed to build the capacity of up to 80 SMEs from the construction, engineering, manufacturing and business services (excluding retail) sectors to identify tender opportunities in the public and private sector, and prepare and submit professional tender bids. Forty businesses have completed the first year of the programme and an additional 40 have begun it.

The key outcome is that 20 businesses have been assisted to submit tender bids, and 10 of these have successfully accessed new work valued at £5.33 million. This has also contributed to the creation of 25 new jobs. The Tendering Programme was awarded Best European Funded Project in the Local Government Awards Northern Ireland (2011).

North East Procurement Organisation (England): supplier training programme

The North East Procurement Organisation (NEPO) and the North East's 12 local authorities have developed a supplier training programme with the Business Enterprise Group to deliver training to the region's SMEs, including third sector organisations. The programme comprises a linked series of four activities:

- Get fit to compete – Module 1: Raise awareness of the opportunities to supply the region's public sector (1,500 SMEs)
- Get fit to compete – Module 2: Provide expertise and practical hands-on support on how to develop tenders, and prepare and present proposals (625 SMEs)
- Get fit to compete – Module 3: Detailed master classes and one-to-one mentoring (300 SMEs)
- Ready to compete – Module 4: Introduction to procurement professionals and the chance to pitch for real opportunities via 'meet the buyer' events (800 SMEs)

The programme is designed so that all eligible SMEs can participate in Module 1 to ensure there is a good understanding of the fundamentals. At this stage they can undergo a self-assessment, which results in a bespoke programme of support being agreed to enable them to continue on the programme at the module level most relevant to their needs.

The FSB believes this type of engagement can help not just to increase the understanding of small business but also to understand the benefits they can bring. It should be complemented by councils beginning to monitor local and small business spend, as set out above.

- **Councils to ensure they have initiatives to support local SMEs with the tender process and to develop the potential of their local small business supplier base.**
- **Councils to provide detailed, specific and timely feedback to all businesses that tender unsuccessfully so that they are better placed to bid next time.**



See our 'best practice' procurement model for local authorities in Section 6.

Greater use of lots

Rather than greater aggregation, the FSB would like to see more consideration of how contracts can be broken up into lots or made available to consortia of suppliers. Research indicates a clear correlation between the greater use of lots and the success rate for SMEs. As an EU commissioned report states, 'The mere fact of breaking down a contract into lots, irrespective of the final value of the single contract, supports SMEs'.²⁴

This issue has been identified by the European Commission which is proposing changes to the European Procurement Directives that would mean contracting authorities are invited to divide public contracts into lots to make them more accessible for SMEs. Where they decide not to do so, they would be required to provide an explanation. The FSB supports these proposals but would like to see an immediate change of direction in domestic procurement policy to take account of this issue. Size alone increasingly prevents SMEs from competing for procurement opportunities and any division of the contract often creates lots that are far too large to make the contract more accessible.

- **Councils to break down contracts into smaller lots wherever possible.**



²⁴ *Evaluation of SMEs' Access to Public Procurement Markets in the EU* (2010) GHK, commissioned by the European Commission's Directorate – General Enterprise and Industry, p. 39

The FSB would like to see councils commit to reviewing every major contract that comes up for tender to ensure they have identified maximum opportunity for use of lots. Where SME-friendly lots are not used for a substantial proportion of the contract, this should be explicitly justified within the tender documentation.

There is also potential for small businesses to deliver services collectively through consortia as a way to combat the issue of contract scale. We would like to see councils explore this option quickly, in conjunction with local businesses, and see them support any solutions that emerge.

Develop a clear policy on payment and actively influence prime contractors

Problems relating to late payment can be particularly significant for small businesses. The biggest business impacts are reduced profitability and delayed payment of suppliers, especially where small businesses have tight margins and cash-flow.

A survey of FSB members in May 2011²⁵ showed a quarter of members experienced late payment and spent three or more hours each week chasing overdue invoices. Over the previous 12 months, two thirds of members had written off invoices and a fifth had written off £5,000 or more. It was interesting to note that more than one in five councils have policies in place to pay small businesses in less than 14 days. The FSB would like to see all councils examine how they can establish specific SME-focused prompt payment policies, as has been actively encouraged in Scotland.

The huge value in many public sector contracts should give the procuring authority significant leverage with many prime contractors. The FSB would like to see protections built in as requirements for all council prime contractors – for example, passing on payment terms to subcontracts – and actively monitored as part of the contract management. Similarly, unfair practices in prime contractors' treatment of smaller suppliers, or breaches of undertakings, must be dealt with swiftly and robustly when reported to procurers.

- **Councils to put in place and monitor specific payment policies for small business suppliers, ideally following the lead of national government pledges to pay within 10 days of receipt.**
- **Councils to use spending power to ensure that prime contractors pass on the council's payments terms to their subcontracted suppliers.**



See our 'best practice' procurement model for local authorities in Section 6.

25 <http://www.fsb.org.uk/policy/assets/march%20procurement%20survey%202012%20for%20web.pdf>

Nuneaton and Bedworth Borough Council (England): support for SMEs

Nuneaton and Bedworth Borough Council has signed up to the FSB Accord to support SMEs and local business within the constraints of the EU Procurement regulation. In 2010, the Council implemented a 10-day payment policy for SMEs, which accounts for over 400 current suppliers benefiting from improved cash-flow.

In addition to the action on payment, the Council has taken a range of other approaches. Its Corporate Plan contains four priorities, one of which is to create a 'healthy, diverse and robust economy that provides employment opportunities for local people'. The Procurement Strategy supports this priority through its strategic aims, one of which is to achieve sustainable procurement through the local economy and SMEs, with a focus on environmental considerations.

Delivery of the strategy depends on the Procurement Plan which defines the actions necessary to achieve the aims. Following the FSB's plan, the Council has put in place the following actions:

- 10-day payment terms for all its SMEs, which total about 400 suppliers and 46 per cent of the spend value (2010/11)
- Adoption of a data analysis tool to analyse SME expenditure, transactions and relevant categories. Through this it can influence the spend profile and maintain a healthy balance between SMEs and large contractors
- A review of insurance requirements which resulted in differential levels for different projects, thereby enabling SMEs to quote when there is no need for high insurance
- Consideration given to SMEs in redrafting the Council's Contract Procedure Rules (Standing Orders). This has reduced the need for PQQs for smaller contracts by raising the thresholds for simpler procurement processes to £100,000

A role for national governments

Although the recommendations in this report are primarily aimed at councils themselves, the FSB believes there is a clear role for the relevant governments within the UK. Many of the issues outlined result from low procurement skill levels in the public sector and this leads to a risk-averse approach to procurement arrangements. There is scope for the Government to take a stronger role in setting best practice and raising standards within public sector procurement. The following actions would improve the procurement process:

- Require the use of a simplified PQQ standard practice across all bodies undertaking public procurement
- Require all councils to use the relevant government-backed portals to advertise contracts
- Encourage all councils to record and publish their spend by locality and business size

- Issue clear guidance on the disproportionate use of blanket policies such as turnover and insurance requirements which often prevent small businesses from bidding
- Establish minimum standards for providing feedback to unsuccessful bidders
- Take an active role in raising the standards of procurement professionals across the public sector by encouraging training, backed with a set of universal standards

- **Government to support councils in following good practice, including issuing clear guidance and taking action to ensure it is followed if necessary.**



6. A ‘best practice’ procurement model for local authorities



The FSB believes that a model procurement authority:

- Has an SME Procurement Policy with clear and identified links to wider corporate objectives
- Has in place a mature supplier database that breaks suppliers down by:
 - Number of employees (not just by SME but by micro, small and medium)
 - Location (primary and secondary postcode)
 - Revenue or capital spend
 - Type of service/good delivered
- Has a close working relationship between procurement and economic development, with economic development providing market intelligence on local suppliers and SMEs
- Has a mechanism for regular monitoring and mapping of procurement spend and the outcomes achieved through that spend
- Has an effective understanding of the barriers facing certain organisations in the procurement process and a menu of appropriate initiatives with which to respond
- Has clear advice and guidance available for SMEs on how to supply to the council

- Has a range of means of advertising and promoting contract opportunities according to the scale of the contract and the types of good and service on offer, including:
 - A clearly accessible dedicated procurement section of the council website
 - Consistent use of online mechanisms for bidders to register their organisation's information and interest in contract opportunities
 - Use of the relevant national portal in addition to any other methods to publicise opportunities
- Has effective cross-departmental relations and partnership working with local business forums and networks
- Has transparent mechanisms and a policy for the prompt payment of suppliers
- Has standardised and simplified PQQs
- Has a means of engaging with SMEs from market testing through to contract award
- Provides a host of tender support activities, including training and workshops
- Actively promotes supplier engagement policies with core contractors
- Provides training for procurement staff in economic, social and environmental benefits
- Provides timely and detailed feedback to unsuccessful bidders
- Has a clear and simplified process for undertaking procurements below the EU threshold
- Has put in place steps to ensure future procurements will comply with the relevant national government legislation and guidance

7. Myths and misconceptions to dispel

The FSB regularly hears tales of unnecessary rules causing problems or EU Directives preventing SME-friendly procurement. It is often not the law itself that creates barriers to procuring from SMEs, but the way that it is put into practice. In particular, both procurers and small businesses may believe commonly accepted assertions that are in fact wrong. Some examples follow.

- **Procurers should use standard minimum turnover and insurance requirements, which all businesses must meet**

Such tests are permitted but not required by law. There are no regulatory rules on the minimum 'economic and financial standing': these standards are actually set by the contracting authority and are often tested by unnecessarily high turnover rules that exclude small companies.

Contracting authorities should avoid using a mechanistic approach, such as applying arbitrary minimum turnover levels. Any essential insurance requirements should be a condition of winning rather than of competing for a contract. EU rules actually require that any 'minimum standard' must be necessary and proportionate in each case, not set at the same threshold for each procurement.

Meeting such tests is no guarantee of future results. Many businesses that cannot meet the given criteria or demonstrate a lengthy financial track record do not represent a risk. The risk depends on the nature of the contract, the type of service/good being procured and the ease with which it could be procured from an alternative supplier. Tenders should be undertaken on this basis.

- **Procurers cannot divide contracts into smaller parts to make them more accessible to small businesses**

There is nothing in law that stops contracts being divided into smaller lots, so long as contracting authorities are not doing this deliberately to avoid procurement legislation. In fact, the European Code of Best Practices (EU guidance) specifically mentions subdivision into lots as a way of opening access to small firms. The current proposals for change to the Directives are looking to strengthen this to make sure it occurs more often.

- **Aggregating contracts and reducing the supplier base is the best way to achieve savings**

Not necessarily. While it may be perceived as administratively easier, forcing suppliers to move down the supply chain to work through a prime contractor may actually increase costs (including the prime's margin). This approach can also risk reducing competition, increasing reliance on a small number of suppliers and forcing out other innovative and useful businesses.

- **Procurers must fully adhere to the EU rules in all their procurements to make sure they are not in breach of any regulations**

Contracting authorities must adhere to EU Treaty principles when conducting their procurements. However, there are a number of instances where the detailed provisions of the EU procurement rules do not apply, such as for contracts below the threshold value and those for Part B services. In such instances, following the detailed procedures set out in the EU procurement Directives is unnecessary and off-putting for many potential suppliers, and may simply serve to lock out smaller providers.

Procurers should carefully consider what processes are really necessary in order to achieve their commercial objectives. This will benefit both suppliers and the procurer by saving unnecessary resources and avoiding overly bureaucratic procurement processes.

- **Procurers cannot speak to potential suppliers prior to a procurement process**

The rules do not prevent pre-procurement market engagement. Procurement teams are encouraged to consult freely with the market place before starting the procurement process to help them select what to buy and how best to buy it.

Pre-procurement discussions are not about showing favour to a particular bidder, but rather exploring market capability. Events such as 'supplier days' are an excellent way to meet small businesses as potential suppliers and see what they have to offer. It is important that all suppliers are treated equally and no one bidder is given an unfair advantage. For example, specifications must not be drawn up in such a way as to favour a particular solution.

- **Procurers are under a duty to find the cheapest price for their contracts**

Public contracts should be awarded on the basis of value for money, not lowest price. Putting too much emphasis on price opens up the procurer to a range of potential problems, not least the risk that contracts are awarded to a supplier who has deliberately bid too low or is unable to deliver the contract with sufficient quality. Procurements should be approached with a sensible balance of quality and cost.

- **Procurers cannot lawfully incorporate social value such as sustainability into procurement**

If social or other sustainability requirements are relevant to the subject matter or performance of the contract, they can be taken into account during the tendering process. If written into the contract specifications such considerations must be proportionate and represent value for money. Provided a sufficient number of potential suppliers are capable of delivering that requirement, the procurement can still be competitive. Bidders can then be asked to put forward proposals such as around employment creation and supply chain engagement for consideration by the contracting authority when it decides which tender is the 'most economically advantageous'.

Once implemented, the Public Services (Social Value) Act will mean that all public bodies in England and Wales are required to consider how their services procurement might improve the economic, social and environmental wellbeing of the area.

Annex A
***Local government and
procurement survey
results report***



June 2012

PROCUREMENT AND SMALL BUSINESS SURVEY - RESULTS

Report prepared by

CLES Consulting

Presented to

Federation of Small Businesses

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APPENDIX

1. Copy of survey questions

1 INTRODUCTION

1.1 Methodology

To gather the evidence around the relationship between local authority procurement processes and SMEs, CLES designed a survey in collaboration with the FSB. A number of methodological stages were utilised before identifying the final questions:

- ❑ the FSB originally had nine lines of inquiry for the survey work; CLES took these and linked them to contemporary policy.
- ❑ once the lines of inquiry had been formalised, CLES developed draft questions which were linked to the associated lines of inquiry;
- ❑ the lines of inquiry and draft questions were then discussed at a workshop with FSB Officers and Development Managers on 8 March 2012;
- ❑ following redrafting, the questions were piloted with a small sample of local authorities to identify whether there were any key challenges with the questions;
- ❑ the questions were then finalised and ready for sending out.

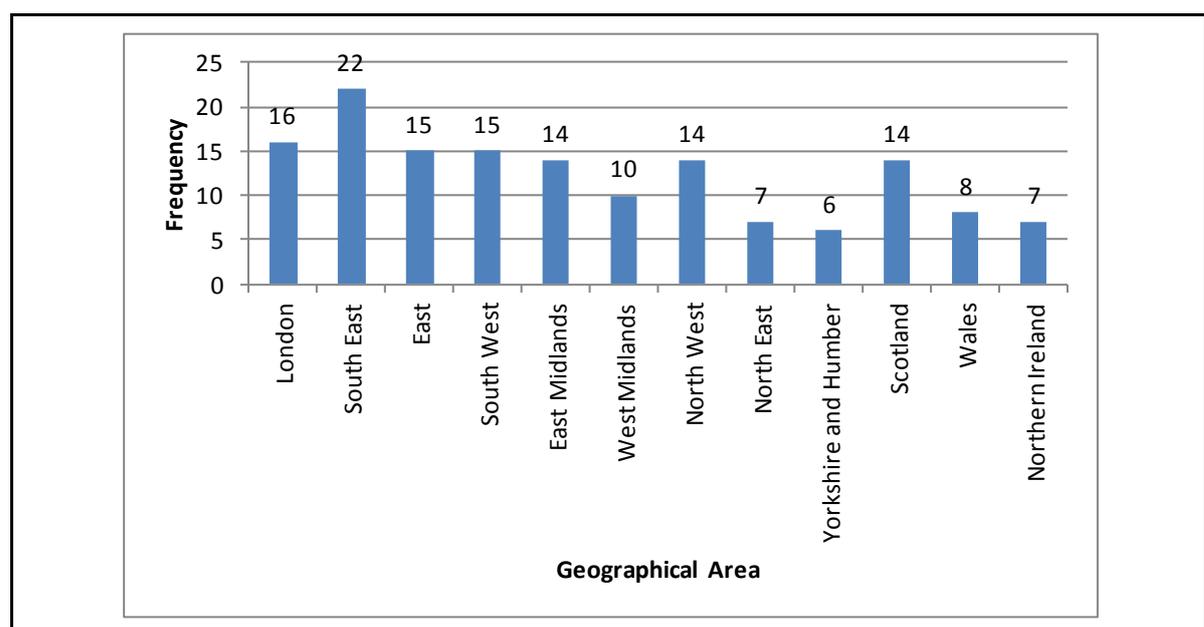
The questionnaire was designed using SurveyMonkey software and was sent electronically to each of the 432 local authorities in England, Scotland, Wales and Northern Ireland. The email with the questionnaire enclosed was sent out directly by CLES on Monday 16 April 2012, with a three week deadline provided for completion. The deadline was subsequently extended for a further week and officially closed on Friday 11 May 2012. FSB Regional staff supported the survey by sending letters to local authority Chief Executives and following up the survey with procurement teams.

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

1.2 Response rate

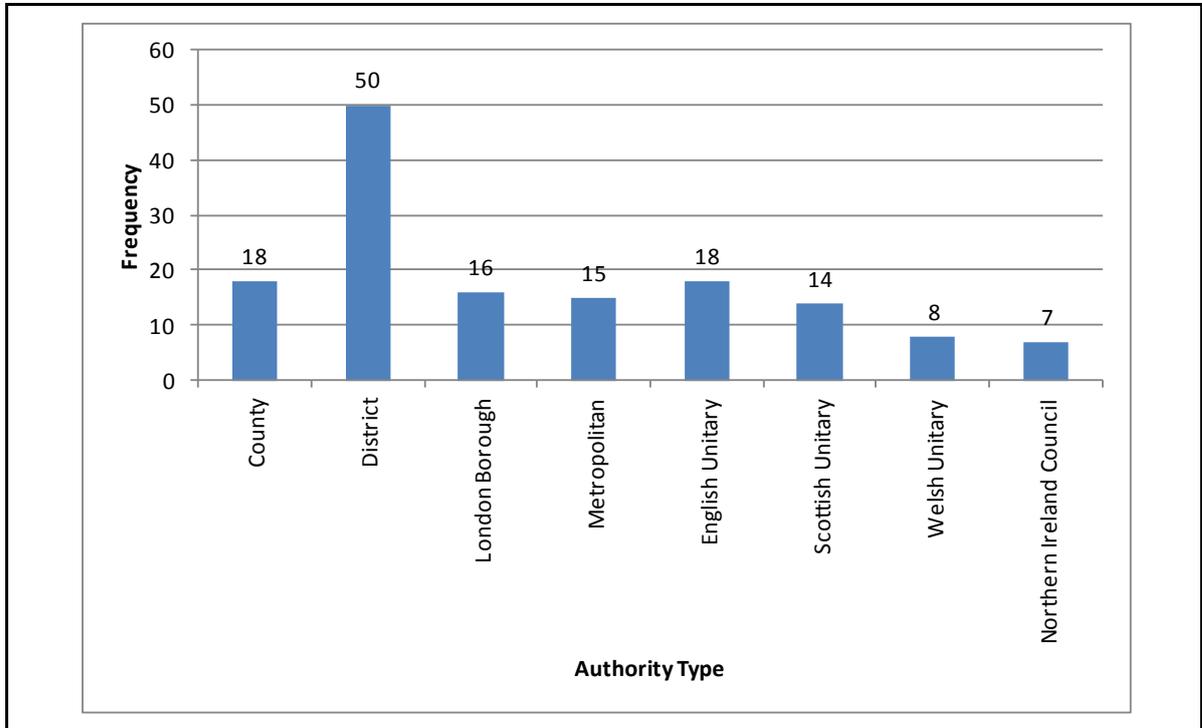
From the 432 local authorities which were asked to participate in the survey, a total of 148 completed the questionnaire, a response rate of 34%; this is a good response rate and demonstrates key interest in the project from local authorities. Throughout the report we refer to responses and analysis by English region, Scotland, Wales and Northern Ireland coined in the term 'geographical area'.

Figure 1: Number of responses by geographical area



In terms of these frequencies expressed as a proportion of the total number of local authorities in the geographical area, the greatest response rate came from the North East where 58.3% of authorities in the geographical area responded; this was followed by London at 50%. The lowest proportion of responses came from Yorkshire and Humber, with 27.3% of authorities responding. Figure 2 highlights the number of responses by local authority type, with 50 being from District Councils; this was followed by County and English Unitary, each with 18 responses.

Figure 2: Number of responses by authority type



1.3 Report structure

The following sections of the report highlight the headline findings of the survey and also a series of cross-tabulations. Analysis closely follows the lines of inquiry for the survey:

Section 2	Spend
Section 3	Barriers
Section 4	Engagement
Section 5	Economic, social and environmental benefits
Section 6	Payment
Section 7	Concluding thoughts

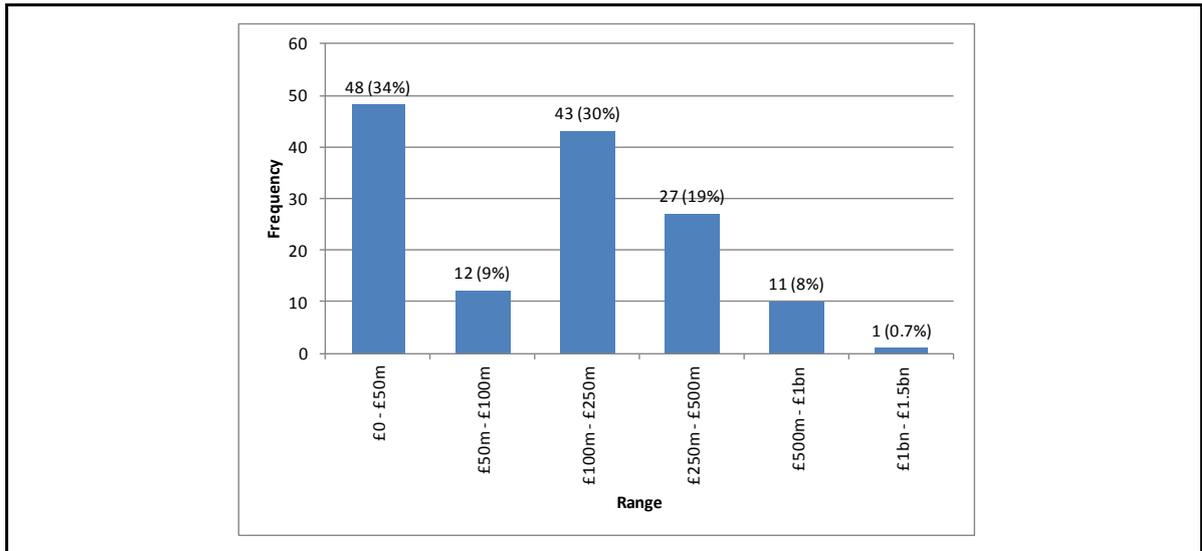
2 SPEND

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

2.1 Total spend

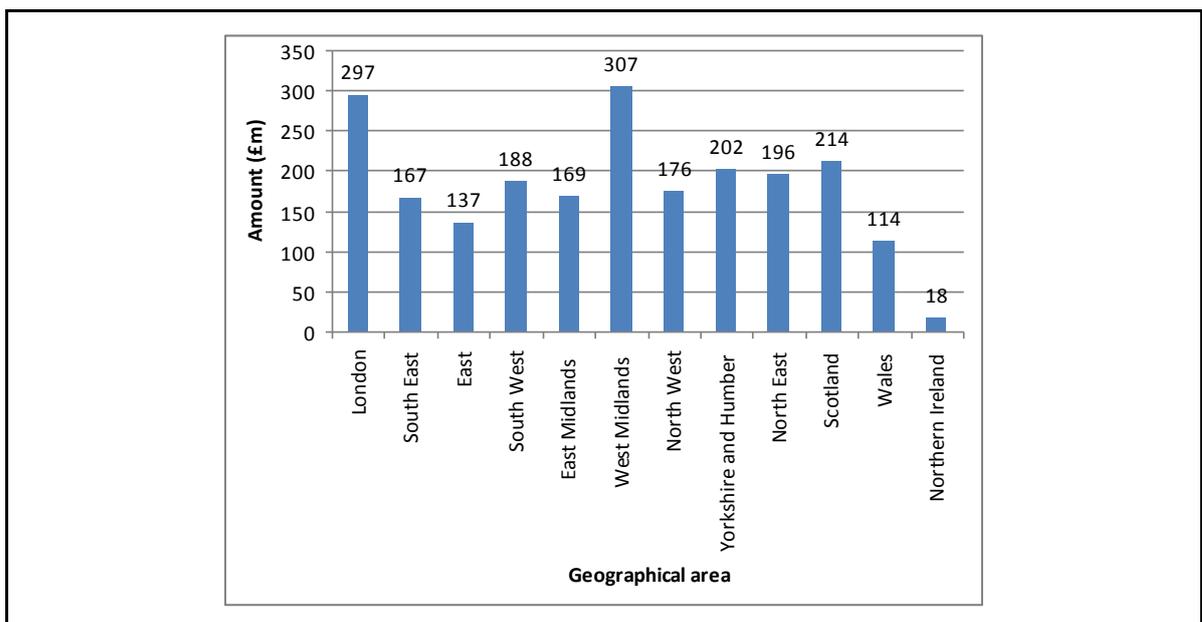
Figure 3 details the ranges which local authority spend upon procuring goods and services fell within. The ranges identified were deemed to be the best fit, given the relatively high number of authorities which spend less than £50 million. In total, the local authorities responding to the survey providing data spend a combined £26.7 billion upon procuring goods and services. The average annual total spend of authorities was £185 million.

Figure 3: Annual spend on procuring goods and services



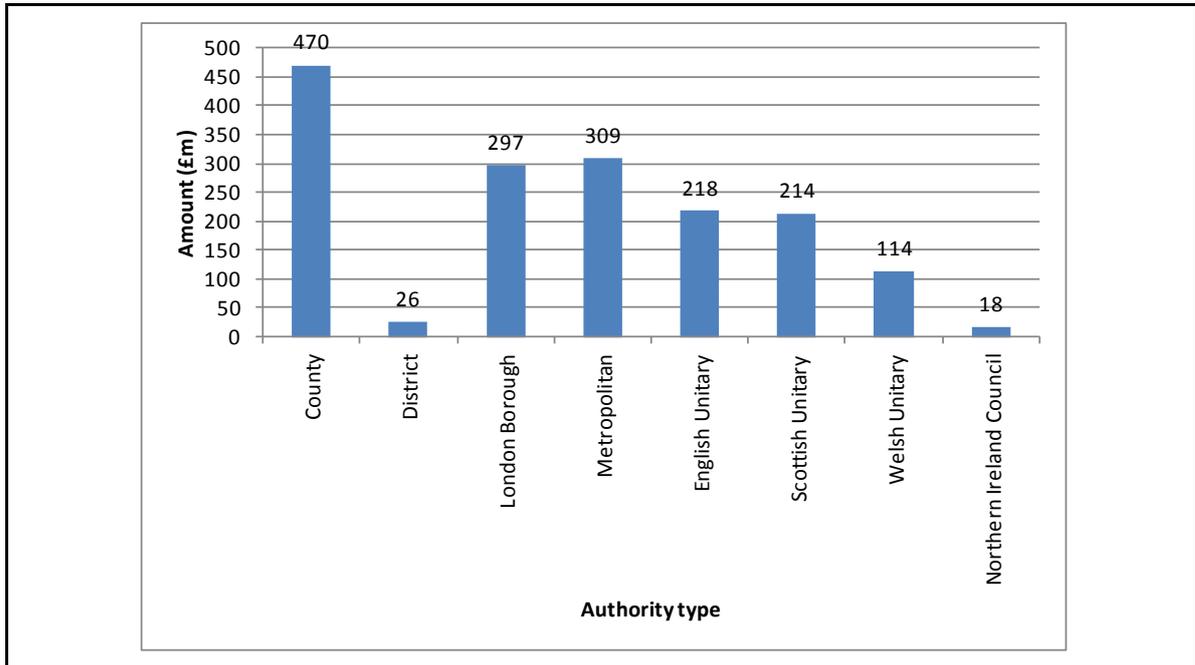
Average spend by geographical area is demonstrated in Figure 4. Authorities in the West Midlands spend an average of £307 million upon procuring goods and services, with authorities in London spending an average of £297 million. The lowest spend is in Northern Ireland where authorities spend an annual average of £18 million.

Figure 4: Average total spend by geographical area



Variations in average spend by authority type are demonstrated in Figure 5. County authorities spend an average of £470 million upon procuring goods and services, with Metropolitan authorities spending an average of £309 million. District Councils spend an average of £26 million.

Figure 5: Average total spend by authority type

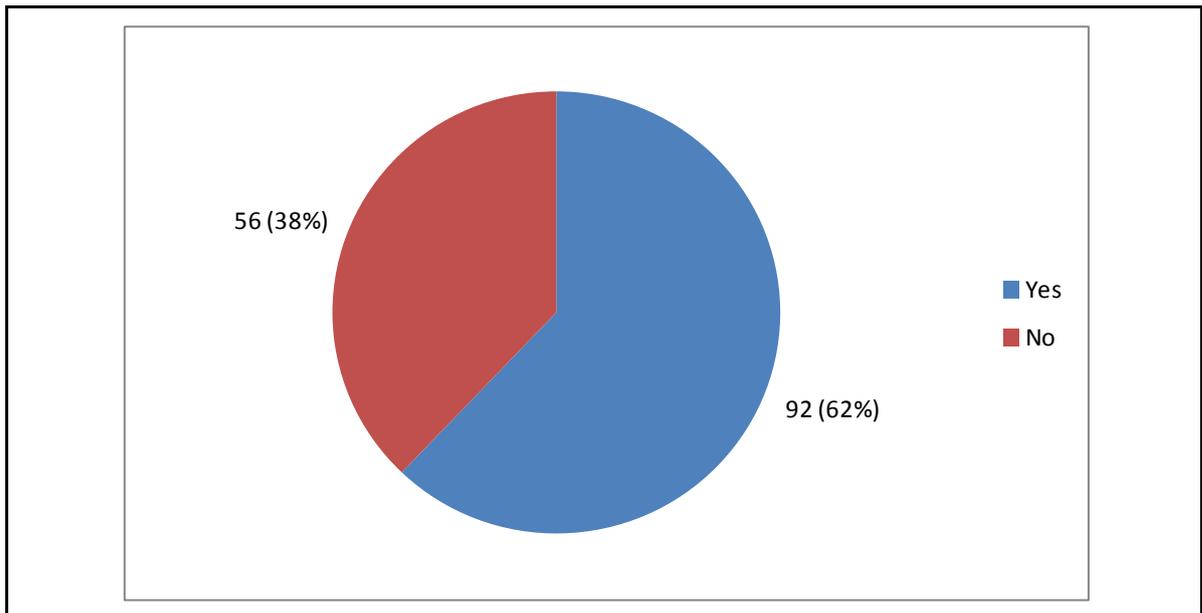


On average, local authorities responding to the survey spent 26% of their procurement spend upon capital activities with 74% on revenue activities.

2.2 Local spend

Figure 6 details the proportion of local authorities that actively record the amount of annual procurement spend within their own local authority boundary; 62% of authorities record the amount spent in their local authority boundary.

Figure 6: Proportion of authorities recording local spend



There are variations in the recording of local spend by geographical areas. Figure 7 highlights the proportion of respondents to the survey in each of the geographical areas which actively record the amount of procurement spend within their own local authority boundary; over 85% of authorities responding in each of the North East, North West, Scotland and Wales record the amount they spend in their local authority boundary; 5 authorities (71.4% of responding authorities) in Northern Ireland do not record local spend.

Figure 7: Proportion of authorities recording local spend by geographical area

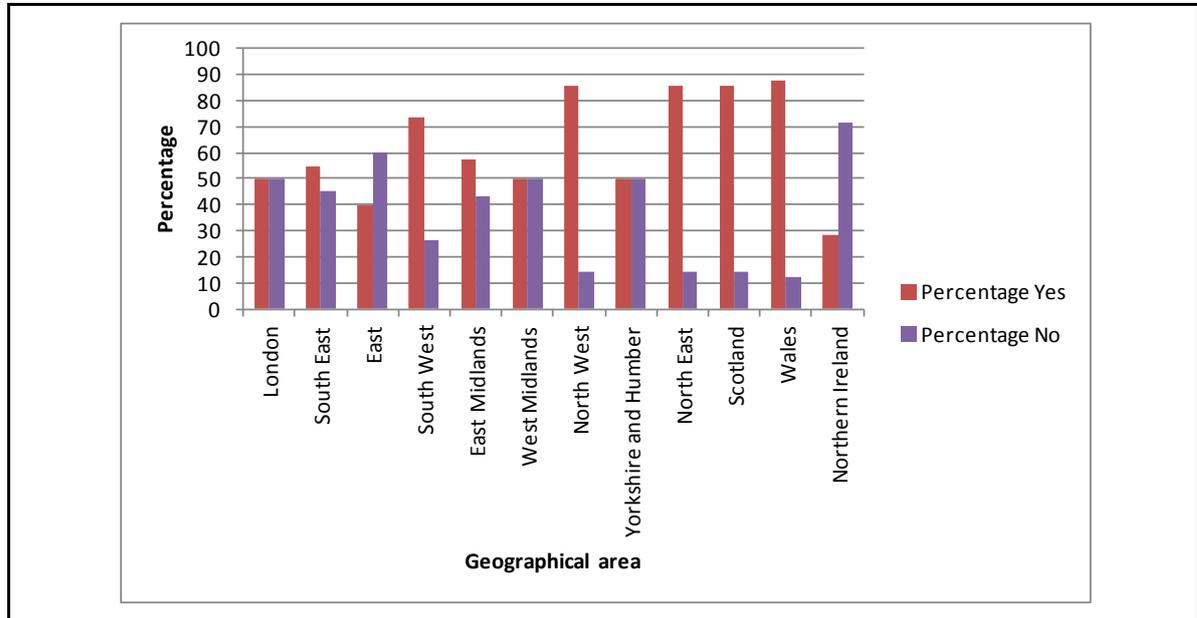
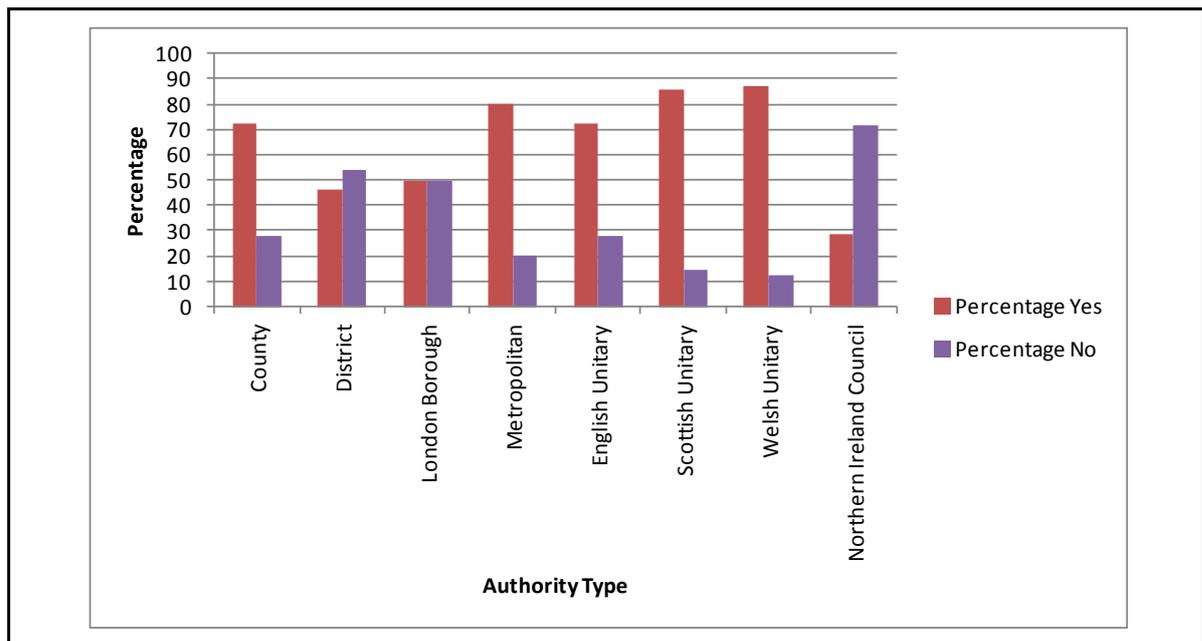


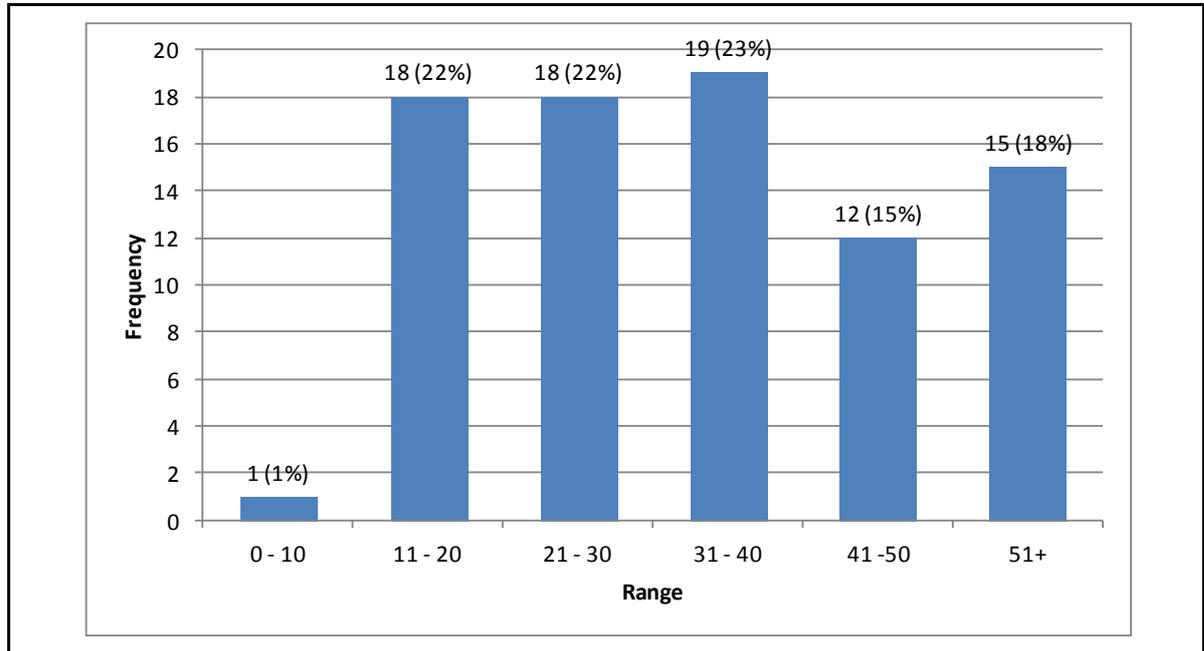
Figure 8 highlights the proportion of respondents to the survey by authority type which actively record the amount of procurement spend within their own local authority boundary; Welsh Unitary (87.5%), Scottish Unitary (85.7%) and Metropolitan (80%) authorities are more likely to record amounts of spend within their local authority boundary; 5 Northern Ireland Councils (71.4% of responding authorities) do not record local spend; and only 23 District authorities in England (46% of responding authorities) actively record local spend.

Figure 8: Proportion of authorities recording local spend by authority type



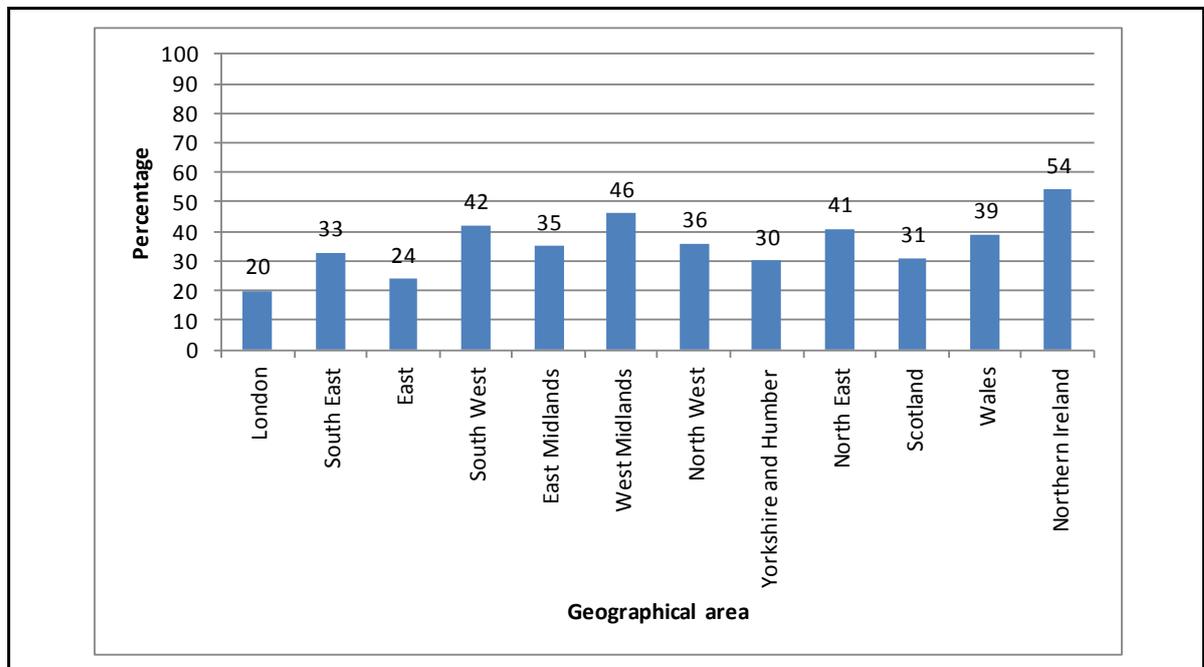
Of the 92 authorities that suggested they record local spend, 83 provided data for the proportion of their total procurement spend within their local authority boundary. Figure 9 highlights the ranges within which the proportion of local spend fell within.

Figure 9: Proportion of spend with local suppliers



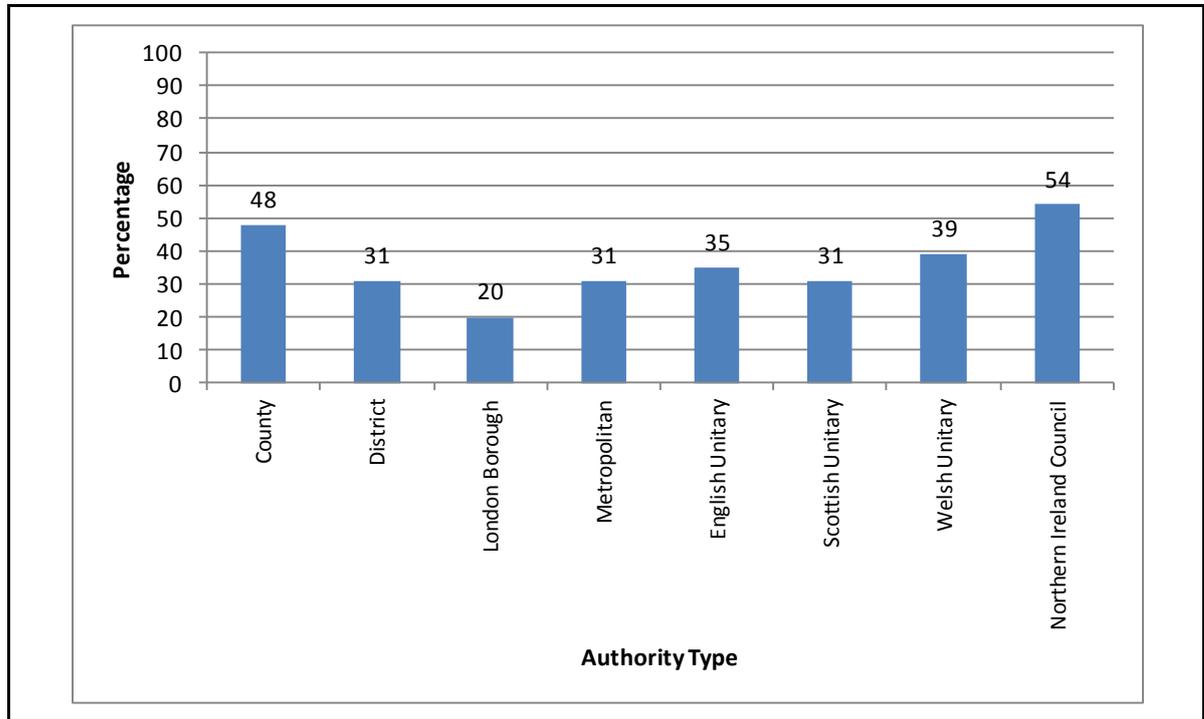
There are variations in average levels of local spend by geographical area, as demonstrated in Figure 10. On average, authorities spent 34.8% of their total procurement spend in their own local authority area.

Figure 10: Average local spend by geographical area



There are also variations in average levels of local spend by authority type, as demonstrated in Figure 11.

Figure 11: Average local spend by authority type



2.3 SME spend

Figure 12 details the proportion of local authorities which actively record the amount of their procurement spend with SMEs; 51% of authorities record the amount spent with SMEs.

Figure 12: Proportion of authorities recording SME spend

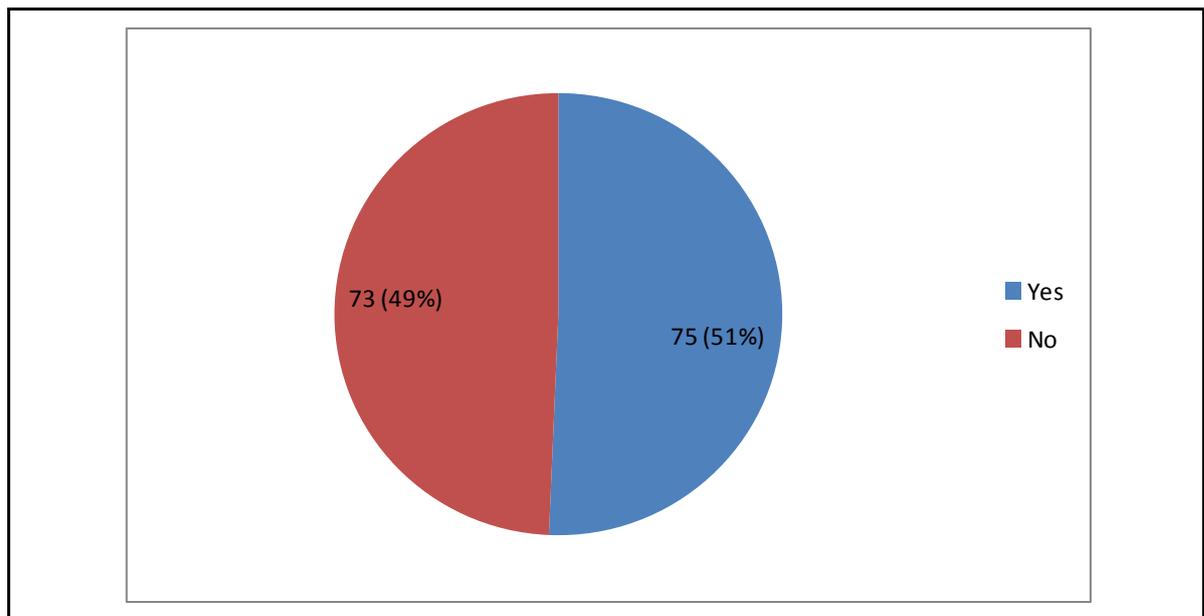


Figure 13 highlights the proportion of respondents to the survey in each of the geographical areas which actively record the amount of procurement spend with SMEs; 11 authorities in each of the North West and Scotland (78.6% of responding authorities in each geographical area) actively record levels of spend with SMEs; 10 authorities (71.4% of responding authorities in the East Midlands) and 5 authorities (71.4% of responding authorities) in Northern Ireland do not record SME spend.

Figure 13: Proportion of authorities recording SME spend by geographical area

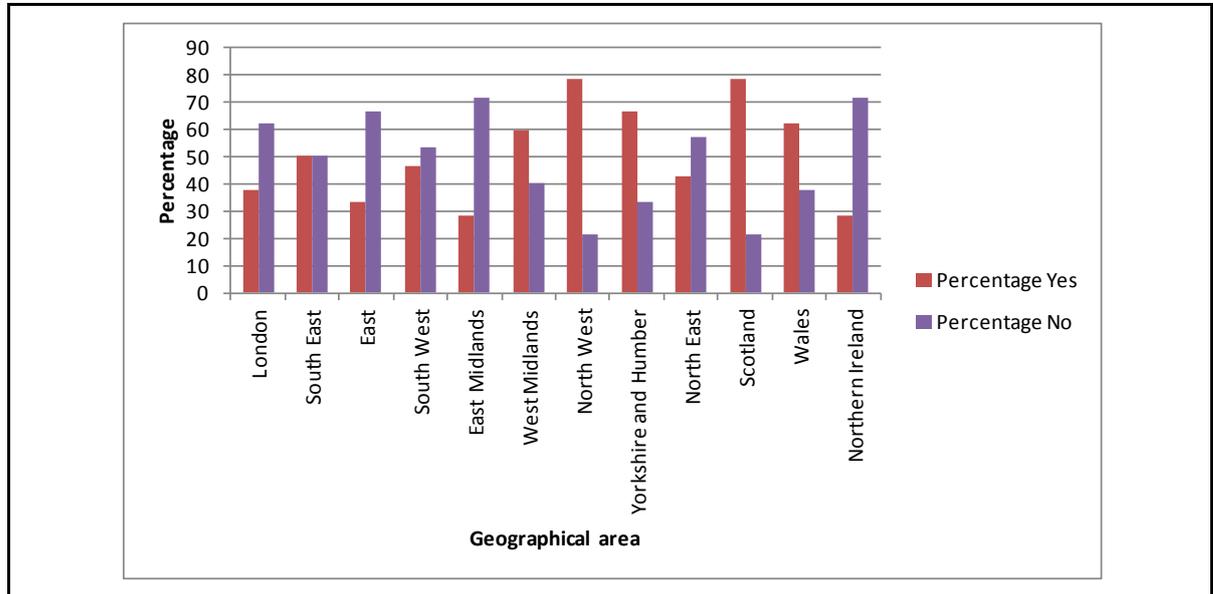
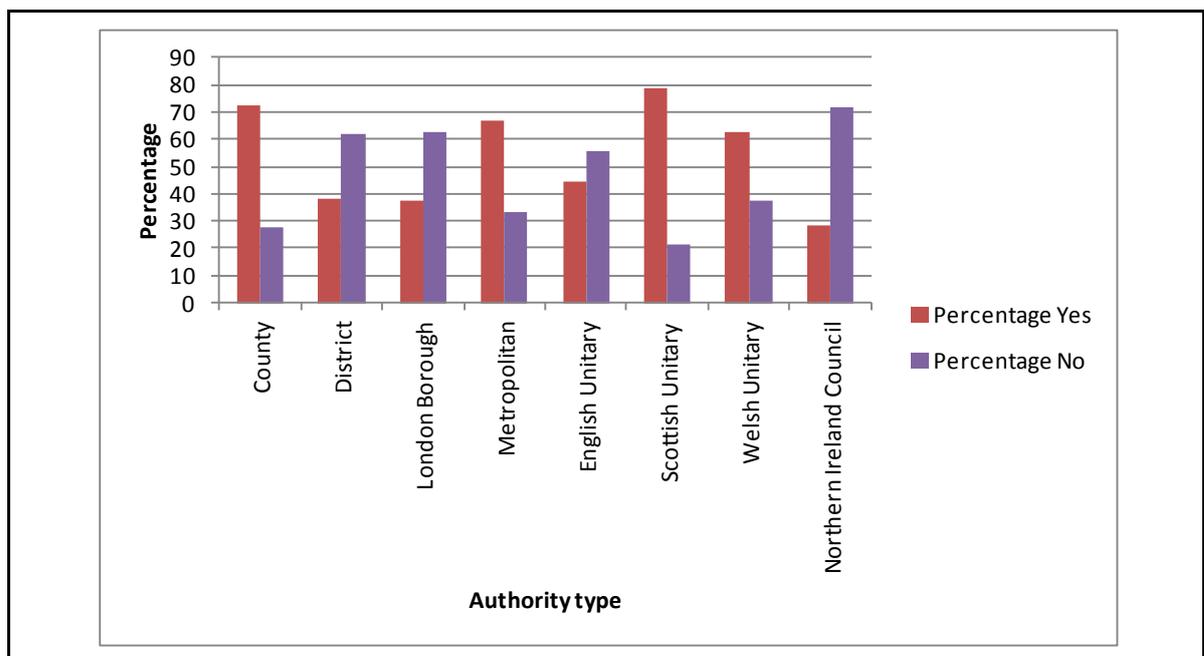


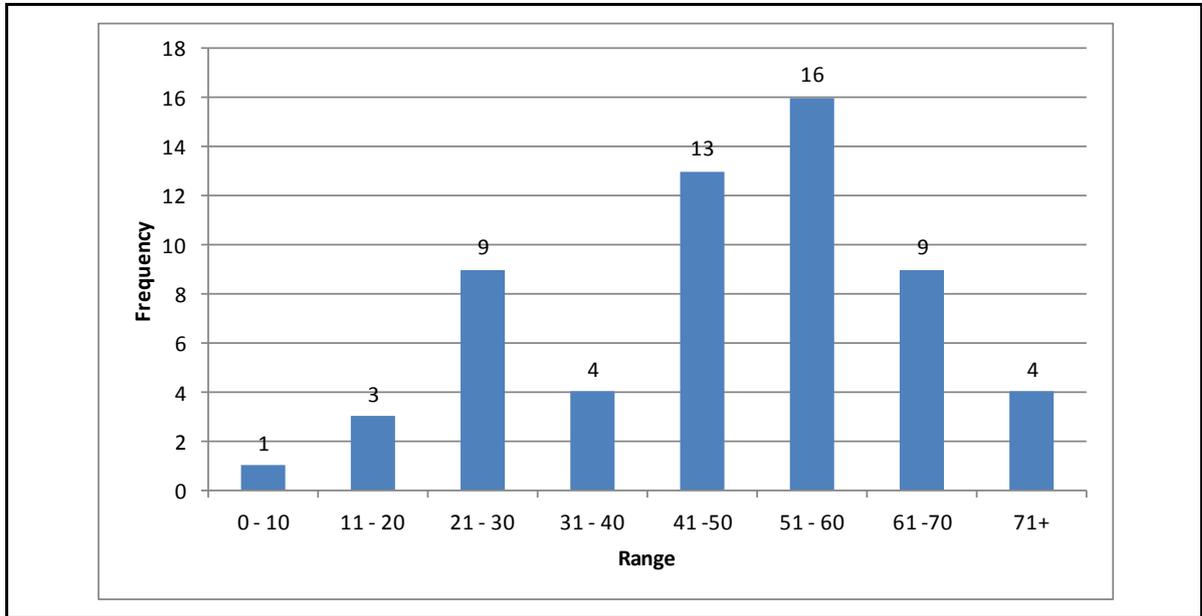
Figure 14 highlights the proportion of respondents to the survey by authority type which actively record the amount of procurement spend with SMEs; 11 Scottish Unitary authorities (78.6% of such responding authorities) actively record levels of spend with SMEs; 5 Northern Ireland Councils (71.4% of responding authorities) do not record SME spend; and over 60% of English Districts and London Boroughs do not record SME spend.

Figure 14: Proportion of authorities recording SME spend by authority type



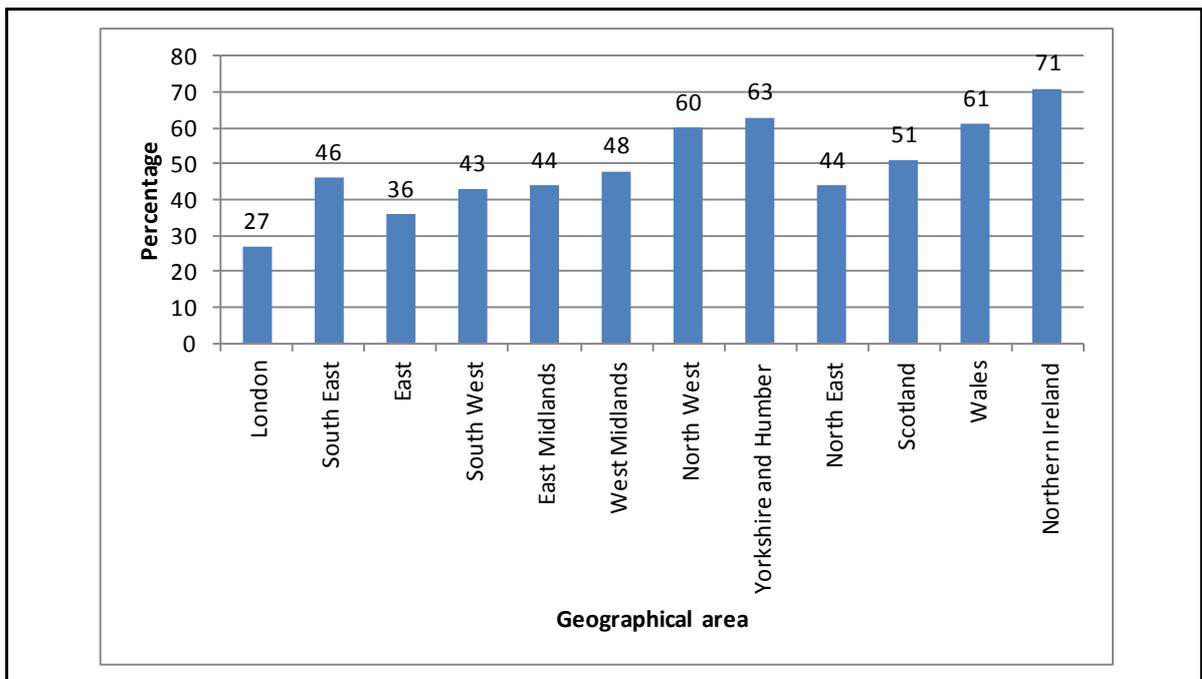
Of the 75 authorities that suggested they recorded SME spend, 59 provided data for the proportion of their total procurement spend with SMEs; this means that 40% of authorities responding to the survey provided real data for levels of spend with SMEs. Figure 15 highlights the ranges within which the proportion of SME spend fell within; 16 authorities (27%) spent between 51-60% of their total procurement spend with SMEs, followed by 13 authorities (15%) which spent between 41-50% with SMEs. On average, authorities spent 49% of their total annual procurement spend with SMEs.

Figure 15: Proportion of spend with SMEs



Average levels of SME spend by geographical area are as demonstrated in Figure 16.

Figure 16: Average SME spend by geographical area



Variations in average levels of SME spend by authority type are demonstrated in Figure 17. Northern Ireland Councils and Metropolitan authorities spend greater proportions of their total procurement spend with SMEs, at 71% and 54% respectively. The lowest proportion of SME spend was in London Boroughs where authorities spent on average 27% with SMEs.

Figure 17: Average SME spend by authority type

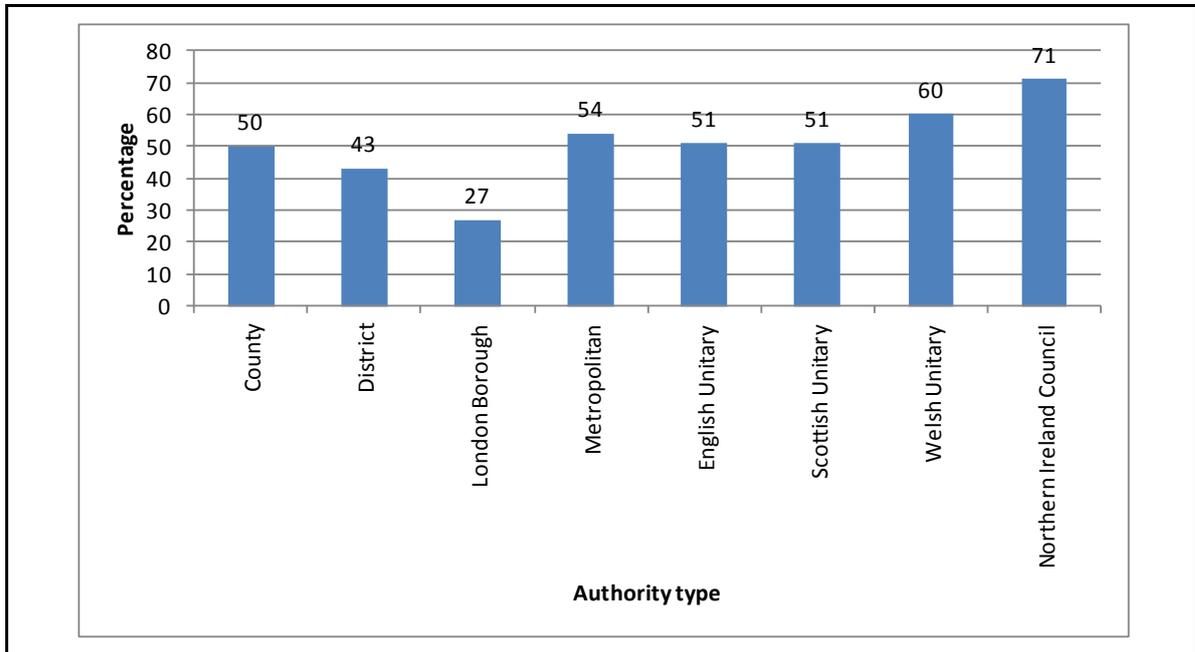
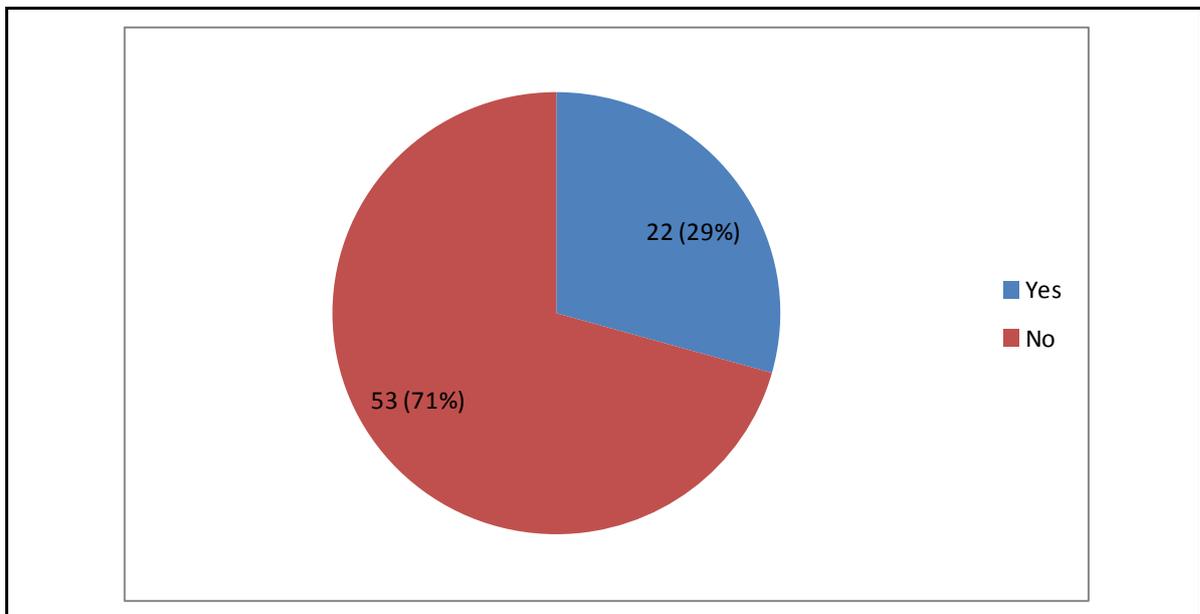


Figure 18 details the proportion of local authorities which actively record the amount of their procurement spend with SMEs, broken down by micro, small and medium business. Of the 75 authorities which stated that they recorded spend with SMEs, 22 (29%) broke this spend down further by the constituent elements of SME.

Figure 18: Proportion of authorities recording micro, small and medium business spend



Of the 22 authorities which actively recorded levels of spend with the breakdown of SME, 14 provided data for the extent to which this spend was broken down into micro business, with 18 providing data for the breakdown by small and medium business; this means that only 9% of authorities responding to the survey provided data for spend with micro business, with 12% providing data for spend with small and medium business. Figure 19 highlights the ranges within which the proportion of micro business spend fell within; 6 authorities (36%) spent between 6-10% of their total procurement spend with micro business. The average spend with micro business by responding authorities was 9%.

Figure 19: Proportion of spend with micro business

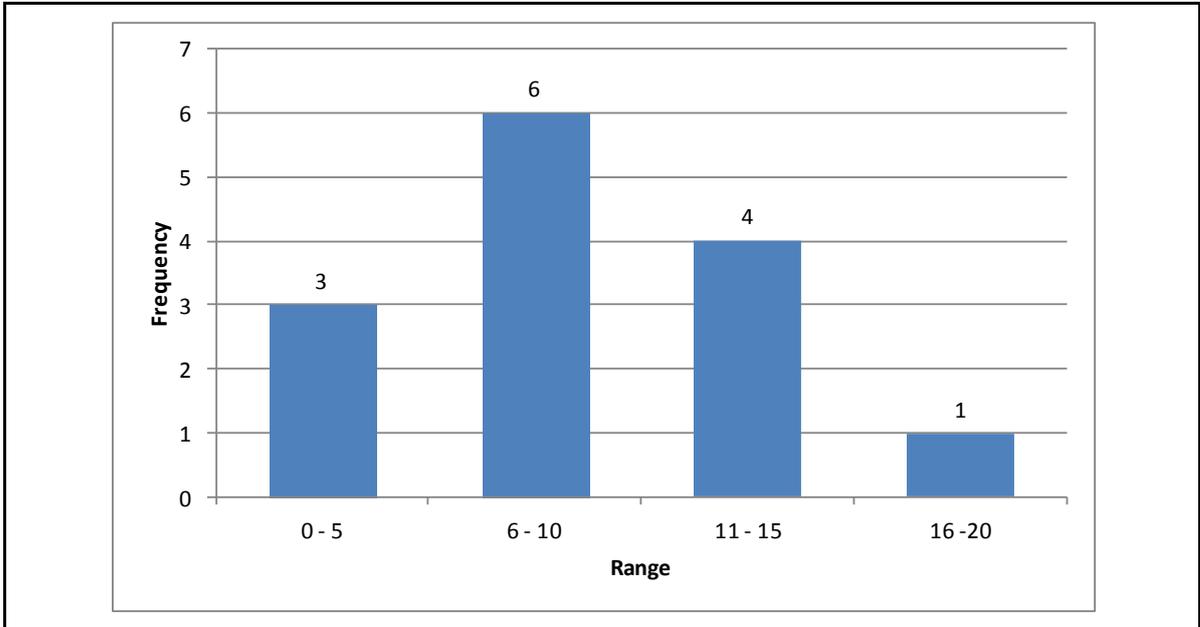
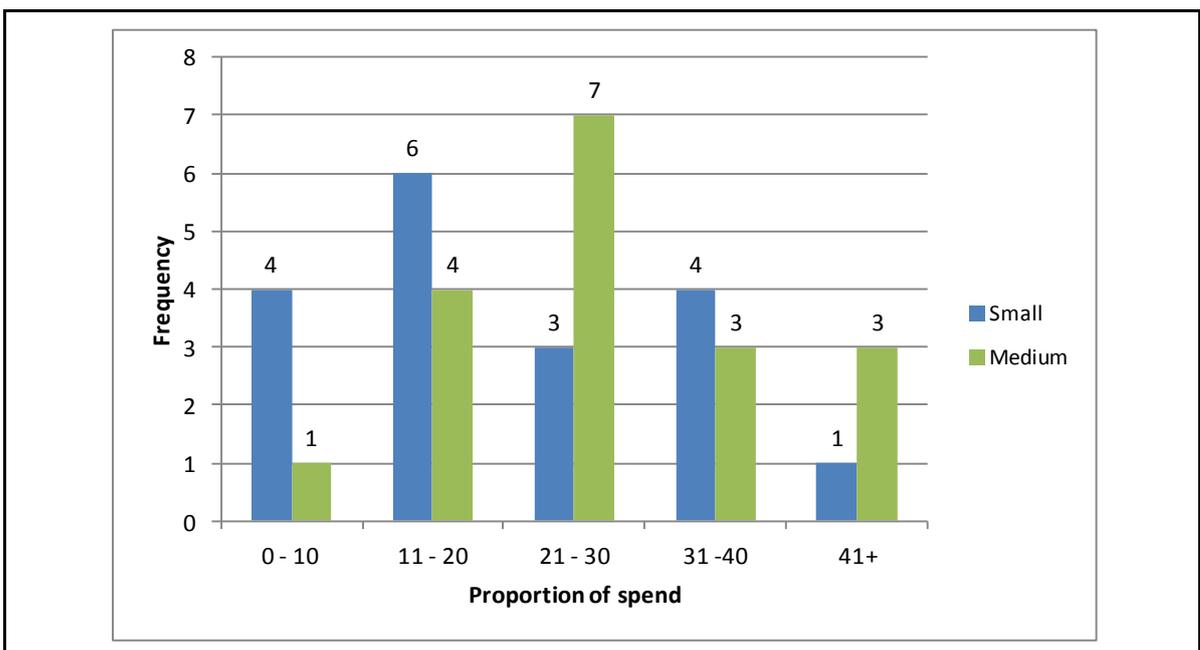


Figure 20 highlights the ranges within which the proportion of small and medium business spend fell within; 6 authorities (33%) spent between 11-20% of their total procurement spend with small business; and 7 authorities (39%) spent between 21-30% of their total procurement spend with medium business. The average spend with small business was 22% and the average spend with medium business was 28%.

Figure 20: Frequency of amount spent with small and medium business



3 BARRIERS

Local authorities were asked whether they felt there were barriers for SMEs in accessing procurement opportunities, and subsequently what they felt those core barriers were.

3.1 Quantitative analysis

Figure 21 details the proportion of local authorities which felt there were barriers for SMEs in accessing procurement opportunities; 98 authorities (66%) stated that SMEs did face barriers in accessing procurement opportunities.

Figure 21: Barriers for SMEs

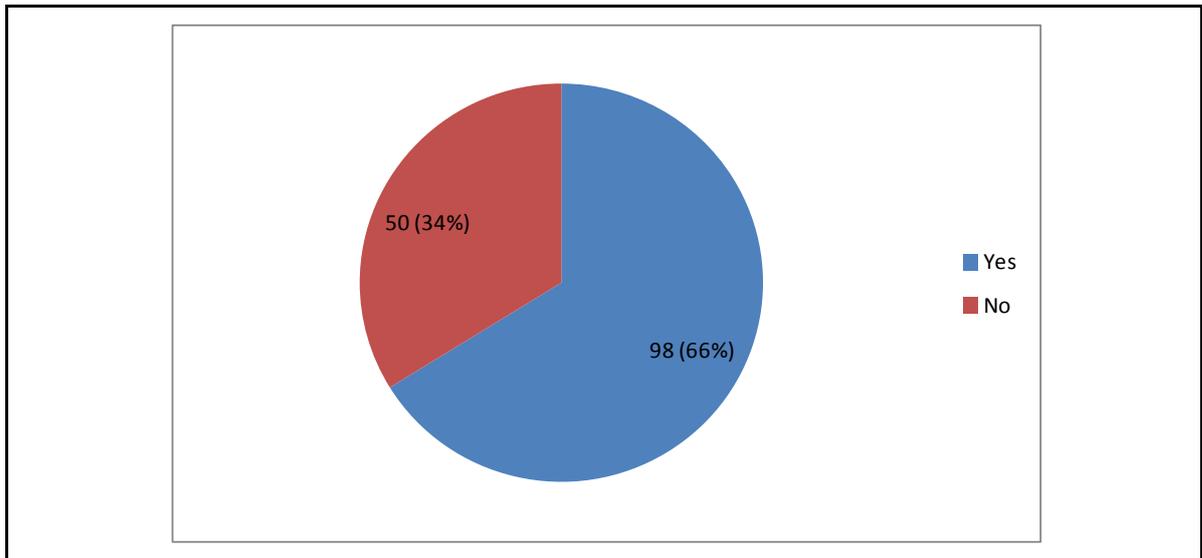


Figure 22 highlights the proportion of respondents to the survey in each of the geographical areas which felt SMEs face barriers. All 7 of the authorities responding from Northern Ireland felt that SMEs faced barriers; 5 authorities (83.3% of responding authorities) from Yorkshire and Humber felt SMEs faced barriers; and 4 authorities (50% of responding authorities) from Wales felt SMEs faced barriers in accessing procurement opportunities.

Figure 22: Barriers for SMEs by geographical area

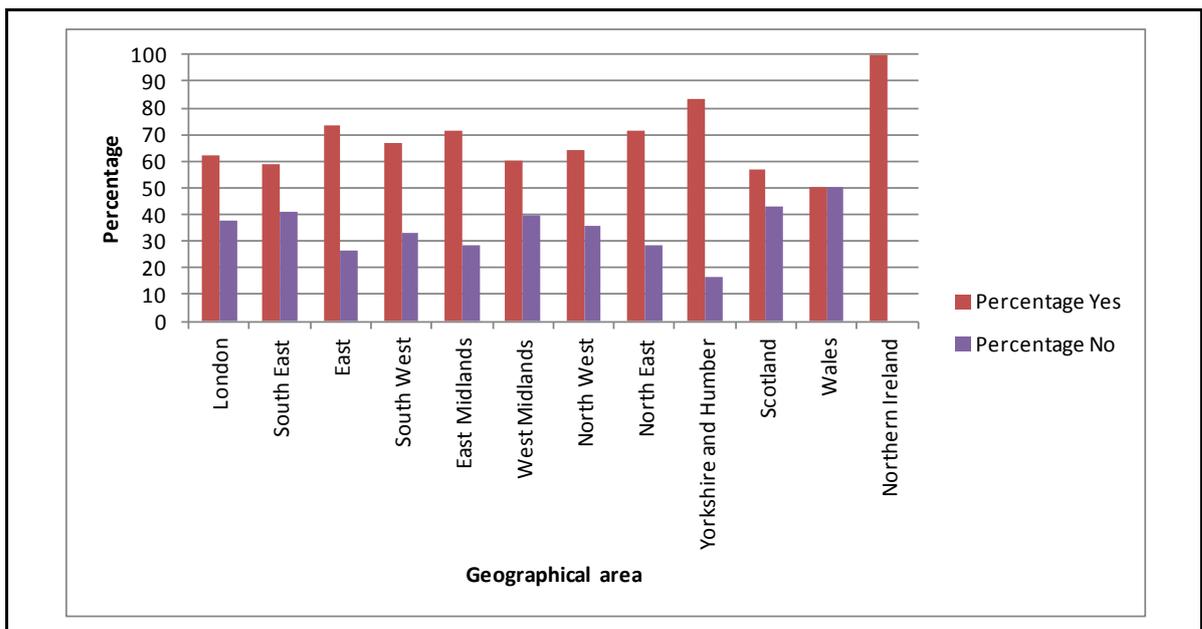
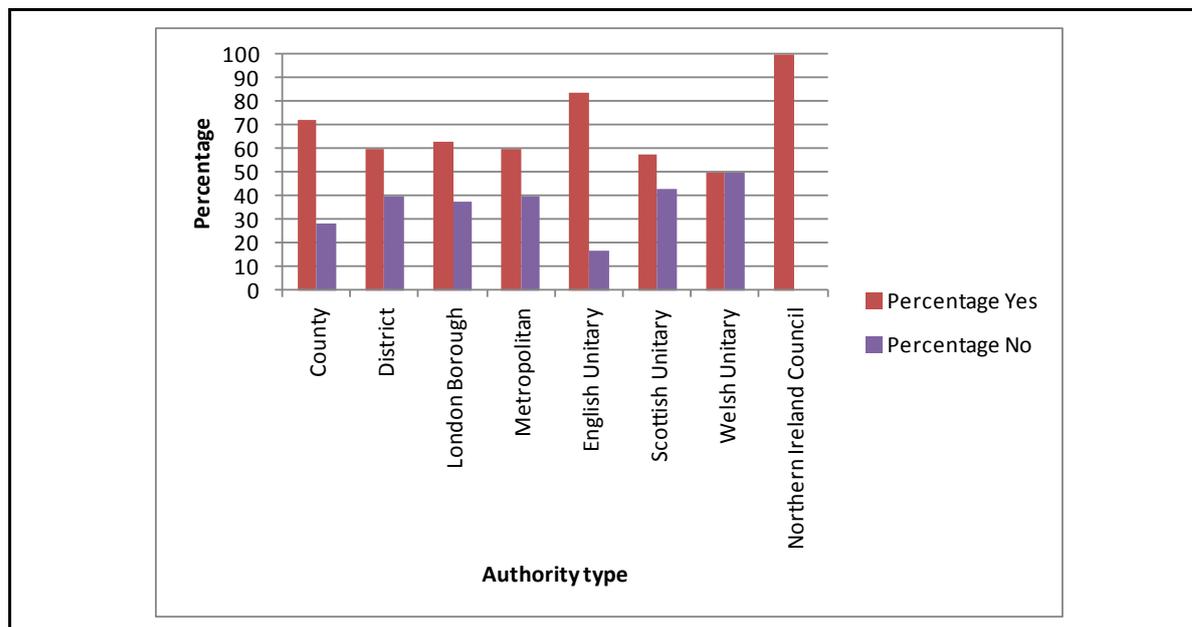


Figure 23 highlights the proportion of respondents to the survey by authority type which felt SMEs do face barriers. All 7 of the Northern Ireland Councils responding felt that SMEs faced barriers; and 15 English Unitary authorities (83.3% of responding authorities) felt SMEs faced barriers.

Figure 23: Barriers for SMEs by authority type



Spend and SME barriers

Those spending more on procuring goods and services (£500 million to £1 billion) are more likely to think SMEs face barriers. Indeed, 9 of the authorities (81.8%) spending this amount felt SMEs faced barriers. In comparison, 32 of the authorities (66.7%) spending less than £50 million felt SMEs faced barriers in accessing procurement opportunities.

3.2 Qualitative analysis

The barriers identified by authorities can be split down into two themes: barriers on the part of the SME; and barriers on the part of the local authority.

3.2.1 SME specific barriers

The SME specific barriers identified by local authorities can be split into the following themes:

Capacity and skills

Authorities identified a number of barriers in relation to the capacity and skills of SMEs to bid for procurement opportunities in the first instance, and subsequently deliver those goods and services. These barriers included:

- SMEs not having the time and capacity to bid for procurement opportunities and lacking the required skills in tendering;
- SMEs not having sufficient financial capability and resource to deliver procurement contracts;
- SMEs not having specialist bid writers for local authority procurement opportunities;
- the high cost for SMEs of bidding for local authority procurement opportunities;
- SMEs not having a track record in delivering local authority contracts.

Awareness of opportunities

Authorities identified a number of barriers in relation to the SME sector's awareness of potential procurement opportunities. These barriers included:

- ❑ SMEs not being able to identify tender opportunities that are relevant to their core areas of business;
- ❑ SMEs having a lack of awareness of potential procurement opportunities;
- ❑ SMEs not sufficiently demonstrating business offers to procurers.

Knowledge of local government

Authorities identified a number of barriers in relation to the SME sector's knowledge of the operation of local government. These barriers included:

- ❑ SMEs having a lack of understanding of local authority procurement processes and how they operate;
- ❑ SMEs having a lack of knowledge of local authority service departments and the types of goods and services they are looking to procure;
- ❑ SMEs having negative perceptions of the bureaucratic nature of the procurement process.

Business maturity

Authorities identified a number of barriers in relation to the SME sector's maturity when it came to collaboration and engagement with 'big' business. These barriers included:

- ❑ SMEs being unwilling to collaborate with similar SMEs to bid jointly for procurement opportunities;
- ❑ SMEs not having an understanding of the scale of the competition in the procurement process, particularly from 'big' business;
- ❑ SMEs not having the required technological skills to participate in e-tendering.

3.2.2 Local authority specific barriers

The local authority specific barriers can be split down into the following themes:

Bureaucracy

Authorities identified a number of barriers in relation to the bureaucratic nature of local authority procurement practices. These barriers included:

- ❑ the need for local authorities to adhere to EU procurement law and thus not favour suppliers on the basis of locality or whether they are small business;
- ❑ the complex nature of local authority tender documentation and requirements, particularly at the pre-qualification questionnaire stage;
- ❑ the financial requirements placed upon SMEs in terms of the need for certain levels of turnover;
- ❑ a lack of preparedness to take risks in the procurement process and a negative attitude about social benefit in procurement.

Awareness

Authorities identified a number of barriers in relation to their awareness of SMEs. These barriers included:

- ❑ a lack of market understanding of SMEs and what types of activities they deliver;
- ❑ a lack of awareness on the part of the local authority of the potential of SMEs to deliver procurement opportunities;
- ❑ a lack of communication between buyers in local government and potential suppliers in the SME sector;
- ❑ a lack of registrations of SMEs on procurement portals;

- ❑ a lack of process of making SMEs aware of potential sub-contracting opportunities.

Economies of scale

Authorities identified a number of barriers in relation to the need for them to achieve economies of scale and efficiencies in the procurement process. These barriers included:

- ❑ the increased use of long term frameworks for major procurements, particularly around construction;
- ❑ the sometimes large size and scale of procurement opportunities which SMEs are unable to bid for and deliver;
- ❑ the increasing aggregation of contracts and sub-regional and regional expectations around delivery;
- ❑ a greater perceived financial risk in using SMEs to deliver local authority contracts;
- ❑ increasing constraints on local authority spending caused by recession and cuts in public expenditure.

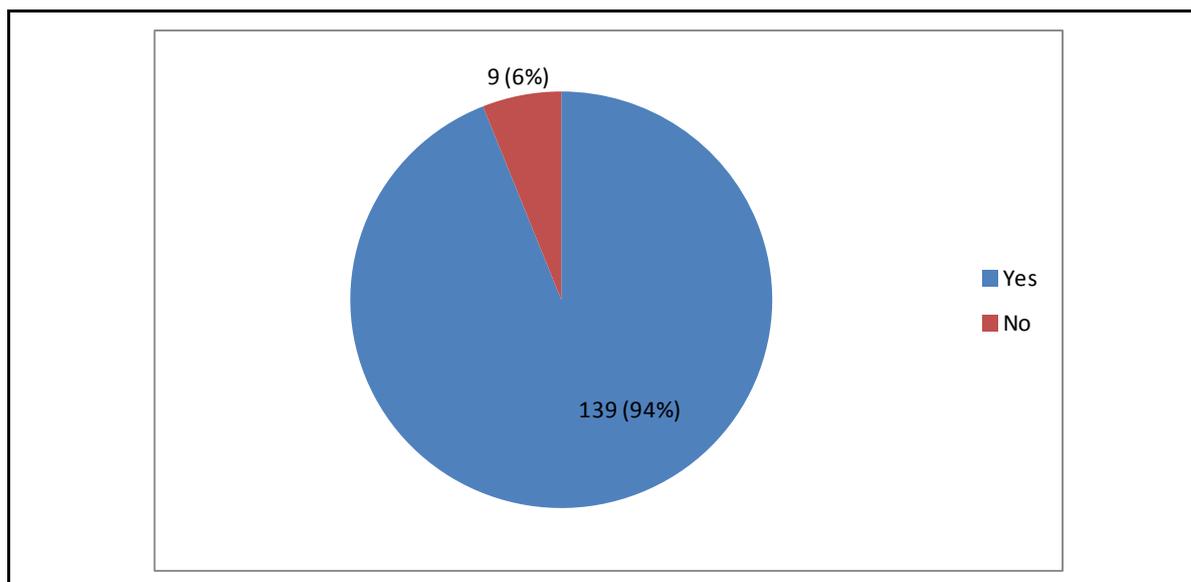
4 ENGAGEMENT

Local authorities were asked to identify the various activities they had in place to support SMEs in the procurement process, and subsequently whether these were felt to be best practice. They were also asked about their practices in relation to below EU threshold tenders and advertising.

4.1 Initiatives

Figure 24 details the proportion of local authorities which had initiatives in place to support SMEs in the tendering process and in delivering services; 139 authorities (94%) stated that they had initiatives in place.

Figure 24: Proportion of authorities with initiatives to support SMEs in tendering



Of the 9 authorities which did not have initiatives in place, 5 were English District authorities, 2 were English Unitaries, and 2 were Northern Ireland Councils.

Spend and initiatives to support SMEs

The authorities which did not have initiatives in place also tended to spend less upon procuring goods and services. 7 of the 9 not having initiatives in place spent less than £50 million upon procuring goods and services.

4.1.1 Types of initiative

The types of initiatives utilised by local authorities can be broken down by stage of the procurement process and a number of associated themes of support activities.

Procurement strategy

Authorities identified a number of initiatives which they were utilising in their procurement planning and strategy making, designed to support SMEs in tendering processes. These initiatives included:

- ❑ the development of internal governance arrangements, including:
 - cross-departmental priorities to engage SMEs;
 - cross-departmental working with SMEs;
 - development of sustainable procurement strategy;
- ❑ the development of online tools and support, including:
 - selling to the Council websites and guides;
 - e-tendering platforms;
 - contract portals;
 - advertising through social media;

- ❑ the development of more SME friendly procurement packages and pre-tendering support, including:
 - SME friendly contract lots;
 - market testing with SMEs;
 - support around consortium development;
 - pre-procurement working groups with SMEs;
 - quotation requirements around local suppliers;
- ❑ reducing some of the bureaucracy associated with the procurement process for SMEs, including:
 - standardised PQQs and ITTs;
 - sample and case study PQQ completion examples;
 - simplified PQQs and ITTs;
 - streamlining of financial assessment criteria;
 - removing PQQ requirements.

Pre-tender initiatives

Authorities identified a number of initiatives which they were utilising during the pre-tender stage of the procurement process to support SMEs to bid. These initiatives included:

- ❑ providing capacity building support and training for SMEs, including:
 - training around procurement processes;
 - one-to-one tendering support;
- ❑ developing partnership approaches to engagement with SMEs, including:
 - engagement through business forums and networks (e.g. Chambers and FSB);
- ❑ engagement with potential suppliers, including:
 - meet the buyer events.

Delivery initiatives

Authorities identified a number of initiatives which they were utilising during the delivery stage of the procurement process to offer continued support to SMEs. These initiatives included:

- ❑ initiatives that support the quicker payment of suppliers, including:
 - preferred payment schemes for SMEs;
- ❑ initiatives that keep suppliers informed during delivery and which seek to maximise benefit, including:
 - supplier newsletters;
 - supplier and buyer forums and networks;
 - supplier development programmes;
 - clear and transparent feedback processes.
- ❑ activities which encourage main contractors to engage with SMEs, including:
 - influencing sub-contracting decisions in support of SMEs;
- ❑ activities which monitor the effectiveness and impact of procurement spend, including:
 - measuring spend with SMEs and adopting practices accordingly.

4.1.2 Best practice initiatives

Local authorities were also asked to identify the components of SME support initiatives which they felt were best practice; 95 authorities suggested that their SME support initiatives were best practice (68% of all authorities with initiatives in place). Upon reflection, these initiatives are more likely to be 'good practice' as opposed to 'best practice'.

The following were identified as key themes of best practice initiatives.

Simplified procurement processes

Authorities identified that one of the key barriers to SME participation in the procurement process was around the bureaucracy and complexity associated with pre-qualification questionnaires and invitation to tender documentation; therefore best practice was identified amongst those authorities which have sought to streamline, simplify and in some cases remove PQQ documents.

Specialist and smarter procurement programmes for SMEs

As already identified in this research, SMEs experience a range of barriers in the procurement process, whether that be tendering or delivering opportunities. One of the ways in which authorities have responded to this has been to introduce specialist and smarter support programmes for SMEs. Those which have been multi-sectoral, covering the entirety of the public sector and not just the local authority, are deemed as best practice.

Toolkits, guidelines and e-procurement

A number of authorities identified that they had developed online tools and guides to support SMEs in the procurement process. Those deemed as best practice were the ones which had involved engagement of the SME sector in their development, and enabled ease of access to opportunities; e-procurement and web portals were also identified as effective means of supporting and engaging SMEs.

Regular training and workshops for SMEs

Authorities responding to the survey suggested that best practice approaches to SME training were those which offered a rounded focus covering the various stages of the tender process, from identification of need through to delivery. They also felt that any training had to be applicable to potential tender opportunities within that locality.

Streamlining financial appraisal and adopting a lot approach

A number of authorities have sought to support SMEs in accessing procurement opportunities by making contracts more financially accessible; this means introducing contracts of smaller financial value or splitting contracts down into lots and reducing some of the financial requirements placed on SMEs.

Quotation requirements around small business

Authorities highlighted that best practice support initiatives for SMEs were the ones that were prepared to take risks and challenge EU procurement law. A number of authorities have sought to introduce minimum quotations from SMEs for certain tender opportunities; this however needs to be linked to market testing and training to ensure that SMEs have the best possible opportunity to win the work.

Partnership working with business networks

Best practice initiatives for supporting SMEs in the procurement process come when local authorities work in partnership with business networks such as Chambers of Commerce or FSB Regional Offices to provide collaborative capacity building and training. The business networks have the knowledge of the small business sector, with the local authority having the knowledge of their tendering requirements.

Cross-departmental activities

Procurement processes are deemed more effective when they are a cross-authority function as opposed to just being delivered by procurement departments. Cross-departmental working enables market intelligence to be utilised in the procurement process, knowledge of SMEs, and ensures wider corporate priorities are embedded.

4.2 Below EU threshold practices

Figure 25 details the proportion of local authorities which adopt different procurement practices for opportunities below the EU thresholds; 109 authorities (74%) stated that they adopt different practices.

Figure 25: Proportion of authorities using different processes for below EU threshold tenders

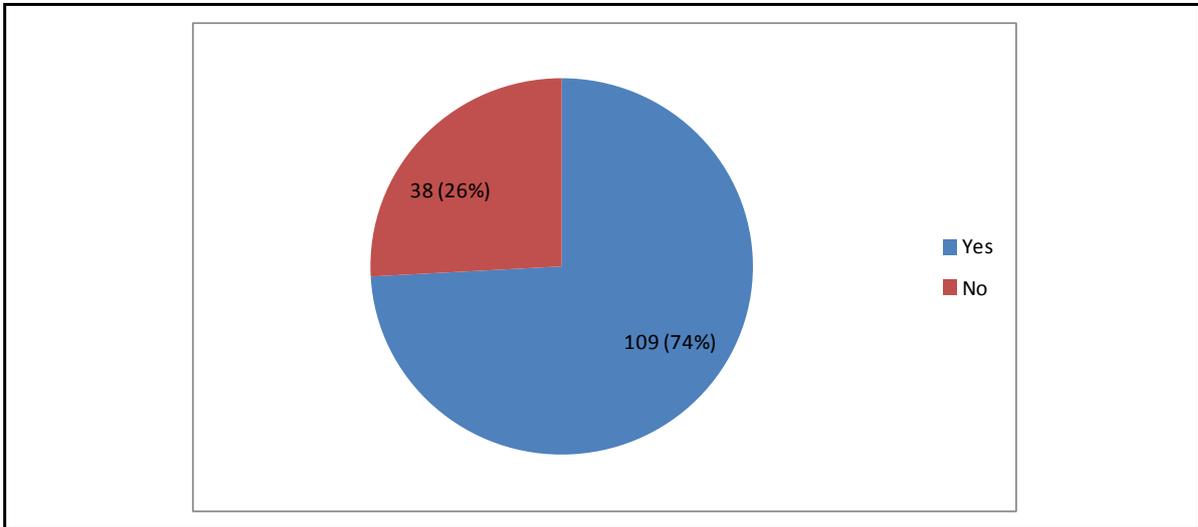
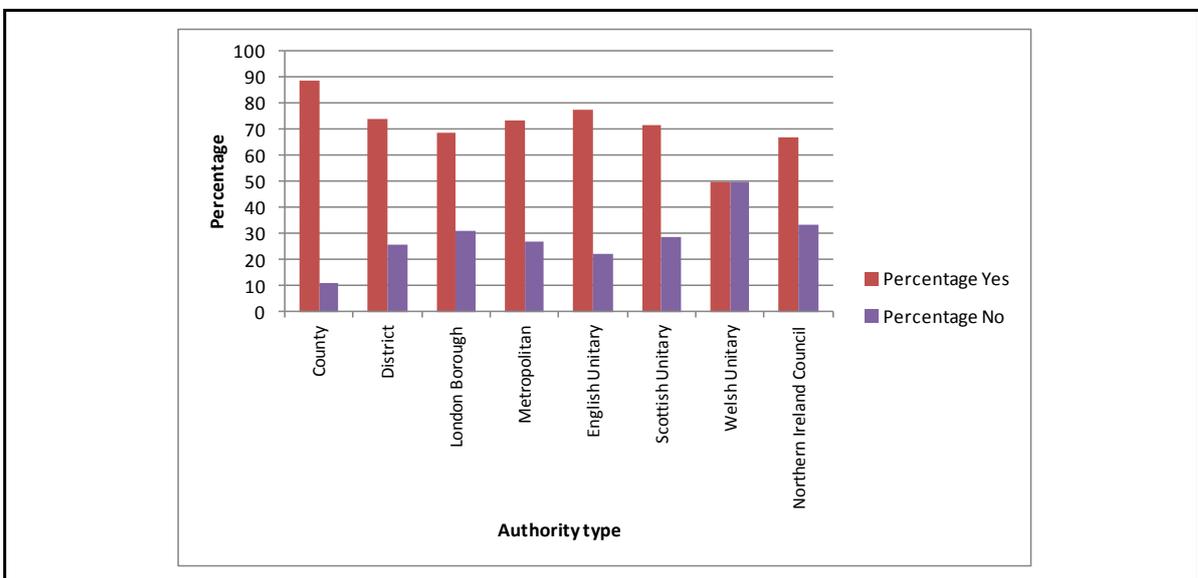


Figure 26 highlights the proportion of respondents to the survey by authority type which had different processes for below EU threshold tenders; 16 County authorities (88.9% of responding authorities) deployed different processes; and only 4 Welsh Unitary authorities (50% of responding authorities) deployed different processes.

Figure 26: Proportion of authorities using different processes for below EU threshold tenders by authority type



The different processes adopted by local authorities for below EU threshold opportunities can be themed as follows:

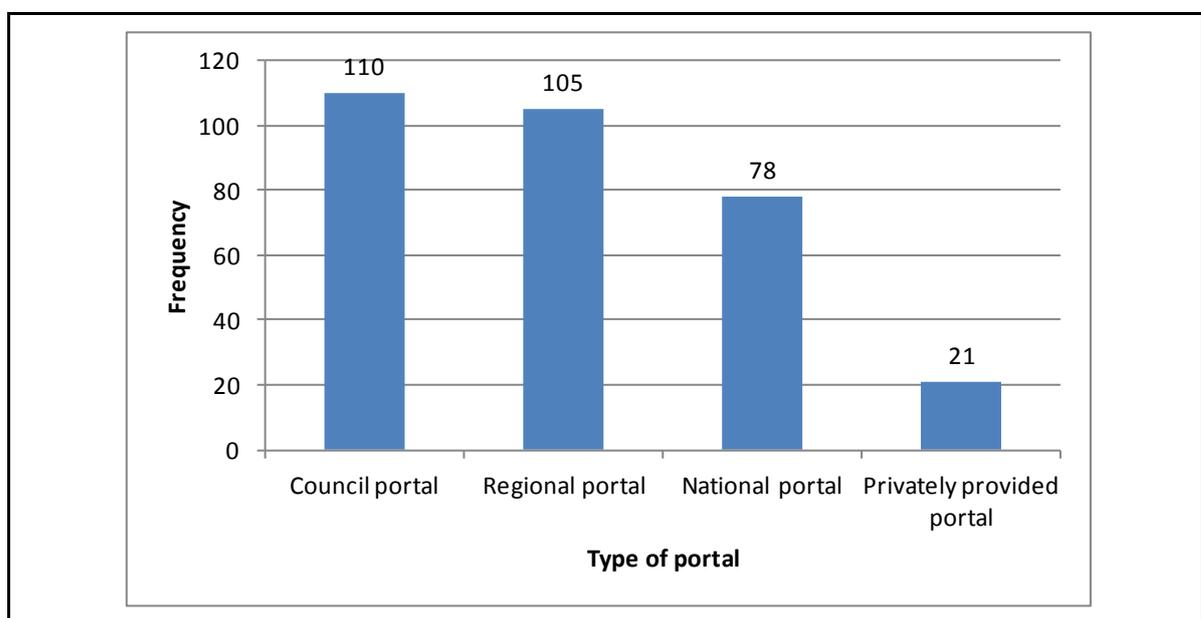
- ❑ advertising through more localised means than the Official Journal of the European Union, including:
 - advertising opportunities through a local or regional portal only;
 - advertising through local press;
- ❑ reducing the bureaucracy of the process of procurement, including:
 - not requiring a PQQ on below threshold contracts;

- less complex documents and procedures, and greater flexibility;
 - shorter timeframes;
- ❑ locally specific practices, including:
- approach dependent upon nature of opportunity;
 - adopting quotation requirements, such as minimum of three quotes, with one from a local organisation;
 - identifying and selecting companies to bid.

4.3 Advertising and portals

Figure 27 highlights the extent to which local authorities utilise various types of portals as a means of advertising tender opportunities; 110 of the authorities responding to the survey use their own local authority website or locally specific portal as a means of advertising opportunities; 105 authorities use regional portals, such as the CHEST in the North West; and 78 authorities utilise government backed national portals, such as Contracts Finder and Sell2Wales.

Figure 27: Frequency of use of different types of portal for advertising



The likelihood of utilising different types of portal varies by geographical area. All of the 14 local authorities in Scotland responding to the survey utilised a national portal (Public Contracts Scotland) and all 8 authorities responding from Wales used Sell2Wales; only 3 of the responding 7 authorities from Northern Ireland used eSourcing Northern Ireland. Accordingly, authorities in Scotland and Wales were less likely to use their own local authority specific portals, with only 9 in Scotland and 3 in Wales doing so. Authorities in England are therefore much more likely to utilise local authority and regional portals to advertise tender opportunities. Indeed, only 53 of 119 authorities in England responding to the survey utilised a national portal such as Contracts Finder.

Authorities were also asked to identify other ways in which they advertise tender opportunities. Other means identified included:

- ❑ through local and regional press;
- ❑ through business and voluntary and community sector forums;
- ❑ through social media such as Twitter;
- ❑ through mail shots from Economic Development and Regeneration Teams.

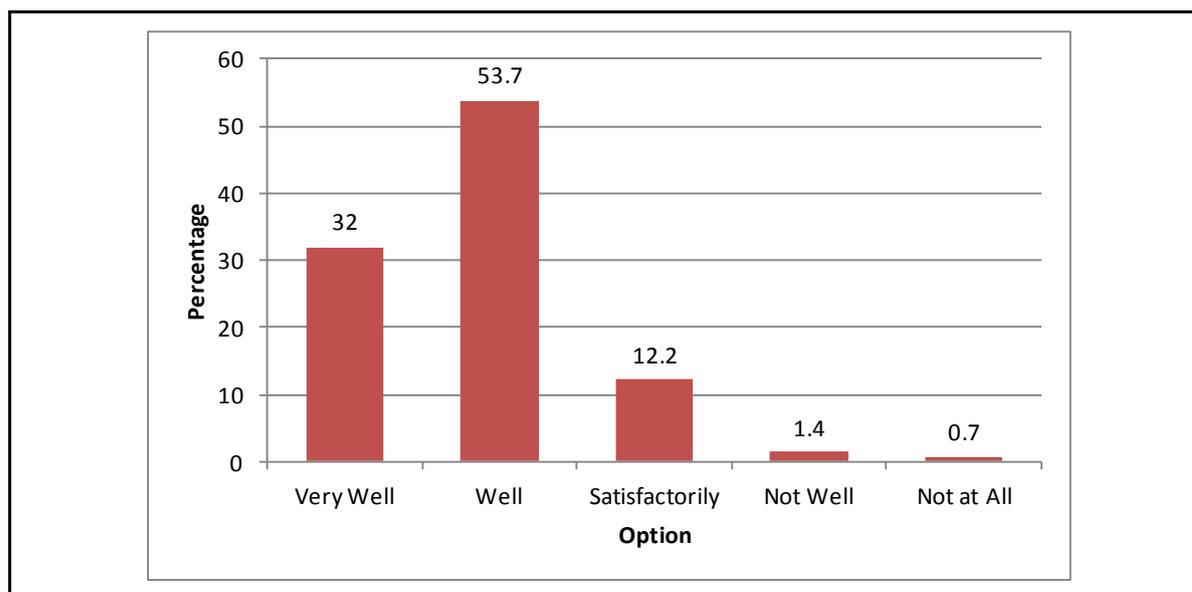
5 ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS

Local authorities were asked to identify the extent to which economic, social and environmental benefits were considered in the procurement process. This included thoughts upon how procurement strategy linked to wider corporate priorities, and the extent to which issues such as cost saving and economic development were important in the procurement process.

5.1 Strategic linkages

Figure 28 highlights the extent to which local authorities felt their procurement strategy and processes contributed to wider corporate priorities; 126 authorities (86%) felt their procurement strategy linked 'well' or 'very well' to wider corporate objectives.

Figure 28: Extent to which procurement strategy links to wider corporate objectives



Of the 18 authorities which stated that their procurement strategy linked 'satisfactorily' to wider corporate priorities, 4 were from the South East and 3 were from each of the East of England and Northern Ireland. All of the authorities in Wales, the West Midlands, and Yorkshire and Humber felt that their procurement strategy linked 'very well' or 'well' to wider corporate priorities.

Strategic linkages

Those with only satisfactory a linkages also tended to spend less upon procuring goods and services. Indeed, 12 of the 18 spent less than £50 million annually.

There is a correlation between not recording SME spend and having satisfactory or less than satisfactory strategic linkages; 14 of the 18 authorities which suggested the link between their procurement strategy and wider corporate priorities as 'satisfactory', 'not well' or 'not at all' did not record levels of spend with SMEs.

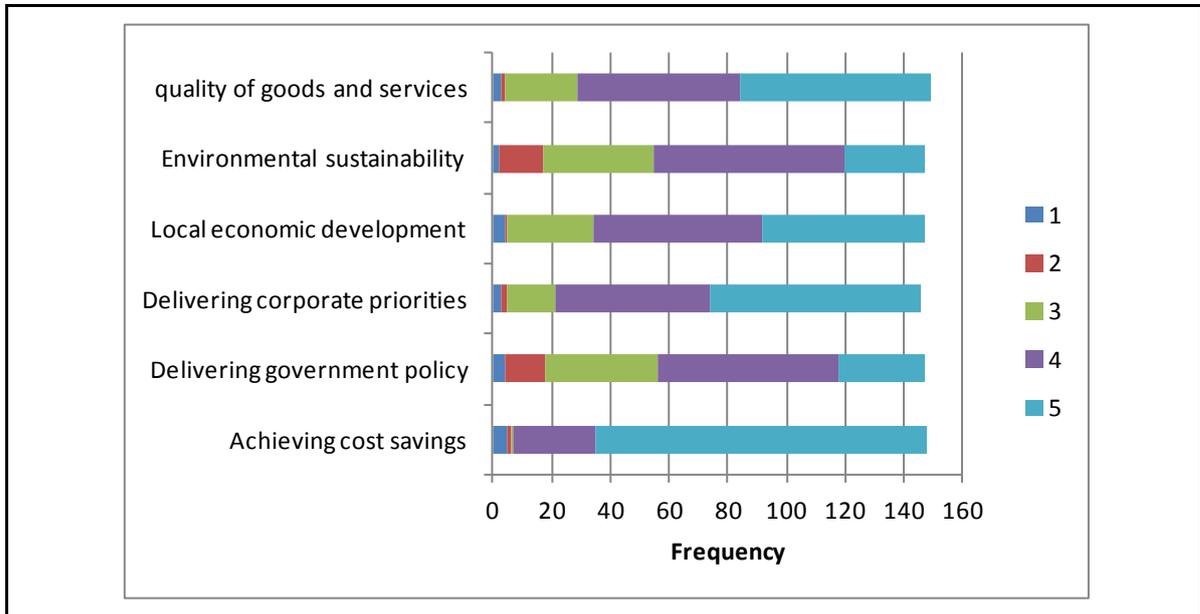
There is also a correlation between believing SMEs face barriers in the procurement process and having satisfactory or less than satisfactory strategic linkages; 16 of the 18 authorities which suggested the link between their procurement strategy and wider corporate priorities as 'satisfactory', 'not well' or 'not at all' felt that SMEs faced barriers in accessing procurement opportunities.

5.2 Issue importance

Figure 29 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); 113 local authorities suggested that achieving cost savings was of high

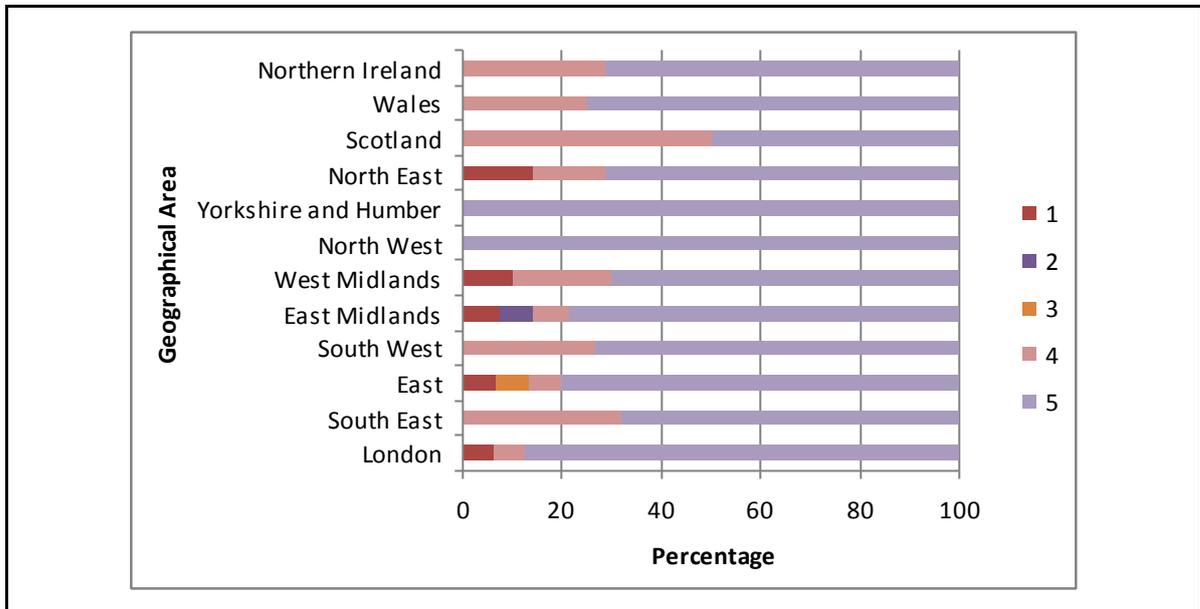
importance (scored 5); 72 authorities suggested that delivering corporate priorities was of high importance (scored 5). The issues of delivering government policy and environmental sustainability were deemed less important, with 56 and 55 authorities respectively scoring these issues as 1, 2 or 3 on the importance scale.

Figure 29: Extent to which issue is important in procurement process



There are variations in the importance of particular issues by geographical area. All 14 of the authorities responding to the survey from the North West, and all six responding authorities from Yorkshire and Humber, scored achieving cost savings as 5, as demonstrated in Figure 30. Only 50% of authorities in Scotland scored achieving cost savings as 5; the second lowest was in the South East, with 68.2% of authorities scoring it as 5.

Figure 30: Cost saving importance by geographical area



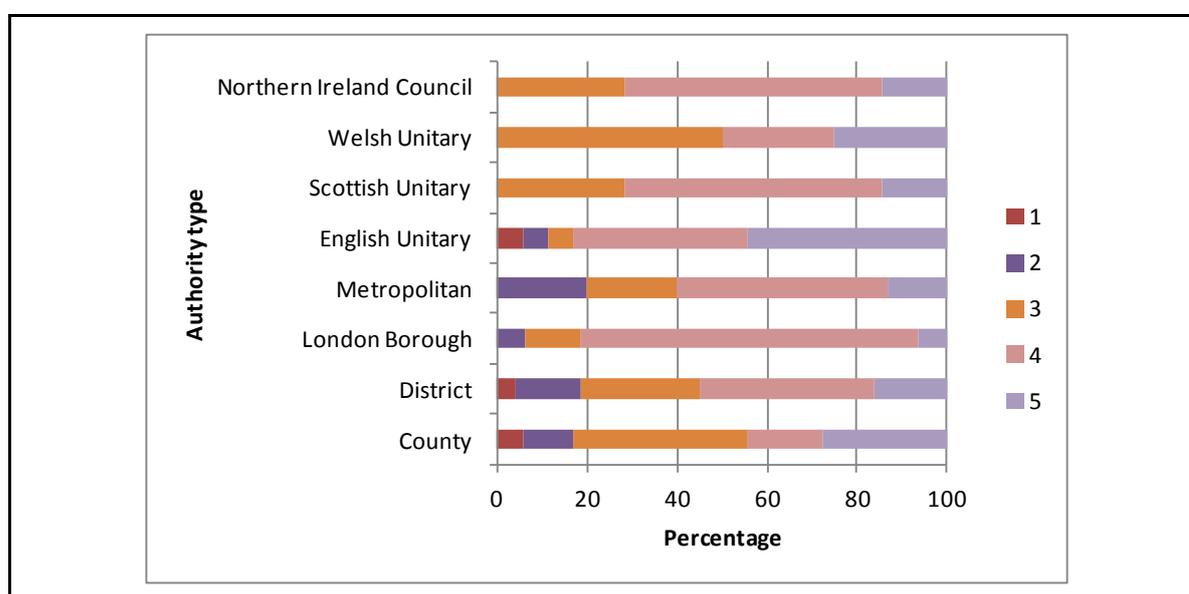
Delivering the councils wider corporate priorities was also of high importance for authorities in Yorkshire and Humber, with all six scoring it as 5. Local economic development considerations were deemed particularly important in the geographical areas of the North West (thirteen out of fourteen scoring 4 or 5), Scotland (thirteen out of fourteen scoring 4 or 5), Wales (seven out of eight scoring 4 or 5), and Yorkshire and Humber (all six scoring 4 or 5). Improving the quality of goods and

services was also important for North West authorities, with 10 out of 14 scoring it 5 on the importance scale.

It is also possible to cross-tabulate the importance of particular issues by authority type; 88.9%, 86.7% and 87.5% of County, London Borough and Metropolitan authorities respectively deemed achieving cost savings to be of high importance (scored 5). Only 50% of Scottish authorities scored this issue of high importance (scored 5); 79.8% of English local authorities deemed achieving cost savings as of high importance. Local economic development considerations were much more likely to be deemed of high importance in English Unitaries (66.7% scoring it as 5) and Metropolitan authorities (53.3% scoring it as 5) than other types of authorities, particularly English Districts (16.3% scoring it as 5).

Figure 31 highlights the importance of delivering government policy through procurement by authority type. It is clear that London Boroughs and English Unitaries view it as of high importance, with 81.3% and 83.8% respectively scoring it as a 4 or 5. Delivering government policy through procurement is of less importance in County authorities with 55.6% scoring it as a 1, 2 or 3; 50% of Welsh Unitaries scored delivering government policy as a 3.

Figure 31: Government policy importance by authority type



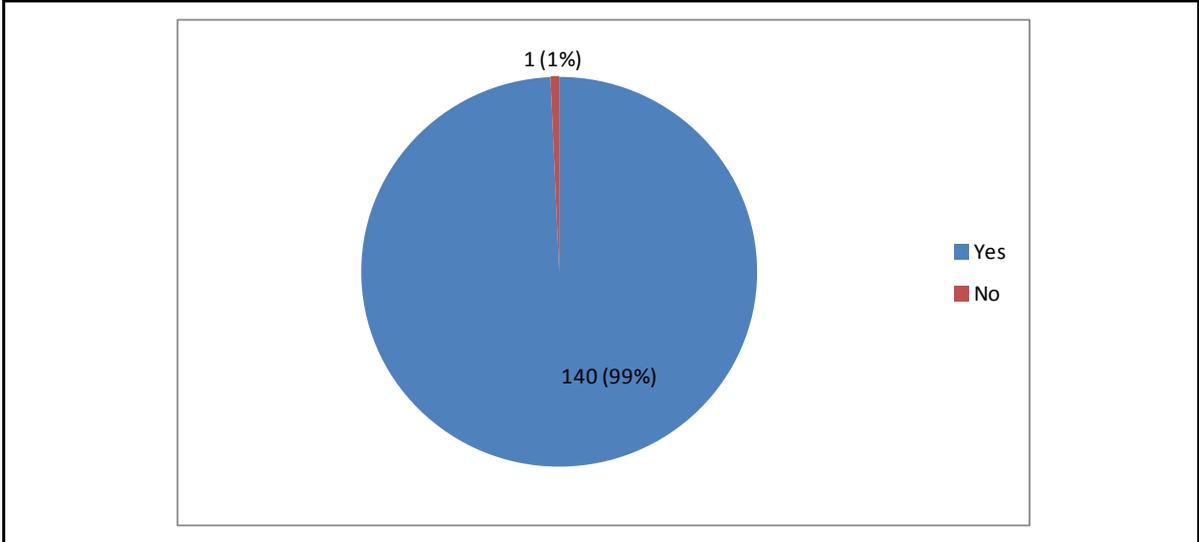
Record SME spend and priorities

Those authorities which record levels of spend with SMEs are more likely to score local economic development as 4 or 5, in terms of the importance of it as a priority; 65 of the 74 authorities which recorded SME spend also scored local economic development considerations as a 4 or 5 on the priorities list. This compares to 48 of the 73 authorities which did not record SME spend who score the priority of local economic development as a 4 or 5.

5.3 Use of purchasing frameworks

Figure 32 highlights the extent to which local authorities use buying and purchasing frameworks in the procurement process; 140 authorities (99%) utilise such frameworks.

Figure 32: Use of buying/purchasing frameworks



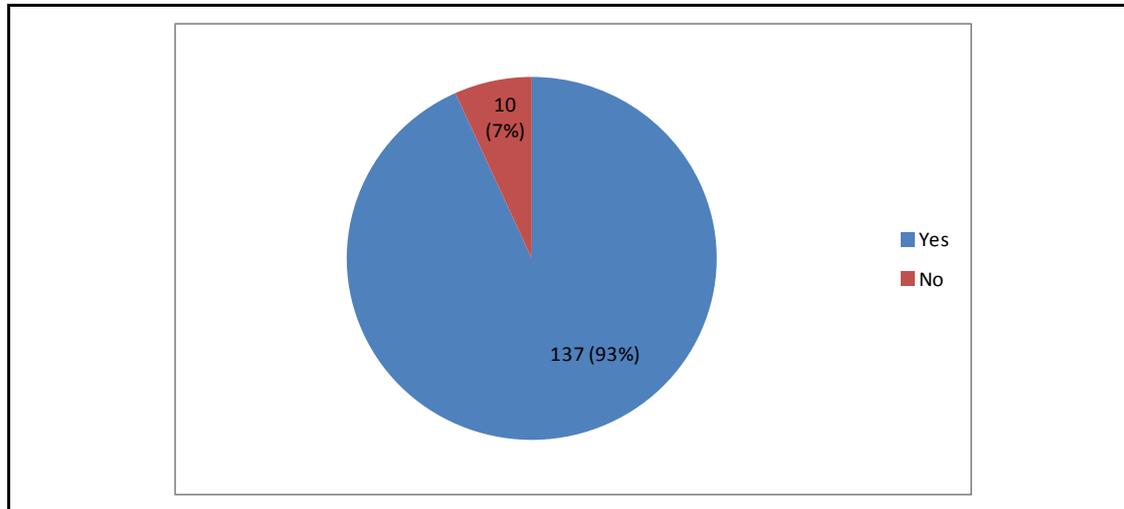
6 PAYMENT

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

6.1 Payment policies and schedules

Figure 33 highlights the extent to which local authorities have in place policies for the payment of suppliers; 137 authorities (93%) have in place such a policy.

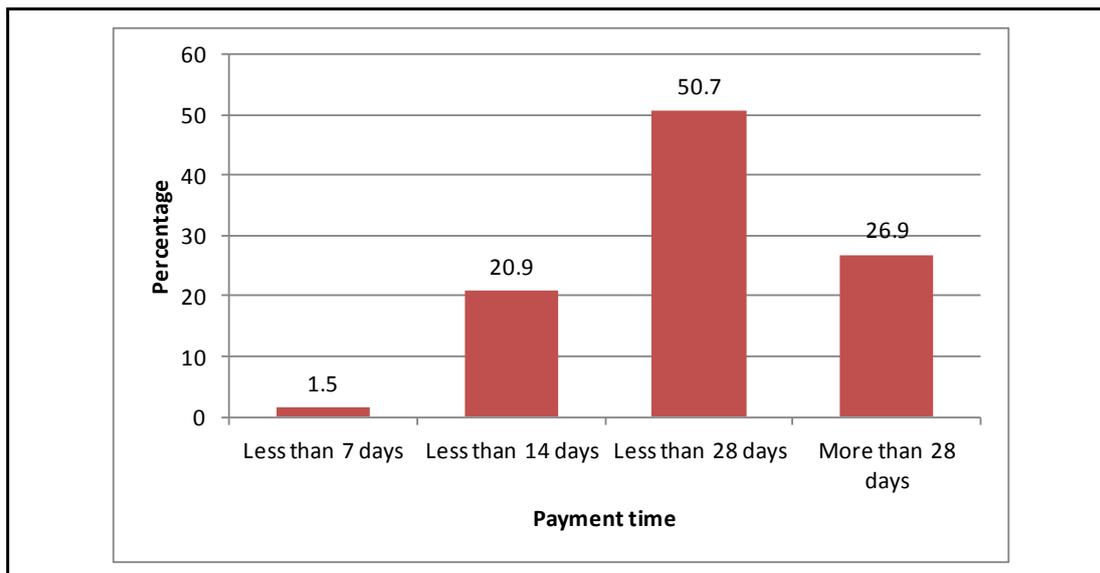
Figure 33: Use of payment policies for suppliers



Of the 10 authorities which did not have payment policies, 4 were English Districts. Additionally, 5 had lower values of procurement spend (less than £50 million).

134 of the 137 authorities which suggested that they had in place policies for the payment of suppliers provided data for the length of time it took to make payment to suppliers. As detailed in Figure 34, 68 authorities (51%) suggested that they made payment in less than 28 days; this was followed by 36 authorities (27%) which suggested that they made payment in more than 28 days. (**Note:** some authorities indicated they had a policy of payment in 30 rather than 28 days.)

Figure 34: Payment schedule of authorities

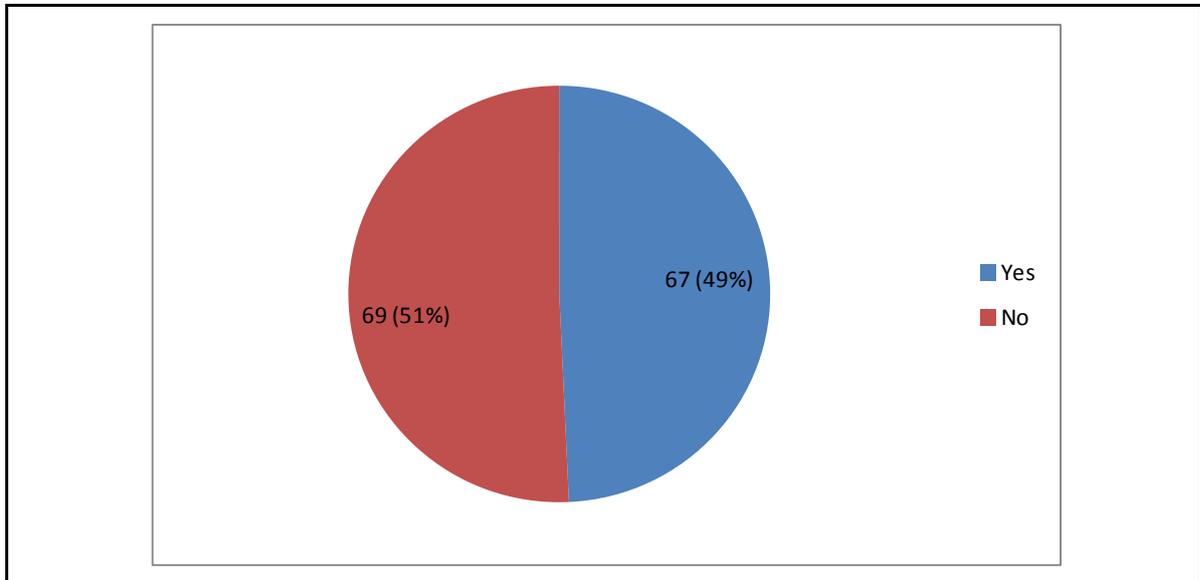


136 of the 137 authorities which suggested they had in place policies for the payment of suppliers provided an answer for the question of whether they passed their payment policies onto their main contractors. As detailed in Figure 35, 67 authorities (49%) suggested that they expected their main contractors to follow the authority's code of payment.

Record SME spend and payment schedule

Of the 28 authorities which suggested they had a payment schedule of less than 14 days, 19 (67.9%) were authorities which actively record levels of spend with SMEs; this suggests that those recording SME spend are more likely to pay suppliers quicker than those which do not.

Figure 35: Proportion of authorities asking main contractors to pass on payment policy



There are variations in the passing on of payment policies by authority type; 12 of the responding County authorities (70.6%) actively sought to pass on payment policies to main contractors; only 4 London Boroughs (28.6%) actively passed on payment policies to the supply chain.

Record SME spend and pass on payment policy

Authorities which actively record levels of spend with SMEs are more likely to pass on payment policies to main contractors. Indeed, 43 of the 73 authorities which record SME spend (58.9%) pass on payment policies to main contractors; this compares to the figure for all authorities of 49%.

7 CONCLUDING THOUGHTS

As a way of concluding the findings of the survey, the following section sets out some of the core findings and patterns by authority type. Patterns can be grouped as follows:

7.1 English Districts and Northern Ireland Councils

These authorities will:

- have lower levels of spend upon procuring goods and services;
- be less likely to record local spend;
- be less likely to record SME spend;
- be more likely to think SMEs face barriers in the procurement process;
- be less likely to think there are effective links between procurement strategy and council priorities;
- be less likely to have policies in place for the payment of suppliers.

7.2 Scottish and Welsh Unitaries

These authorities will:

- be more likely to record local spend;
- have greater levels of spend in their local authority boundary (Welsh Unitaries);
- be more likely to record SME spend;
- be less likely to think SMEs face barriers in accessing procurement opportunities;
- be less likely to use different processes for below EU threshold tenders;
- be more likely to use national portals for advertising tender opportunities;
- be less likely to think achieving cost savings is an issue of high importance.

7.3 Counties

These authorities will:

- have higher levels of spend upon procuring goods and services;
- be more likely to record local spend;
- have greater levels of spend in their local authority boundary;
- be more likely to record SME spend;
- be more likely to think SMEs face barriers in accessing procurement opportunities;
- be more likely to use different processes for below EU threshold tenders;
- be more likely to think achieving cost savings is an issue of high importance;
- be less likely to think delivering government policy is an issue of high importance;
- be more likely to pass on payment policies to main contractors.

7.4 English Unitaries and Metropolitans

These authorities will:

- have higher levels of spend upon procuring goods and services;
- be more likely to record local spend;
- be more likely to record SME spend (Metropolitans);
- have greater levels of spend with SMEs.

7.5 London Boroughs

These authorities will:

- have higher levels of spend upon procuring goods and services;
- be less likely to record local spend;
- have lower levels of spend in their local authority boundary;
- be less likely to record SME spend;
- have lower levels of spend with SMEs;
- be more likely to think SMEs face barriers in accessing procurement opportunities;
- be less likely to use different processes for below EU threshold tenders;
- be more likely to think achieving cost savings is an issue of high importance;
- be less likely to pass on payment policies to main contractors.

APPENDIX 1
Copy of survey

COPY OF SURVEY

Introduction

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 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

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

- Yes
- No

5 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)?

SME spend

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

- Yes
- No

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

--

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

- Yes
- No

- 9 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	
Small business	
Medium business	

Barriers

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

- Yes
- No

- 11 If yes, what are the main barriers?**

--

Engagement

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

- Yes
- No

- 13 If yes, please provide examples of these processes and initiatives.**

--

14 Do you think any of your procurement processes and initiatives are best practice?

Yes

No

If yes, please specify:

15 Do you utilise a different approach to tenders below the EU threshold?

Yes

No

If yes, please specify:

16 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)

Economic, social and environmental benefits

17 To what extent do you think your procurement strategy contributes to wider corporate objectives in your local authority?

- Very well
- Well
- Satisfactory
- Not well
- Not at all

18 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 objectives	<input type="radio"/>				
Local economic development considerations	<input type="radio"/>				
Environmental sustainability	<input type="radio"/>				
Improving quality of goods/services provided	<input type="radio"/>				

19 Do you use joint buying/purchasing organisation frameworks for any elements of your procurement activity?

- Yes
- No

Payment

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

- Yes
- No

21 If yes, which of the following does your payment schedule for suppliers fit within?

- Less than 7 days
- Less than 14 days
- Less than 28 days
- More than 28 days

22 Do you actively request that the main contractors pass these terms onto their sub-contractors?

- Yes
- No

Annex B
FSB member survey
panel results

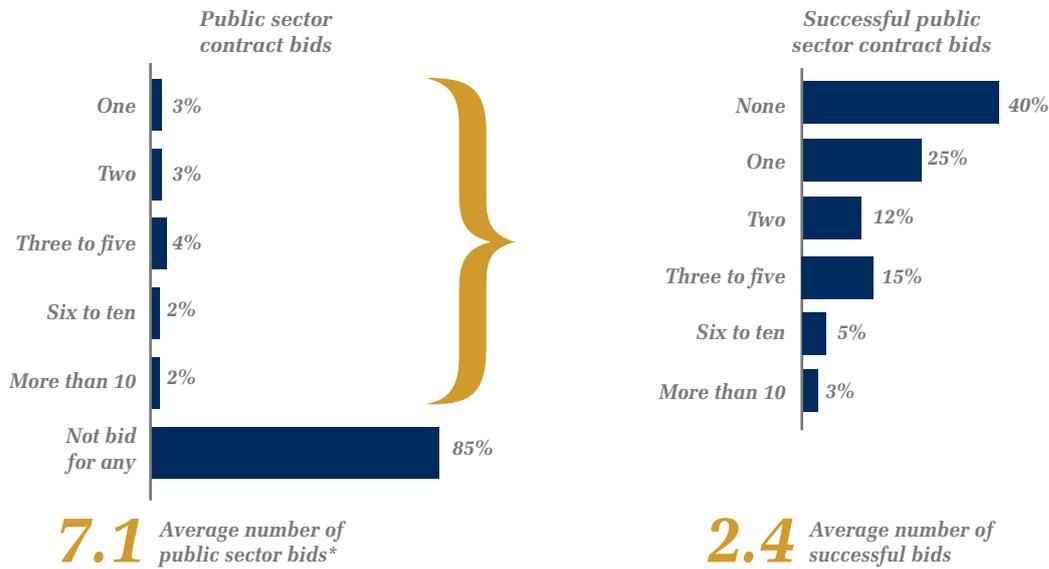
FSB ‘Voice of Small Business’ Survey Panel

Prepared by Research by Design

Methodology

- Research findings are based on a survey made available to the FSB ‘Voice of Small Business’ Panel during March 2012.
- All panel members (7,534) were invited to take part in an online survey designed and hosted by Research by Design. The survey questions covered a range of issues including local government, LEPS public procurement, waste and recycling services
- Fieldwork took place between Monday 5 and Friday 16 March 2012.
- Two reminder emails were sent to non-respondents.
- 2,754 responses were received; a 37 per cent response rate.
- National data has been weighted to the membership profile.

How many public sector contracts have you bid for in the last 12 months, if any? Base: 2740
 How many of your public sector bids have been successful over the past 12 months? Base: 353 (bidding for public sector contracts)

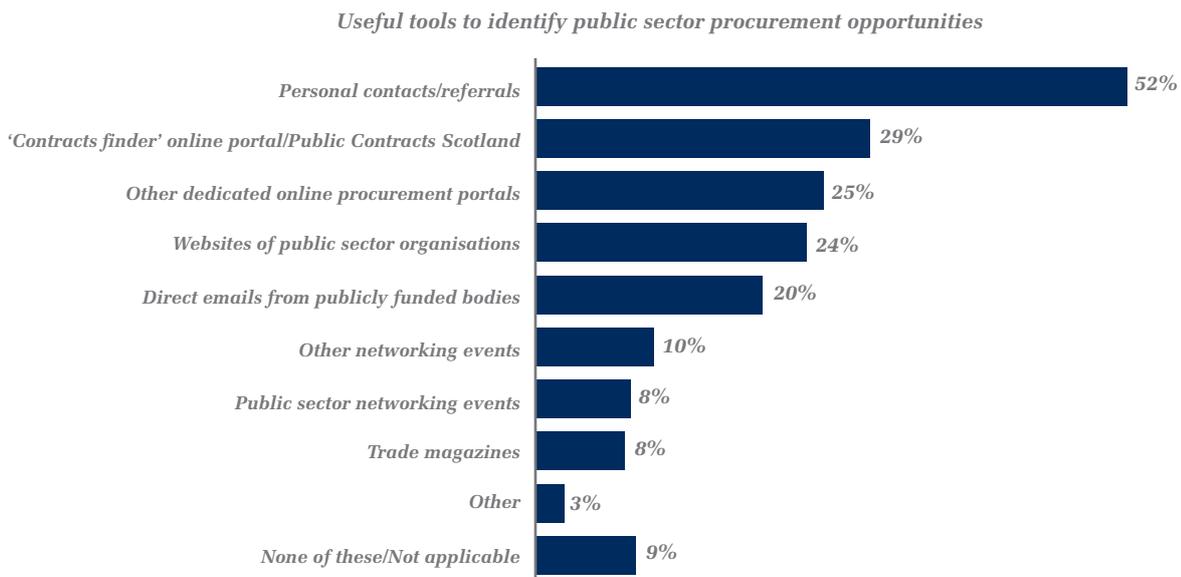


*Amongst members bidding for public sector contracts

Just 15 per cent of members have bid for public sector contracts in the past 12 months, among these, the average number of contracts is 7.1 (among all members, the average is 1.1).

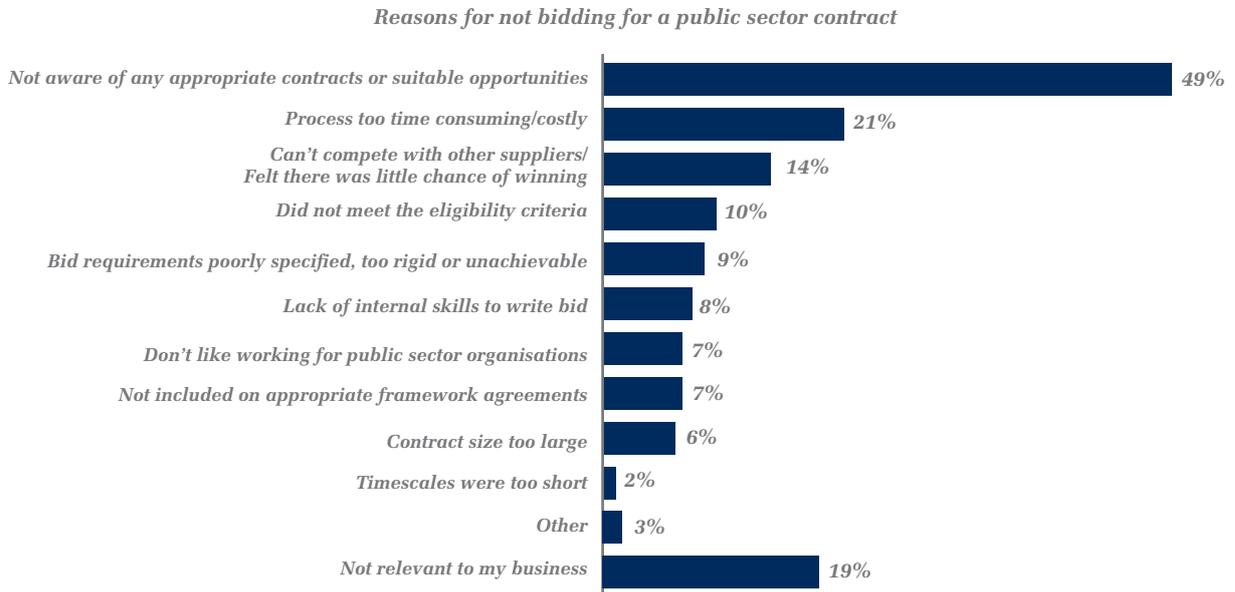
Four in ten members bidding have been unsuccessful. On average, members secure 2.4 contracts.

Which of the following do you find useful in identifying public sector procurement opportunities? Base: 396 (bidding for public sector contracts)



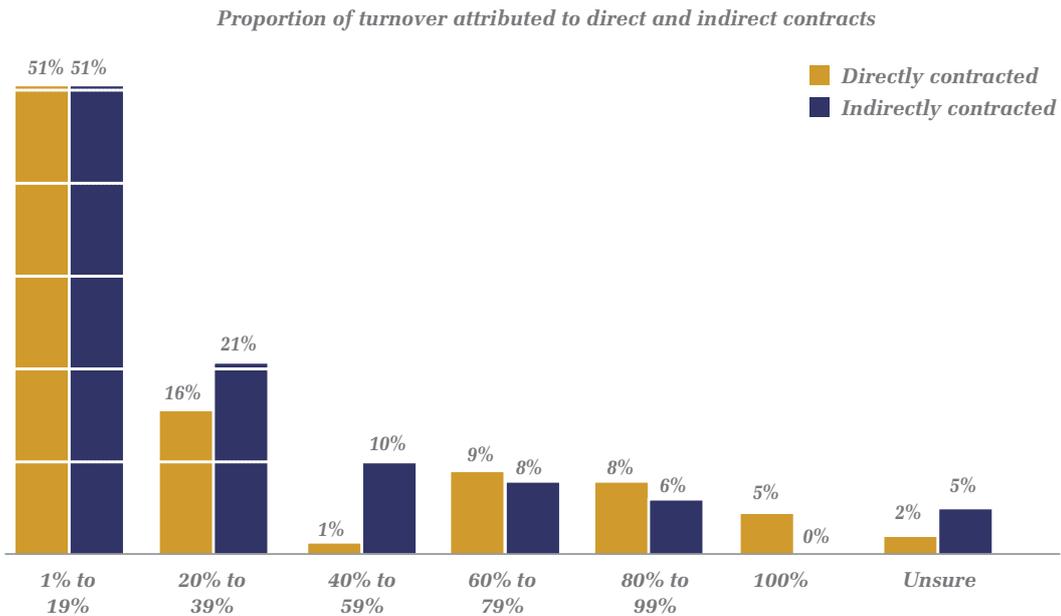
The majority of members highlight personal contacts/referrals as the most useful tool to identify public sector opportunities. Less than three in ten claim dedicated portals and websites as useful.

For what reasons, if any, has your business decided not to submit a bid for a public procurement opportunity in the past 12 months? Base: 2259 (not bidding for a public sector contract)



Lack of awareness of any appropriate contracts or suitable opportunities is the main reason members have not submitted a public sector bid; around half state this.

Over the past 12 months, what proportion of your business turnover has been generated from work (a) directly contracted by publically funded bodies (b) indirectly contracted by publically funded bodies? Base: 130-196 (won a public sector contract)

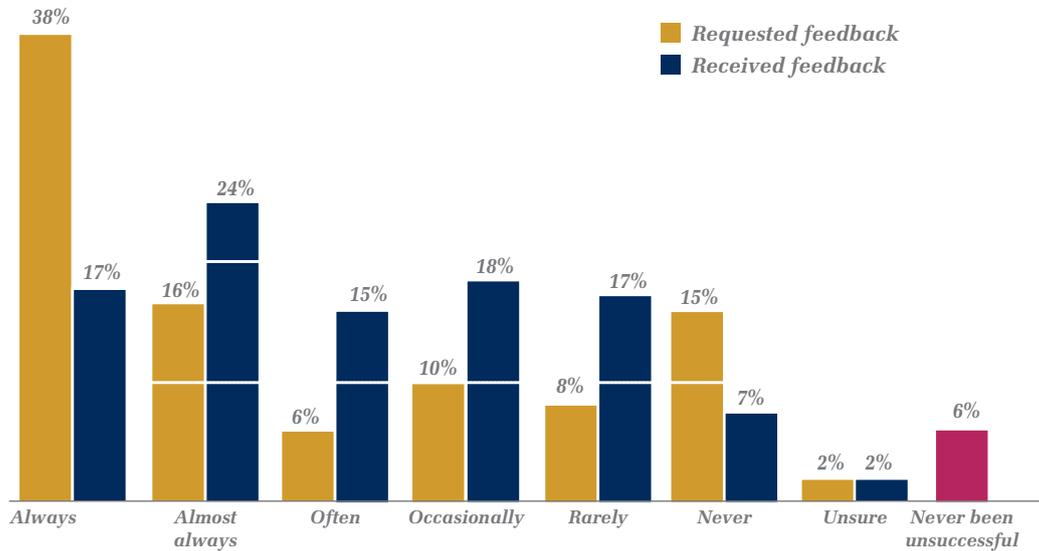


The majority of members securing public sector contracts attribute up to 20 per cent of their turnover towards them.

How frequently do you ask for feedback on public sector bids that you have not successfully won?
 Base: 398 (bidding for public sector contract)

When you ask for feedback on unsuccessful public sector bids how frequently do you receive it? Base: 306
 (ask for feedback)

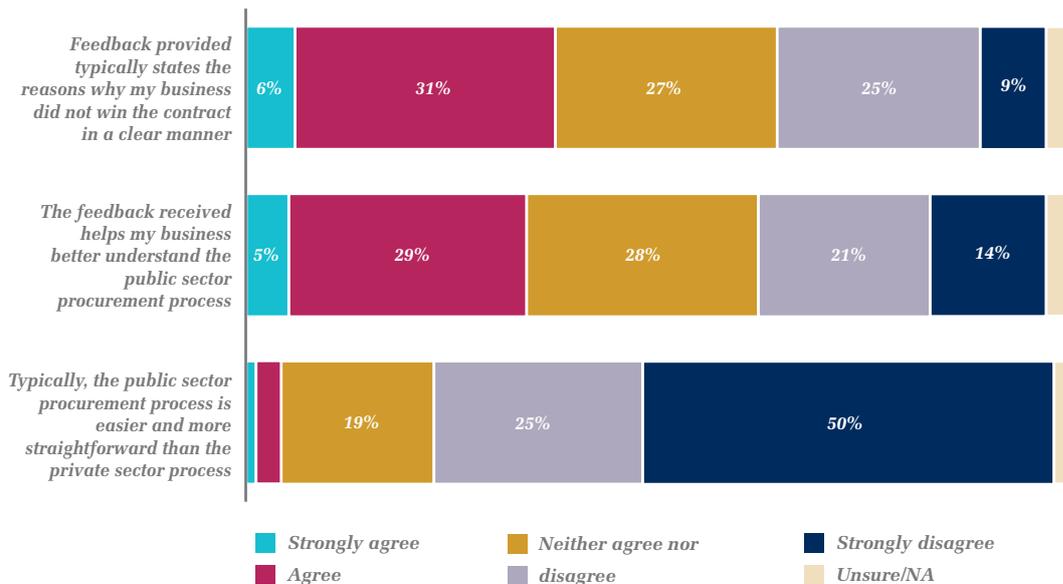
Frequency of requesting and receiving feedback for unsuccessful bids



Over half of members always or almost always request feedback on unsuccessful public sector bids. Of these around three quarters receive it.

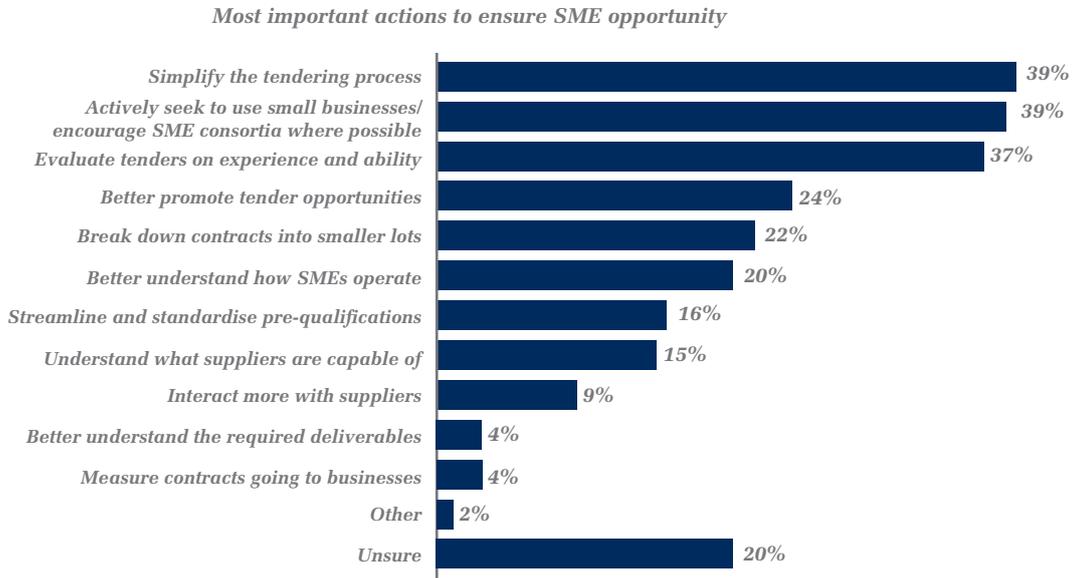
To what extent do you agree or disagree with the following? Base: 268–377 (received feedback)

Review of public sector feedback



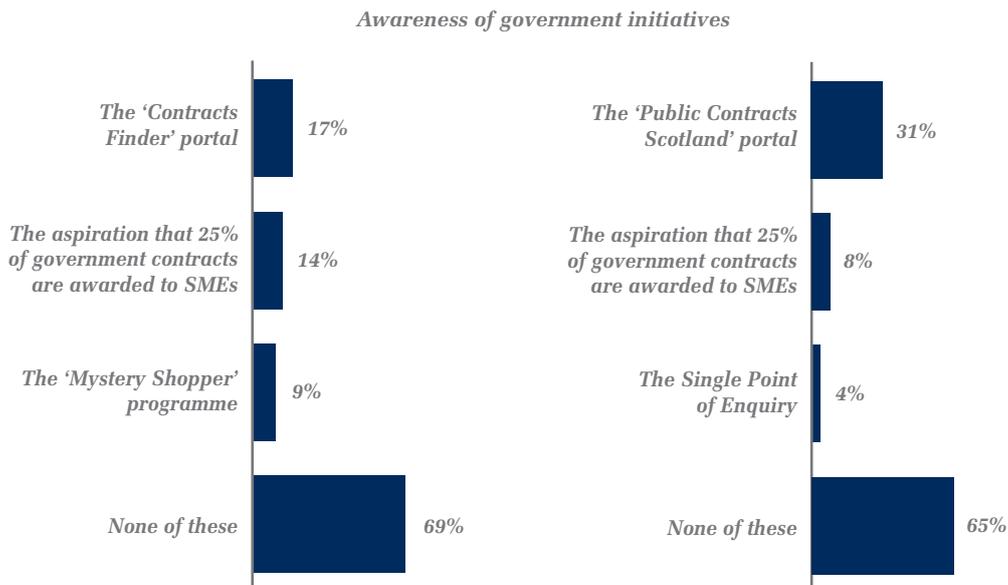
While members' views are mixed concerning the usefulness of the public sector feedback they receive, there is clarity regarding the public process when compared to the private sector process; the vast majority argue the private process is more straightforward.

What are the three most important actions public procurement teams need to take to ensure SMEs have the best opportunity to compete effectively? Base: 2613



Simplifying the tendering process, actively seeking to use small businesses and evaluating tenders on experience and ability are the most important actions public procurement teams need to take to ensure SME's have the best opportunity to compete effectively.

**And which of the following government initiatives are you aware of? Base: 2263 (England, Wales, Northern Ireland)
And which of the following government initiatives are you aware of? Base: 255 (Scotland)**



Lack of awareness of any appropriate contracts or suitable opportunities is the main reason members have not submitted a public sector bid; around half state this.



Federation of Small Businesses
The UK's Leading Business Organisation

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