



Federation of Small Businesses
The UK's Leading Business Organisation



Local Procurement

***Making the most of small
business, one year on***



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Foreword

Nearly six years on from the start of the financial crisis, the consequences of failure in the banking system are still being felt in all walks of life. The simultaneous contraction of both private sector lending and public sector spending has made for some of the most challenging conditions for the UK economy in living memory. This makes it more important than ever to make the most of the scarce resources available for stimulating the economic growth required to support our aspirations. With local authorities' combined expenditure on services and capital projects totalling in excess of £144 billion per annum, the country cannot afford to squander the opportunity this investment affords to support recovery, and to ensure that all reap the benefits as meaningful growth starts to reverse the damage that has been done.

The FSB believes that public procurement must be about more than delivering services, and that local authority procurement in particular must be used strategically to deliver social and economic gains. More specifically, we believe that it must be used to support local growth and local jobs by using local businesses to keep more of local council's money in local economies. In this way we can all benefit from the economic multiplier effects of this investment. This is an idea that is gaining increasing traction in Westminster and Whitehall, as well as in the Devolved administrations in Scotland, Wales and Northern Ireland. The benefits of opening up local procurement to wider participation by small firms are also increasingly being recognised at local authority level, and we warmly welcome the progress that has been made to date. However, sustaining the momentum driving this progress requires leadership both from national governments, and more importantly from within local authorities.

It also requires leadership from business in terms of highlighting the barriers, and more importantly highlighting the solutions. As the UK's largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms, the FSB sought to provide this

leadership by engaging the Centre for Local Economic Strategies (CLES) to undertake primary research with local authorities. This was aimed at providing a clear UK-wide picture of their procurement practices, what is being done to increase spend with local SMEs, and to help identify opportunities for improvement.

The full report, *Local Procurement: Making the most of Small Business*, was published in 2012 and was so well received that the FSB has asked CLES to rerun the survey to chart progress to date, and to conduct four best practice case studies of local authority procurement. These case studies include supply chain analyses which consistently show the benefits to local economies of improving spending with small local firms.

This report provides both the rationale for increasing spend with local SMEs, and a wide range of options for doing so. While the research consistently finds much good practice across the country, no authority is doing everything. The FSB hopes that this report will help all authorities to make the most of what small businesses have to offer.



Mike Cherry LIWSc FRSA
National Policy Chairman

Executive summary

The potential of local authority spending to support local economic development is being recognised in public procurement policy reforms in England, Scotland, Wales and Northern Ireland.

Research by the Centre for Local Economic Strategies for the FSB has found that:

1. Responding authorities spent a combined £28.1 billion on procuring goods and services.
2. Responding authorities collectively spent over £8.7 billion on procuring goods and services with local firms, generating nearly £4.5 billion of additional benefit for local economies; this is an additional 51p for every £1 spent.
3. When the effects of local spend are broken down and analysed, every £1 spent by a participating local authority with local SMEs generated an additional 63p of benefit for their local economy, compared to just 40p generated by large local firms.
4. The £4.1 billion participating authorities spent with local SME firms generated £2.6 billion of additional economic benefit for local economies whereas the greater sum of £4.6 billion spent with large local firms generated only £1.86 billion for local economies.
5. This means that small local firms generated over £746 million more benefit for local economies than large firms through their re-spend and through the re-spend of their suppliers. This is despite receiving over £524 million less than large local firms.
6. This in turn suggests that small local firms generated over 58 per cent more economic benefit for local economies over two rounds of re-spending than large local firms did.
7. If local authorities increased spend with local firms by five per cent it would increase collective spend in the local economy by over £1.4 billion.
8. If local authorities increased spend with local firms by five per cent, and with SMEs by three per cent this would increase investment in local SMEs by over £964.6 million.

9. If local authorities increased spend with local firms by five per cent, and with SMEs by three per cent this would also increase the wider benefit brought to the local economy of large and SME firm re-spending from over £4.46 billion to over £5.25 billion; an increase of over £788 million without increasing the overall collective spend of £28.1 billion.
10. Good practice in procurement is widespread with in excess of 90 per cent of local authorities taking action to assist local SMEs. Results of similar strength for process simplification, and the breaking of contracts into lots, further suggest that they are targeting priority areas for SMEs.
11. Local authorities need to use contract clauses to ensure that their payment policies, and especially those on prompt payment, are passed on by tier one suppliers through their own supply chains.

An analysis of research by Research by Design Ltd with FSB members on procurement suggests that:

1. Seventy-eight per cent of small firms responding had not bid or worked on any public sector contracts.
2. Of those responding that had bid, more than half (55%) were successful in winning at least one contract and nearly a third (30%) had won multiple contracts.
3. Local authorities seeking to access the local economic benefits of procuring with SMEs should focus on capacity building engagement events with SMEs, as well as continuing the progress already made on process simplification, and the breaking down of contracts into lots.

Section three of this report provides a toolkit for local authorities which includes:

1. General recommendations for local authorities seeking to increase their spend with SMEs.
2. Four major case studies from across the UK.
3. Quick examples of local authority good practice in procurement.
4. A specimen contract clause for passing on councils' prompt payment terms to their suppliers' supply chains.
5. An easy to use template for assessing local authority procurement practices against the FSBs best practice procurement model.
6. A myth buster section to clear up some common misconceptions about procurement.

Part 1

Why increase SME participation in procurement?

Introduction

Despite significant cuts to local authority budgets of 33 per cent in England over the current Spending Review period, local authorities still retain significant spending power. In the financial year 2010–11, local government in England accounted for 24 per cent of the UK's Total Managed Expenditure, and total expenditure by English local authorities was £172 billion¹. Over the same period these authorities' net expenditure on general services was £121.3 billion, with capital expenditure a further £23.1 billion². With resources scarce, there is an increasing realisation at all levels of government that public procurement can be used as a lever to tackle economic and social challenges. If these levers are to be used to maximum effect, FSB and CLES believe that local authorities must adapt the way in which they approach procurement. For some authorities this means fine-tuning their existing practices, for others it can mean an overhaul of the way in which they conduct procurement.

Since the publication of the original 2012 FSB/CLES report *Local Procurement: Making the most of small business* the need to make the most of remaining public spending has been reflected in legislative and policy changes by administrations across the UK.

Developments in UK procurement policy

England

In England the Public Services (Social Value) Act 2012³ (SVA) came into force in January 2013. It requires certain public authorities at the pre-

¹ Department For Communities and Local Government and the Office for National Statistics, *Local Government Financial Statistics England No.22*, 2012, p8.

² Department For Communities and Local Government and the Office for National Statistics, *Local Government Financial Statistics England No.22*, 2012, p10.

³ HM Government (2012) *Public Services (Social Value Act)*. http://www.legislation.gov.uk/ukpga/2012/3/pdfs/ukpga_20120003_en.pdf.

procurement phase of procuring services to consider how what is being procured might improve the economic, social and environmental well-being of an area, and how the authority might secure that improvement in the procurement process itself. There is also a requirement that authorities consider whether to consult on these matters.

The legislation has the potential to improve the commissioning process and ensure that value beyond solely financial costs is included in procurement decisions. Potentially, it will enable more charities, voluntary groups and SMEs to use their skills and expertise to deliver more public services. The important element of the Act is that it is focused on revenue side procurements, so potentially opens up the process to SMEs which are focused on activities other than construction.

It seems that the SVA is already having an impact. Our research found that 65 per cent of local authorities in England and Wales have changed their processes and practice around procurement as a result of the SVA.

Scotland

In Scotland as part of the wider public service transformation agenda, the Scottish Government has been consulting upon a Procurement Reform Bill⁴. The consultation for the Bill has sought opinion about the overarching aim of the Bill and proposals around six core themes. There is a strong emphasis on small business themes in the Bill which look to reduce bureaucracy and deliver economic, social and environmental benefits.

A number of the proposals contained in the Bill are reflective of the FSB's recommendations for more progressive procurement as discussed earlier. These include:

- That it would be appropriate for public bodies to publish annual procurement plans.
- That the Bill should include a general duty on public bodies to consider how the specifications of a requirement may impact on the ability of newer businesses, SMEs and third sector organisations to compete.
- That those awarding major contracts should be required to consider including community benefit clauses.

The findings of the consultation have been detailed in an analysis paper⁵, with the Bill expected to be laid in the Scottish Parliament later in 2013.

Wales

In Wales, the Welsh Government published the findings of an independent review of its procurement processes and their impact in August 2012. Undertaken by John McClelland, the review particularly sought to consider the overall effectiveness of Welsh public sector procurement and how its impact can be maximised. The review considered the procurement plans of the Welsh Government in terms of their Programme for Government and

⁴ The Scottish Government (2012) *Procurement Reform Bill*. <http://www.scotland.gov.uk/Resource/0039/00398733.pdf>.

⁵ The Scottish Government (2013) *Procurement Reform Bill Consultation: Analysis of consultation responses*. <http://www.scotland.gov.uk/Resource/0041/00412974.pdf>.

a number of other themes including procurement operating models and measurement tools.

Like the Procurement Reform Bill in Scotland, the review's recommendations are linked to those of the FSB including:

- That Welsh Government should confirm that it expects delivery of a balanced set of wider benefits through the process.
- That the concept of linking economic development, specifically supplier support and development, to public procurement should be vigorously pursued.
- That the Welsh Government should identify the factors that contribute to a higher proportion of spending with SMEs, and require plans from the lower performing organisations to bring them to that level.

Northern Ireland

In Northern Ireland policy developments around procurement have been driven by the principles of the 2011–2015 Programme for Government which is dually focused on growing the Northern Ireland economy and tackling disadvantage within the province. The Northern Ireland Assembly is working its way through the priorities of the Programme for Government including that to: Include social clauses in all public procurement contracts for suppliers, services and construction.

This commitment has been legislated for in the Local Government Best Value Order (Northern Ireland) 2012⁶, which came into effect in July 2012. The order removes provisions placed upon local authorities in the Local Government (Best Value) Act 2002 in relation to their public supply or works contracts, and now enables councils to consider the inclusion of social clauses in their contracts. The Order is being taken advantage of in construction activities in particular through the development of apprenticeships. Councils are also however expected to consider social benefits in revenue side procurements as well.

The economic benefits of spending with small firms

The survey of local authorities revealed that those responding spent a combined £28.1 billion on procuring goods and services, of which 31.1 per cent, around £8.7 billion, was within their own boundary. It further found that, on average, local authorities spend 47 per cent of their total procurement spend with SMEs.

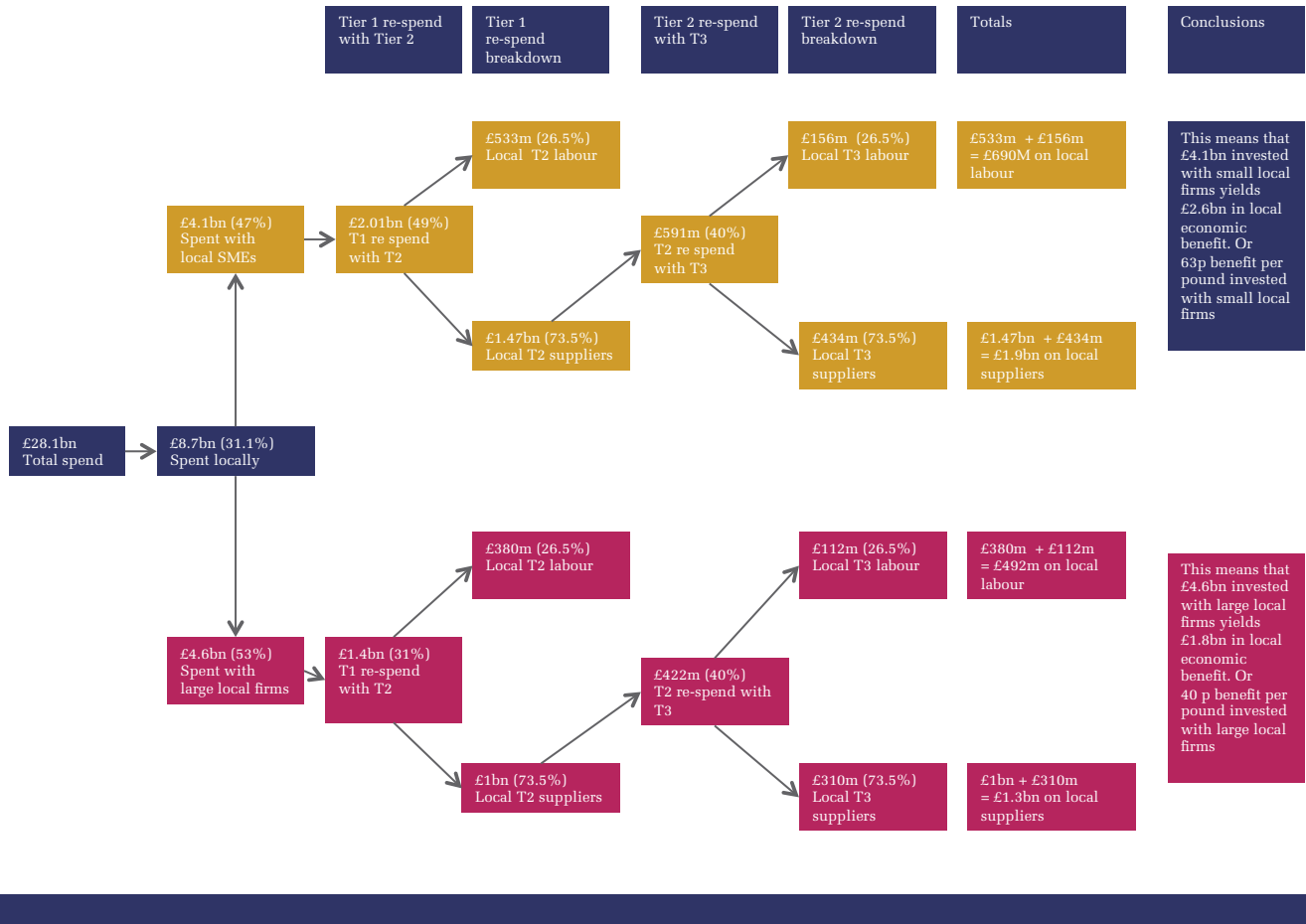
CLES wider research with local authorities has found that small firms will re-spend 49p in every £1 they receive back in a local economy; whereas large firms will re-spend 31p in every £1 back in a local economy. The wider research has also revealed that 26.5 per cent of supplier re-spend will be upon labour and the remaining 73.5 per cent on supplies.

With this information it is possible to adapt the Local Multiplier 3 methodology developed by the New Economics Foundation for analysing

⁶ HM Government (2012) *Local Government Best Value Order (Northern Ireland) 2012*. <http://www.legislation.gov.uk/nidsr/2012/9780337987465>.

local supply chains to reach some robust conclusions regarding the relative economic impacts of spending with large local firms and local SMEs. These are summarised in the diagram below, and the full calculations can be found in the Annex.

Graphic 1: How spending with local SMEs generates more local benefit than large local firms.



Please note that the figures in this diagram have been rounded and therefore may not always sum up. For the full calculations, please refer to the Annex.

Reallocating spend towards local and small business

It is possible to detail the extent to which benefit to local economies would change if local authorities reallocated spend towards local business, towards small business, and towards local and small business.

The survey of local authorities revealed that on average 31.1 per cent of a local authority’s spend was within its own boundary. Table 1 illustrates the effects of increasing this percentage by five per cent to 36.1 per cent and by 10 per cent to 41.1 per cent. It also illustrates what would happen if local authorities were able to spend half of their procurement budgets locally; an 18.9 per cent. The analysis assumes that the baseline total figure of £28.1 billion remains the same.

Table 1: Impact of reallocating spend towards local business

Baseline total spend	Baseline local spend (at 31.1%)	Increase in local spend percentage	Amount spent in local economy	Increase in local spend value	Average per authority
£28.1bn	£8,739,100,000	5%	£10,144,100,000	£1,405,000,000	£7,937,853.11
£28.1bn	£8,739,100,000	10%	£11,549,100,000	£2,810,000,000	£15,875,706.21
£28.1bn	£8,739,100,000	18.9%	£14,050,000,000	£5,310,900,000	£30,005,084.75

This suggests that increases of between five per cent and 18.9 per cent would increase the value of local spend by £1.4 billion to £5.3 billion across the participating authorities.

The survey of local authorities revealed that on average 47 per cent of a local authority’s spend was within SMEs. Table 2 illustrates the effects of increasing this percentage by a) three per cent to 50 per cent; b) 13 per cent to 60 per cent; and c) 23 per cent to 70 per cent. It recognises that the baseline total figure of £28.1 billion remains the same and that any increases in spend with small local business is offset by a concomitant reduction in spend with large local business.

Table 2: Impact of reallocating spend towards small business

Baseline total spend	Baseline local and small business spend (at 31.1% and 47%)	Increase in small business percentage	Amount spent with local and small business	Increase in spend with local SMEs	Average per authority
£28.1bn	£4,107,377,000	3%	£4,369,550,000	£262,173,000	£1,481,203.39
£28.1bn	£4,107,377,000	13%	£5,243,460,000	£1,136,083,000	£6,418,548.02
£28.1bn	£4,107,377,000	23%	£6,117,370,000	£2,009,993,000	£11,335,892.66

This suggests that increasing spend with local SMEs by just three per cent would result in over £262 million more being investment with them; an average of £1.48 million per authority across the participating authorities. Similarly an increase of 23 per cent could increase spend with SMEs by around £2 billion; an average of £11.3 million per authority across those participating.

Table 3 illustrates how total spending with local SMEs could be increased if participating local authorities were able to increase the percentages of their procurement spend locally and with SMEs firms. It recognises that the baseline total figure of £28.1 billion remains the same and that both variables of local spend and small business spend are increased.

Table 3: Impact on spend levels with small local business

Baseline total spend	Baseline local and small business spend (at 31.1% local and 47% small)	Increase in local spend percentage	Increase in SME business percentage	Amount spent with local SMEs	Increase in spend with local SMEs	Average per authority
£28.1bn	£4,107,377,000	5%	3%	£5,072,050,000	£964,673,000	£1,481,203.39
£28.1bn	£4,107,377,000	10%	13%	£6,929,460,000	£2,822,083,000	£6,418,548.02
£28.1bn	£4,107,377,000	18.9%	23%	£9,835,000,000	£5,727,623,000	£11,335,892.66

This suggests that modest increases in spend with local business of five per cent, and of three per cent with SME business, would increase spend levels with local SMEs business by £964.67 million; an average of £1,48 million per participating authority. At the higher end, increases in spend with local business of 18.9 per cent, and of 23 per cent with SME business, would increase spend levels with local SMEs business by £5.7 billion; an average of £11.3 million per participating authority.

Using the multiplier model described earlier and the projections discussed above resulting from reallocating spend towards small and local business; it is also possible to project what would happen in terms of wider benefit to the local economy as a result of supplier re-spend. Table 4 details how each of the projections affect re-spend back in the local economy by tier 1 and tier 2 suppliers. It needs to be recognised that increased spend with small local firms may mean that the benefit brought to a local economy by a large local firm might be decreased:

Table 4: Impact on supplier re-spending

Baseline local SME re-spend	Baseline large and local business re-spend	Increase in local and SME spend percentages	Amount re-spent in local economy by local SMEs	Amount re-spent in local economy by large local firms	Increase in re-spend in local economy
£2,604,323,460.62	£1,857,969,364.22	5% and 3%	£3,215,984,023.00	£2,034,602,137	£788,293,335.16
£2,604,323,460.62	£1,857,969,364.22	10% and 13%	£4,393,693,407.60	£1,853,122,389.60	£1,784,522,972.36
£2,604,323,460.62	£1,857,969,364.22	18.9% and 23%	£6,235,980,100.00	£1,690,805,100.00	£3,464,492,375.16

This suggests that, the local economic benefit created by small local business derived through two rounds of re-spend would increase by over £788 million in the low end scenario and £3.46 billion in the high end without having to increase the overall spend of £28.1 billion.

Summary

- Investment of local authorities of £28.1 billion in buying goods and services brought over £8.7 billion for local economies based upon authorities spending 31.1 per cent of their spend in their own boundary.
- Authorities spend 47 per cent of their local spend with SMEs. This meant an investment in local SMEs of over £4.1 billion. Authorities spend 53 per cent of their local spend with large firms. This meant an investment in local large firms of over £4.6 billion.
- Investment by local authorities of £4.1 billion in local SMEs generated over £2.6 billion of wider benefit for local economies or over 63p for every £1 invested.
- Investment by local authorities of over £4.6 billion in large local firms generated nearly £1.86 billion of wider benefit for local economies or just over 40p for every £1 invested.
- Small local firms generate over 58 per cent more economic benefit for local economies over two rounds of re-spending than large local firms do.

- Total investment by local authorities of nearly £8.74 billion in local firms generated over £4.46 of wider benefit for local economies or just over 51p for every £1 invested.
- If local authorities increased spend with local firms by five per cent it would increase collective spend in the local economy from over £8.7 billion to over £10.1 billion, an increase of over £1.4 billion.
- If local authorities increased spend with local firms by five per cent and with SMEs by three per cent this would increase investment in local SMEs from over £4.1 billion to over £5.07 billion; an increase of over £964.6 million.
- It would also increase the wider benefit brought to the local economy of large and small firm re-spending from over £4.46 billion to over £5.25 billion, an increase of over £788 million.

Part 2

Survey Findings: Progress on 2012

Local Government survey results

Introduction

In July 2012, the Federation of Small Businesses (FSB) published *Local Procurement: Making the most of small businesses*⁷. This report was a considerable success, with 74 per cent of local authorities responding to the 2013 survey saying that they are aware of it. One year on from commencing the research, the FSB has commissioned the Centre for Local Economic Strategies (CLES) to repeat the research exercise with local authority Directors and Heads of Procurement with a view to understanding the way in which practice has changed.

The results are arranged under the following key themes:

1. Spend
2. Barriers and Engagement
3. Process
4. Payment

From the 432 local authorities which were asked to participate in the 2013 survey, a total of 177 completed the questionnaire, this represents a response rate of 41 per cent; this is an improved response rate and demonstrates strong interest in the project from local authorities. The participation of an increased number of local authorities, while a success for the survey as a whole, does mean that not all results from 2013 are directly comparable with those from 2012. Every effort has been made to take this into account in the following analysis.

⁷ Federation of Small Businesses (2012) *Local Procurement: Making the most of small businesses*. http://www.fsb.org.uk/policy/rpu/scotland/assets/publi_spec_procurjuly2012.pdf.

Overview of results

This section details the findings of the local government survey and assesses any change from the 2012 baseline. It is important to note that there were additional questions in 2013; change has therefore not been assessed in all cases.

The core findings of the research were:

- Responding authorities spent a combined £28.1 billion on procuring goods and services.
- Notwithstanding the considerable variability between councils responding, this is an average total spend of £172 million per authority.
- On average, local authorities spend 31.1 per cent of their total procurement spend within their own local authority boundary.
- On average, local authorities spend 47 per cent of their total procurement spend with SMEs.

Spend: Less cash but more recording.

- **Total spend:** The average total annual spend of local authorities in 2013 on procuring goods and services is £172 million. In 2012 this figure was £183 million. For authorities where findings can be directly compared, total average procurement spend has decreased between 2012 and 2013 from £182 million to £179 million.

Chart 1: Change in average total spend by authority type

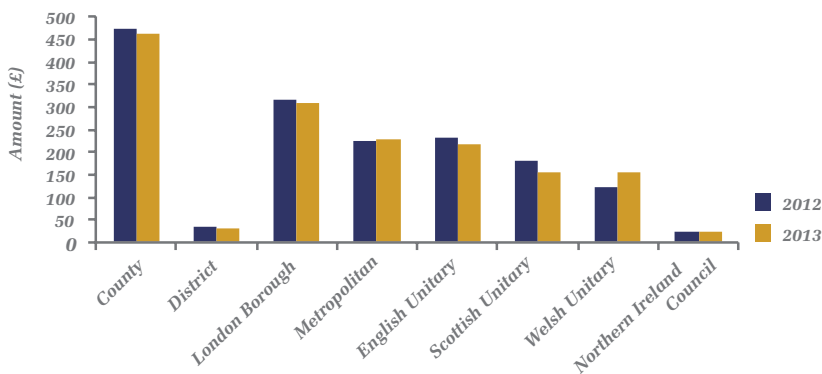
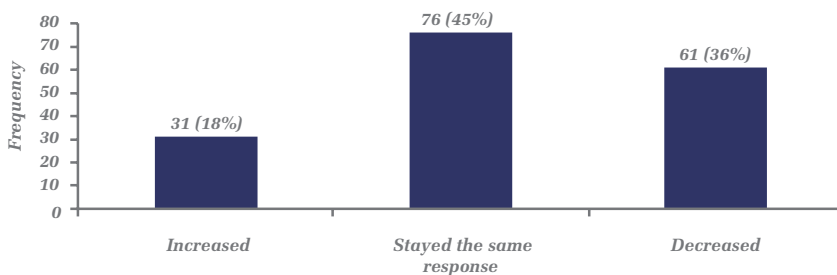


Chart 2: Change in annual spend on procuring goods and services



- Spend within local authority boundaries:** On average, local authorities spend 31.1 per cent of their total procurement spend within their own local authority boundary. In 2012 this figure was 34.8 per cent. For authorities where findings can be directly compared, average spend with local suppliers has decreased between 2012 and 2013 from 36 per cent to 34 per cent. While this may look like a slight regression, this is not a statically significant shift and may result from a very small number of individual contract aggregations. FSB and CLES therefore interpret this result as indicating that levels of spend with local suppliers was broadly constant year on year.
- Recording of spend:** 70 per cent of local authorities in 2013 record the amount of spend within their own local authority boundary. In 2012 this figure was 62 per cent. For authorities where findings can be directly compared, the proportion of authorities recording spend with local suppliers has increased from 68 per cent to 74 per cent. This suggests that progress has been made.
- Recording of spend with SMEs:** 60 per cent of local authorities in 2013 record the amount of spend with SMEs. In 2012 this figure was 51 per cent. For authorities where findings can be directly compared to the proportion of authorities recording spend with SMEs, this has increased from 56 per cent to 60 per cent. This suggests that progress has been made.
- Spending with SMEs:** On average, local authorities spend 47 per cent of their total procurement spend with SMEs. In 2012 this figure was 49 per cent. For authorities where findings can be directly compared, average spend with SMEs, has decreased between 2012 and 2013 from 51 per cent to 50 per cent. Again, this small decline is not a statistically significant result, especially in the light of the reduction in overall spend, and broadly flat would be an appropriate interpretation.

Chart 3: Average local spend by geographical area

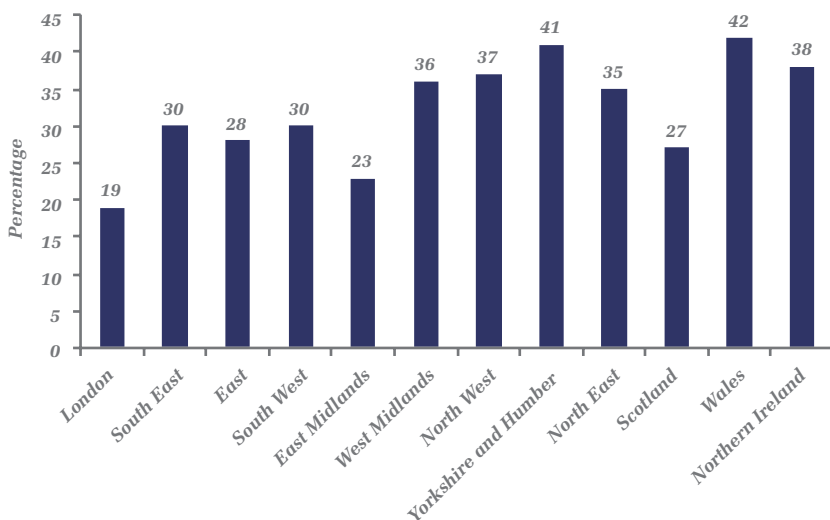
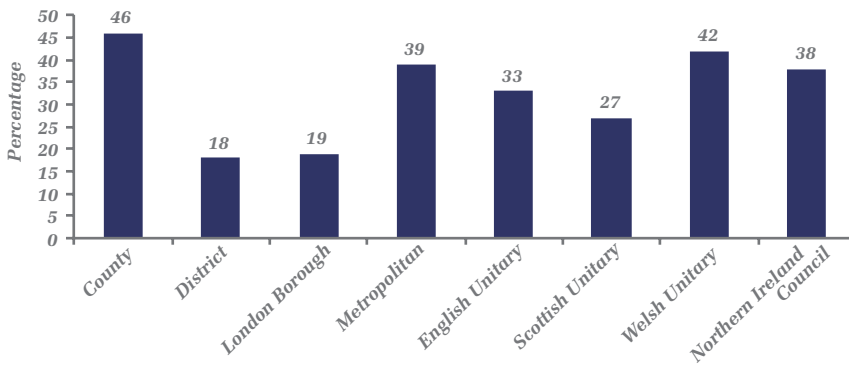


Chart 4: Average local spend by authority type

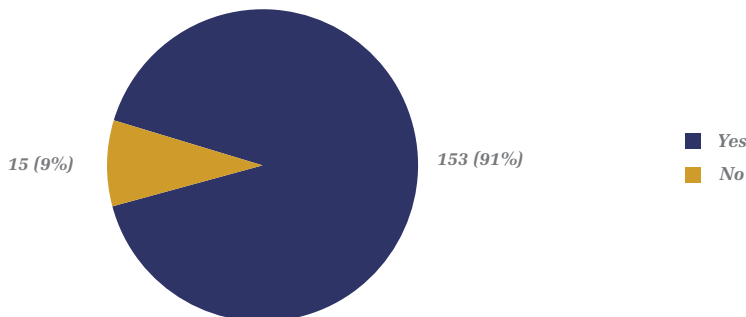


- **Targets to spend more locally:** 42 per cent of local authorities have set targets to improve levels of spend with organisations based in their local authority boundary.
- **Spend analysis:** 10 per cent of local authorities have undertaken analysis, exploring the extent to which suppliers re-spend back in their local authority boundary.

Barriers and engagement: The vast majority of authorities are trying to help SMEs

- **Supporting SMEs:** 91 per cent of local authorities in 2013 have initiatives to support SMEs in tendering. In 2012 this figure was 94 per cent. For authorities where findings can be directly compared, the proportion of authorities with initiatives in place to support SMEs in tendering has decreased from 98 per cent to 92 per cent. This may reflect reduced resources in local authority procurement departments for undertaking new projects as a result of the cuts to funding and resultant redundancies. It may also include an element of the absorption of initiatives into standard practice.
- **Initiatives:** Encouragingly 75 per cent of local authorities have introduced new initiatives to support SMEs in tendering over the last twelve months.

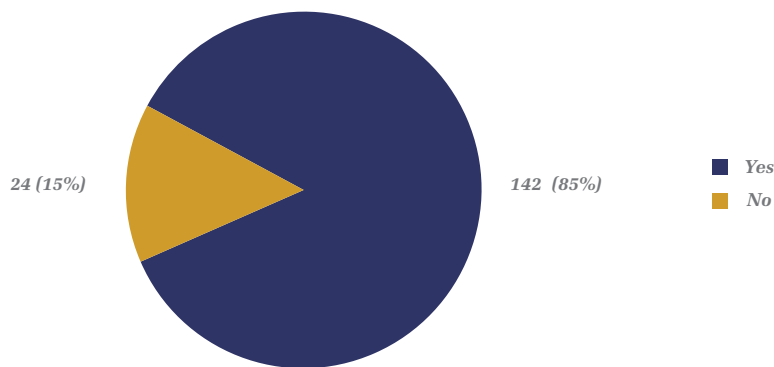
Chart 5: Proportion of authorities with initiatives to support SMEs in tendering



Process: More doing less below EU thresholds

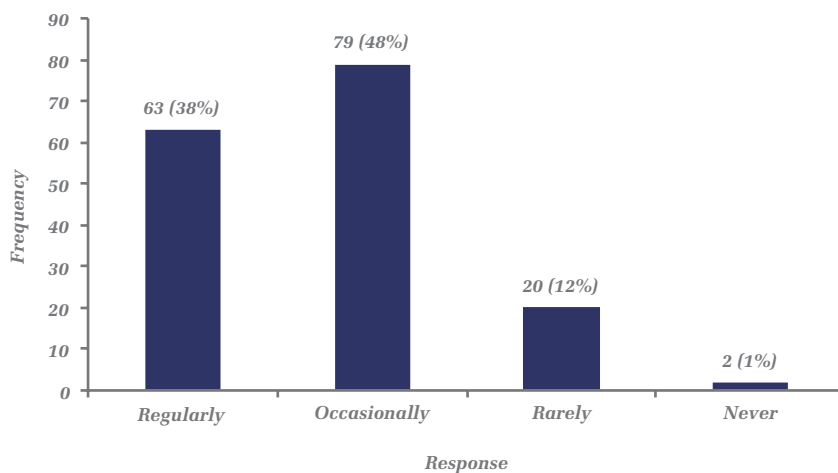
- EU Thresholds:** 85 per cent of local authorities adopt different processes for below EU threshold tenders. In 2012 this figure was 74 per cent. For authorities where findings can be directly compared, the proportion of authorities adopting different processes for below EU threshold tenders has increased from 74 per cent to 83 per cent. This suggests that significant progress has been made.

Chart 6: Proportion of authorities using different processes for below EU threshold tenders



- Aggregation and disaggregation:** 86 per cent of local authorities regularly or occasionally break contracts into lots. For 57 per cent of local authorities the use of framework agreements has stayed the same over the last twelve months. For 69 per cent of local authorities instances of contract aggregation have stayed the same over the last twelve months.

Chart 7: Regularity of breaking contracts into lots

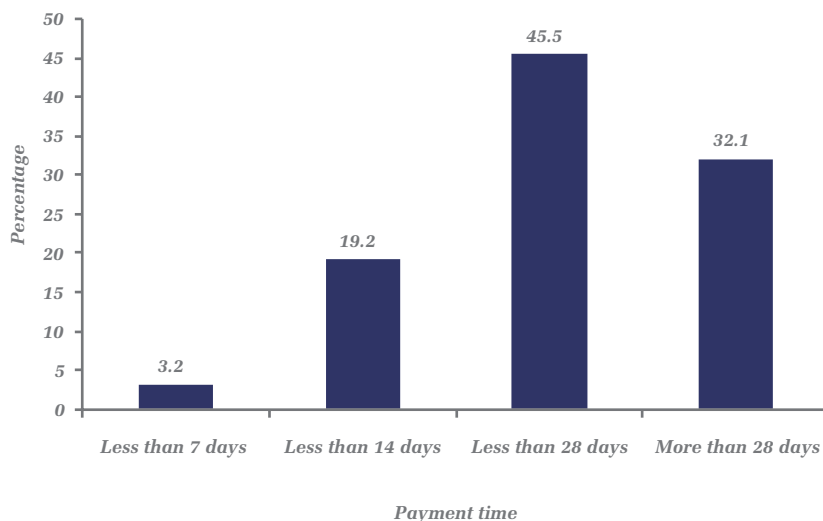


- **PQQs:** 99 per cent of local authorities use a Pre-Qualification Questionnaire (PQQ).
- **Process simplification:** 96 per cent of local authorities 'strongly agreed' or 'slightly agreed' with the statement that they had sought to simplify and standardise their tender process.
- **Independent accreditation:** 52 per cent of local authorities require independent accreditations as part of the procurement process, with 77 per cent accepting independent accreditations as evidence of compliance with their own procurement standards.
- **Contract awareness:** the vast majority of local authorities use council and regional portals as a means of advertising tender opportunities; 87 per cent of authorities felt that regional portals were either 'effective' or 'very effective' in raising awareness of procurement opportunities to SMEs.
- **Priorities:** The most important contemporary issue in the procurement process for local authorities is achieving cost savings. This was the same key issue in 2012. The FSB would strongly encourage authorities to consider re-prioritising to favour value as the top priority in procurement. As has already been demonstrated, the benefits to local economy of doing so are significant.

Payment: Policies in place but not enough terms passed on

- Ninety-five per cent of local authorities have in place policies for the payment of suppliers. In 2012 this figure was 93 per cent; 68 per cent of local authorities seek to pay suppliers in less than 28 days.

Chart 8: Payment schedule of authorities



Thirty-nine per cent of local authorities seek to pass on their payment terms to their main contractors.

Chart 9: Use of payment policies for suppliers

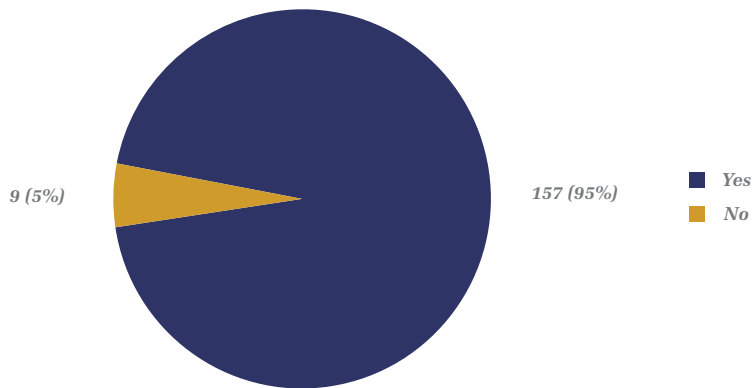
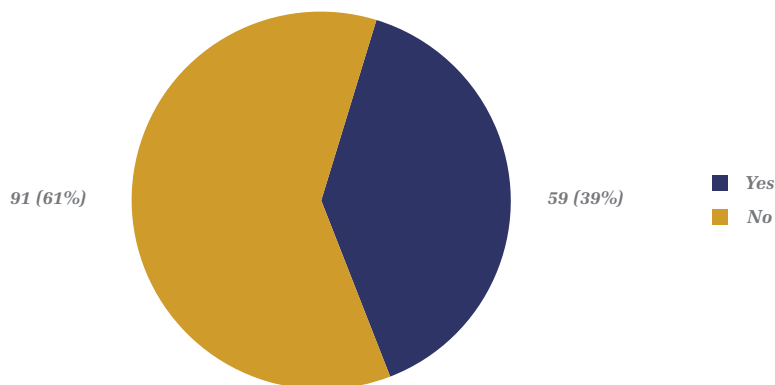


Chart 10: Proportion of authorities asking main contractors to pass on payment policy



Conclusions on the local authority survey

The overall picture is a positive one, with the results once again showing that most local authorities are trying to assist SMEs, and that there is much good practice in the sector. The FSB was particularly pleased with the very strong results in a number of areas. The very strong results for process simplification, and the breaking of contracts into lots further suggest that they are targeting priority areas for SMEs. The FSB was also encouraged to see strong progress by local authorities on tackling the issue of how EU procurement rules are interpreted. The nine per cent increase in the proportion of authorities adopting different processes for below EU threshold tenders demonstrates considerable progress in a short period of time, and the sector should be commended for this achievement in very difficult circumstances.

As well as highlighting much good practice, the survey results also provide a good indication of where practice can be improved. As such, the FSB would strongly recommend that those authorities not already doing so, improve their mechanisms for recording spend with SMEs, and set targets for increasing business with small local firms accordingly.

Another major priority for local authorities over the coming year should be to focus on the passing on of their payment terms through the supply chain. Late payment by large firms remains a significant issue for FSB members. Although authorities have generally been quick to recognise the importance of paying suppliers on time, the subsequent behaviour of these suppliers towards their supply chains is of equal importance and requires attention. The FSB strongly encourages local authorities to include the passing on of prompt payment terms through top tier suppliers' supply chains through the use of explicit contract terms that ensure all suppliers in the chain are paid as promptly.

FSB panel survey results

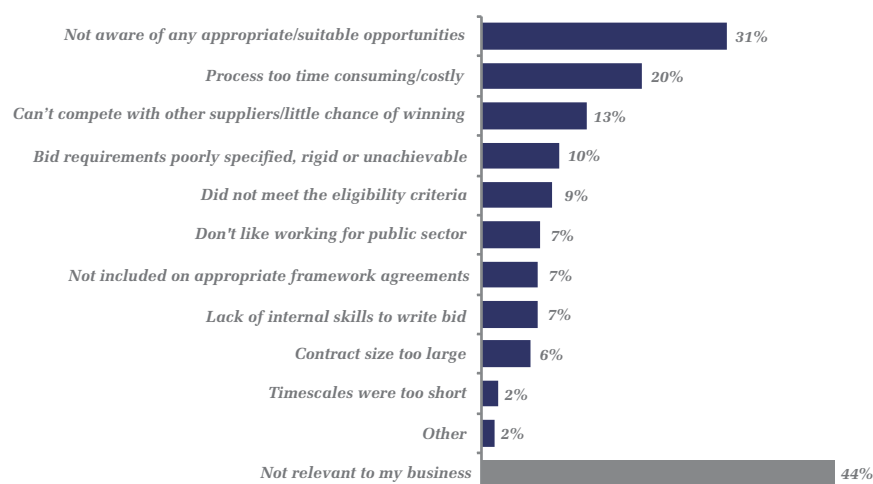
Introduction

To complement the local government survey, Research by Design were asked to repeat the 2012 procurement research exercise with FSB members. This survey carried out in March 2013 had a response rate of 38 per cent. The remainder of this section summarises the views on procurement of the 2,425 respondents. Where the response rate to a specific question has dropped significantly, this is usually due to the use of a filter question. Where figures are derived from questions such as these with significantly lower response rates, this will be acknowledged either in the text or via footnotes.

SME participation: Awareness and networking on the rise?

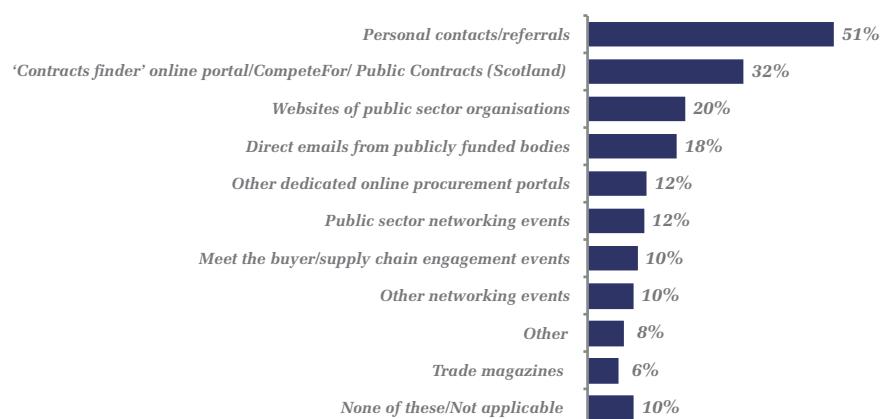
When asked about their businesses approach to public procurement, 78 per cent of respondents to the survey said that they have not bid or worked on any public sector contracts. There seem to be many reasons for this, the two main ones being lack of awareness of any appropriate contracts or suitable opportunities, and the time and expense of the process. These two reasons accounted for 51 per cent of responses. However, what is noticeable is that while process remained roughly constant from the 2012 survey falling by just one per cent to 20 per cent, lack of awareness of appropriate contracts or suitable opportunities fell significantly from 49 per cent in 2012 to 31 per cent in 2013. Simultaneously, the number of respondents suggesting that they had not submitted a bid in the last 12 months because they were not relevant to their businesses increased significantly from 19 per cent to 44 per cent. While this may indicate a change in the types of contract being put out to tender, or a change in the types of business responding to the survey, it may also suggest a shift from small businesses feeling excluded, to making an informed decision not to bid.

Chart 11: Q13. 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: 2,032 (not bidding for a public sector contract)



When asked to select from a list of options which are the most useful in identifying public sector procurement opportunities,⁸ an interesting pattern emerges. When results from 2012 and 2013 are compared, dedicated online portals, websites of public sector organisations, and direct emails from publically funded bodies all fell. Conversely, other networking events and public sector networking events rose, as did the number of respondents selecting other. Given that personal contacts and referrals remained consistently and significantly above any other options, this suggests that those firms engaging in public sector contacting are prioritising personal contact and looking to develop this. The increase in the 'Other' category, may suggest innovation in their approach to improving their prospects. Better than evens chance of success.

Chart 12: Q12. Which of the following do you find useful in identifying public sector procurement opportunities? Base: 337 (bidding for public sector contracts)

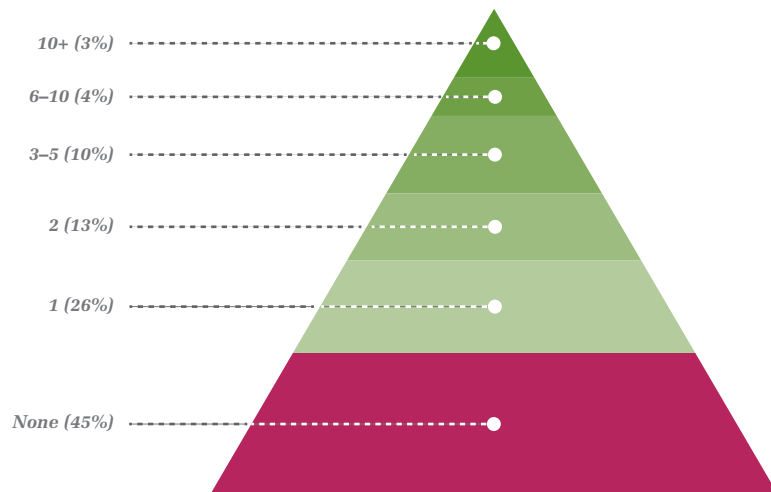


⁸ This question has a lower respondent base. 396 in 2012, 337 in 2013.

While the percentage of respondents reporting that no bids had been successful rose by five per cent to 45 per cent, it is worth noting that, in response to the question 'How many of your public sector bids have been successful over the past 12 months',⁹ 55 per cent were successful in winning at least one contract and 30 per cent won multiple contracts. This may suggest a dichotomy between those small firms with the capability required to win public sector contracts, and those without, with the former able to access multiple contracts once the basic capacity to win one bid has been achieved. This can be seen as evidence of the importance of capacity building and supply chain engagement programmes run by local authorities.

Graphic 2: Levels of success or otherwise at bidding for public contracts based on survey results.

Q11: How many of your public sector bids have been successful over the past 12 months?



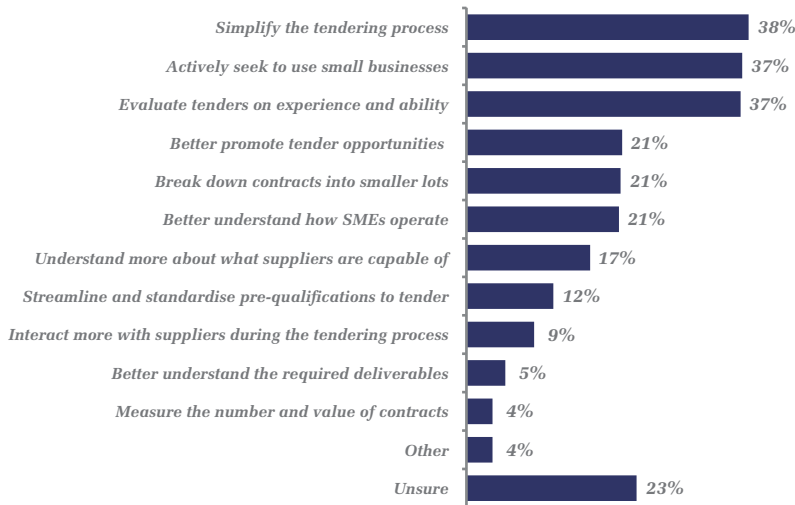
What do SMEs want from public procurers?

Overall, the main message from small firms responding to the survey was for local authorities to seek to use SMEs wherever possible, and to implement a range of measures, mostly focused on the process to do so. Small firms were particularly interested in overall process simplification, a move away from rigid turnover and size based evaluation criteria, better promotion of tender opportunities, and the breaking down of contracts into smaller lots.

Answers around better understanding of how SMEs operate, what they can offer, and supplier interaction, also suggest that SME supply chain engagement activities would be worth exploring for any authority which does not already have such a programme in place.

⁹ This question has a lower respondent base. 353 in 2012, 329 in 2013.

Chart 13: Q18. What are the three most important actions public procurement teams need to take to ensure SMEs have the best opportunity to compete effectively? Base: 2,328



Conclusion

The FSB believes that early, positive and proactive engagement with SME suppliers is an essential component of any local authorities' procurement strategy. It fits with an increasing preference for personal contact, allows for supply chain preparation in time to tender, and can be used to promote supply chain awareness of contract opportunities when they arise. It is also the means by which more small firms can be raised above the bidding competence threshold that brings them into contention for a successful bid. This in turn improves the choice for local authorities as clients, and enables them to maximise the retention of their procurement spend within the local economy.

Part 3

How to increase SME participation in procurement

Recommendations for local authorities

The results of the survey provide a broadly positive picture in terms of the relationship between local authorities and small business when it comes to tendering and purchasing. However, the results clearly demonstrate that there is potential for improvement in many areas, and to assist in the improvement process, the FSB and CLES have developed a suite of recommendations for local authorities to consider adopting. While not all recommendations will be new and suitable for all authorities, every authority should use them to review their practices and identify opportunities to work more effectively with SMEs. These recommendations are as follows:

1 Strategy and Policy

- Local authorities to ensure that their procurement strategies explicitly recognise the significant benefits of procuring from local small businesses when tendering for goods and services without compromising their legal stipulations.
- 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.
- Local authorities to consider actively how much of each procurement decision should be assigned to social value considerations.
- Local authority procurement strategies to set out how they will ensure best practice is followed and how they will monitor that progress.
- Local authorities to break down contracts into smaller lots wherever practical.

2 Spend Analysis

- 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.

- Local authorities to make information on spending publicly available and easily accessible in a useable format, at least annually.
- Local authorities to monitor and take account of the local economic impact of their key spending decisions.

3 Process Simplification

- Local authorities to adopt appropriate best practice with regard to their use of pre-qualification questionnaires (PQQs), which may include the adoption of existing, standardised PQQs; simplified pre-qualification processes for smaller procurements below EU thresholds; online pre-qualification; and discontinuation of PQQs and other requirements where they are unnecessary.
- Local authorities in the UK to consider using the relevant national, regional and sub-regional portals to advertise their procurement opportunities wherever appropriate to do so.
- Local authorities to ensure their use of selection requirements is proportionate and based purely on the needs of the contract and ensure that e-tendering systems, where practical, reduce consistent repetition of requirements for supplier information.

4 SME engagement

- Local authorities 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.
- Local authorities to provide detailed, specific and timely feedback to all businesses that request it under the provisions of the Remedies Directive 2009 in order to improve their bidding capabilities.
- Local authorities to ensure that regular training opportunities and supplier pre-engagement activities are available for small businesses in their area, to ensure that capacity is built ahead of opportunities becoming available and support market shaping.

5 Payment practices

- 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 ten days of receipt.
- Councils to consider the use of contract clauses to ensure that prime contractors pass on the council's payment terms to their subcontracted suppliers, and that the subcontracted suppliers likewise pass on terms throughout the supply chain.

Case study 1

North Lincolnshire Council

About the authority and procurement function

North Lincolnshire Council is an English unitary authority in the Yorkshire and Humber region. It predominantly consists of the principal town of Scunthorpe and a number of smaller market towns and villages, including Brigg, Broughton, Winterton and Barton-upon-Humber. The geographic location of the local authority presents both opportunities and challenges in respect of its supply chain.

The procurement function at North Lincolnshire Council is small but growing. The current team of two provide a strategic corporate coordination and advisory function, with most procurement undertaken by lead departments on a category management basis. Thus the corporate team provide the strategy and process for procurement, with departments such as adults, children and capital taking responsibility for purchasing based upon the principles set out centrally, together with project support from the centre.

The staff team for procurement is due to increase to four from June 2013. This is due to a number of reasons:

- Procurement is increasingly being used to drive efficiency, cost reduction and service transformation across the Council
- In the last two years, the procurement unit has assisted with the delivery of savings in the region of £3 million
- The procurement unit has a key role in supporting the Council's wider economic development objectives
- Linkages with sub-regional partners to support small business, in particular to bid for contract opportunities under the 'buy4northernlincolnshire' initiative

North Lincolnshire has historically had a strong procurement function; this is reflected in increased demand for advice from other authorities around Dynamic Purchasing Systems, and from other local organisations such as the locality's Academy schools.

North Lincolnshire Council has a procurement strategy in place for 2012–2015. The strategy is reflective of four core improvement themes which are:

- cost reduction and value for money
- economic growth
- strong and effective governance
- improved sustainability

In terms of economic growth, the Council endeavours to use its procurement spend to maximise economic benefit and sustainability in the North Lincolnshire economy. This means using the process of procurement to help create jobs and apprenticeships, and equip local businesses to take part in the process. A number of key performance indicators sit alongside the strategy in order to monitor progress against the outcomes. The emphasis on economic growth is mirrored in the close working relationship between procurement and economic development officers in North Lincolnshire.

Spend

North Lincolnshire Council spent approximately £116 million on procuring goods and services in the financial year 2012/13. North Lincolnshire Council has adopted an intelligence and relationship focused approach to procurement practice to ensure that the objectives of the procurement strategy are met. Central to this has been spend analysis and understanding not only where spend is going in geographic and sectoral terms, but also gathering intelligence about who local businesses are, what their capabilities are, and whether they have the capacity to provide goods and services to the Council. This spend and market intelligence activity has been undertaken jointly between procurement and economic development teams and has shaped a number of initiatives discussed later on in this case study.

North Lincolnshire Council actively records the amount they spend with organisations based in their local authority boundary. In the financial year 2012/13, 44 per cent of procurement spend over £10,000 was with organisations based in the North Lincolnshire local authority boundary. This is an increase from 34 per cent in 2011/12. Spend analysis has been historically undertaken using Spikes Cavell data. However, it is now much more intrinsically linked to the category management system which enables local spend reports to be run. North Lincolnshire Council have also broken their spend analysis down by wards within the locality. This has enabled them to identify gaps in spend in particular localities and sectors, and target business support accordingly. It is also used to target micro businesses which might be interested in attending 'meet the buyer' and other forms of procurement events. In support of improved transparency, the Council publishes details of all contracts awarded over £10,000 every month on its website. This also helps to open up supply chain opportunities.

North Lincolnshire Council are also looking to put targets in place for improvements in spend with locally based suppliers. This target has however not yet been set for 2013/14, but will be intrinsically linked to the procurement strategy. North Lincolnshire Council actively record levels of spend with SMEs. In the 2013 survey, they suggested that the latest available data indicated an SME spend proportion of 54 per cent. North Lincolnshire also suggested that they broke spend down by the constituent elements of SME. This is also recorded and analysed through the category management system.

The value of procurement to the North Lincolnshire economy

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

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

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

$$£116,000,000 \times 44\text{per cent} = £51,040,000$$

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

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

$$£51,040,000 \times 0.40 = £20,416,000$$

Step 3 – Local economic benefit of procurement spend

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

$$£51,040,000 + £20,416,000 = £71,456,000$$

Therefore investment of £116,000,000 in procurement brings £71,456,000 of benefit for the North Lincolnshire economy or 61.1 p for every £1 invested.

Barriers and engagement

North Lincolnshire Council believes that SMEs do face barriers in accessing procurement opportunities and have introduced a number of initiatives, particularly over the last twelve months, to support SMEs in tendering. The key barriers facing SMEs from the perspective of North Lincolnshire were:

- Dependency upon the public sector for work
- Lack of awareness of opportunities
- A need for help with some of the complex paperwork associated with procurement
- Difficulty in getting products known by public sector buyers, thus stifling innovation

North Lincolnshire Council has responded directly to these barriers with a number of initiatives:

- They have set up a portal which raises awareness of procurement opportunities with a host of public sector partners
- They have introduced a Dynamic Purchasing System which keeps procurement opportunities live on an ongoing basis

They have undertaken a host of events with the economic development team to enable local and small business to detail their wares and get advice about the procurement process.

The emphasis of all North Lincolnshire's procurement initiatives is upon stimulating and supporting the local market to bid for opportunities.

In October 2012, North Lincolnshire Council, in conjunction with other local public sector partners in North and North East Lincolnshire, launched an initiative called 'buy4northernlincolnshire'. This initiative is centred around a website (www.buy4northernlincolnshire.co.uk) whereby interested businesses can find out useful information on local public sector contract opportunities. The website includes details of current tenders, training and events, forward procurement plans and contract registers, useful links and resources, and online training in how to bid for public sector tenders.

Particularly innovative and something which is not available in other local authorities, is the forward planning element. This enables the local and small business base to get early awareness of the goods and service opportunities which are coming up and prepare their products and services accordingly. Twitter is also being used to effectively raise awareness of emerging opportunities.

Further to this, North Lincolnshire has promoted pioneering and innovative use of 'Dynamic Purchasing Systems' (DPS) for Transport, Highways and Adult Social Care which further reduces barriers to SMEs, providing an open opportunity to become an approved supplier to the Council. DPS is effectively a system which keeps procurement opportunities open to an approved list of suppliers at any point in time as opposed to being constricted to a framework agreement. To get onto the list, suppliers are required to fill out a straightforward pass/fail application form. The good thing about DPS is it allows small business to put things right if they are unsuccessful in relation to a particular tender, as they remain on the list and are provided with a range of further support and advice. DPS has been operational in North Lincolnshire since 2011 and is one way in which the procurement team are sharing their expertise with other local authorities.

Process

North Lincolnshire Council does use a PQQ; however they are seeking to adopt a number of innovative practices to reduce the burden of the PQQ in relation to certain thresholds. North Lincolnshire Council only mandates the use of PQQ for procurements over a value of £100,000. In addition, the Council has elected to use the national government's standard PQQ in the belief that it will reduce the burden for SMEs in the tender process. For below EU threshold tenders, North Lincolnshire Council has thresholds where it requires a certain number of quotations. For quotations, up to £10,000 in value, a minimum of two quotes are sought; for tenders between £10,000 and £100,000, a minimum of four quotes are sought openly using the council's e-tendering system.

Use of framework agreements by North Lincolnshire Council has decreased over the last twelve months with incidences of contract aggregation staying the same. The authority occasionally breaks contracts down into lots to

assist SMEs to bid. The reason for the decrease in frameworks is the growth in the use of DPS, which negates the need for closed procurements available only to a small number of suppliers.

Frameworks, aggregation and lotting are always considered in the procurement process but only used where there is demonstrable evidence that they can maximise leverage in terms of efficiencies, enhance competition and involve small business in the bidding process, and importantly contribute to a host of economic and social outcomes which are important for North Lincolnshire as a place.

North Lincolnshire Council utilise their own website, regional portals and the national procurement portal (Contracts Finder) to advertise tender opportunities. They view the regional portal as a very effective vehicle in raising awareness of procurement opportunities to SMEs, with the importance of buy4northlincolnshire growing. North Lincolnshire Council has a policy statement in place detailing the number of days it takes to pay suppliers. They also require main contractors to pass these terms on to sub-contractors. This is enforced through stipulations in terms and conditions, particularly in relation to construction contracts.

Improvement

North Lincolnshire Council is aware of the FSB’s publication *Local procurement: Making the most of small business*. Table 3 details the extent to which they agreed their procurement practice reflected the following statements:

Scale of agreement with statements: North Lincolnshire Council

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

North Lincolnshire Council has changed their procurement practices as a result of the Public Services (Social Value) Act. They have introduced the requirement for an integrated impact assessment to be undertaken on service procurements over the OJEU threshold to identify risks and opportunities

associated with the Public Services (Social Value) Act. Consideration of the Act has been included in their wider sustainable procurement policy, with a requirement that this is considered in every procurement process.

Summary

The effectiveness of North Lincolnshire's procurement policy and practice in relation to local and small business is evidenced through a number of factors:

- There has been growth over the last year in spend with local organisations.
- There is a local initiative in place working with partners which provides signposting for small business to opportunities, events and training.
- Dynamic purchasing has opened up the market to small firms.
- There is increasing demand from other authorities and organisations for North Lincolnshire's procurement expertise .
- The procurement and economic development teams work collaboratively to gather local and small business intelligence about innovative products and services.

Case study 2

Scottish Borders Council

About the authority

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

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

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

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

Spend

Scottish Borders Council spent approximately £104 million on procuring goods and services in the financial year 2012/13. Around a quarter of this was spent on capital procurements (£26 million), with the remainder on the revenue side. Scottish Borders Council actively records the amount they spend with organisations based within the authority boundary. In the financial year 2012/13, 31 per cent of total procurement spend was with organisations based in the Scottish Borders local authority boundary. While internal systems for measuring local spend are recognised as requiring further development, the team have access to a national database, the Spikes Cavell Observatory; these analytics allows the profiling of spend and contract management. The Council is currently considering piloting a new post, which will have responsibility for enhancing the authority's use of this resource to measure and map local spend. Scottish Borders Council is further considering appropriate procurement performance indicators which could include a measure of spend with local suppliers.

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

In 2012/13, Scottish Borders advised that the majority of local spend was with SMEs and this was a result of the nature of the local environment and economy. Indeed, much of this local spend is with micro and small businesses.¹⁰

The value of procurement to the Scottish Borders economy

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

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

- Total spend of authority upon procuring goods and services x proportion of spend by local authority in own boundary:
 $£104,000,000 \times 31\% = £32,240,000$

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

- Spend in local economy x proxy re-spend of local organisations in local economy:
 $£32,240,000 \times 0.40 = £12,896,000$

Step 3 – Local economic benefit of procurement spend

- Spend in local authority boundary + Re-spend of local suppliers in local economy:
 $£32,240,000 + £12,896,000 = £45,136,000$

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

¹⁰ Centre for Local Economic Strategies (2012). Progression in Procurement: Manchester City Council.

Barriers and engagement

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

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

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

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

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

- The development of a procurement training package for SMEs and voluntary and community sector organisations.
- Engagement with prime contractors to encourage them to offer subcontracting or small work packages to SMEs.
- Lotting contracts into smaller chunks to enable SMEs to bid for opportunities.
- Supporting 'meet the buyer' and networking events in relation to the Borders Railway project.

This Borders Railway project (estimated cost between £235–295 million) incorporates 30 miles of new railway connecting the Scottish Borders, Midlothian and Edinburgh. Alongside the main contract, managed by Network Rail, a number of pre-construction smaller packages of work have been

managed locally, allowing local contractors access to the work as part of the wider project. Work packages from the main contract are also available through subcontracting opportunities advertised by the main contractor via Public Contracts Scotland.

Process

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

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

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

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

Payment

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

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

Scottish Borders Council is aware of the FSB’s publication *Local procurement: Making the most of small business* and details the extent to which they agreed their procurement practice reflected the following statements:

Scale of agreement with statements: Scottish Borders Council

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

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

- The development of a ‘Maximising community benefits in the Scottish Borders’ policy
- A review of standing orders relating to procurement
- Developing and supporting the Scottish Borders business base

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

It is worth noting that the Borders have a particular environment to consider, and all policies are rural proofed using the rural proofing policy. The nature of the local area has a strong relationship to how procurement practices

are managed. The Council shares best practice with other local authorities. The three key areas which the authority believes are of utmost importance to their strategy are:

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

Case study 3

Rhondda Cynon Taf Council

About the authority

The procurement function of Rhondda Cynon Taf Council is centralised. Spend is organised on a category management basis, built upon a culture of sustainable procurement and looking for opportunities wherever possible to support local businesses and SMEs getting through the complicated documentation which is often implicit within bidding. The procurement team has responsibility for all procurement, and this is broken down into three sections: environment and construction; people; and society (including areas such as supplies and food).

Very low value work does not always come through procurement. This has to be purchased in accordance with the contract procedure rules, though this often has a significant impact on small and local businesses. The centralised procurement team are currently developing strategies to further influence decision-making for these smaller pieces of work.

There is a procurement strategy in place which is currently being updated with the University of Glamorgan. This is very closely aligned with the national procurement policy for Wales. The national policy has been adopted and taken forward as a strong driver of local policy at Rhondda Cynon Taf Council. The procurement unit is a twenty strong team, which is progressive in comparison to other local authorities, in terms of the strategies it has adopted and its focus on supporting SMEs and local business in accessing bidding opportunities. As a result, it influences other local authorities nearby as a working example of best practice. The attitude of leadership in the Council is considered key to the successes of the department. A very strong focus on SMEs and local spend has been created, supported and further developed by the Head of Procurement, to be embedded within the organisation's working practice.

The Council is also working alongside Cardiff, Torfaen and Caerphilly on a European funded 'Source Regional Project', which aims to break down barriers to accessing business of local authorities by small to medium enterprises.

It has been positive to get SMEs engaged in the procurement process and working for the Council, but at the same time it is difficult when SMEs do not win, as there can be an expectation of success when local firms bid. Managing expectations therefore can be a challenge for procurement and wider commissioning teams. When large companies, companies which are not local, or companies who are not Welsh, win bids and local firms miss

out, this can create tensions between local business and the authority. Having an open and transparent process helps to reduce the challenges the authority receives.

Spend

Rhondda Cynon Taf Council spent approximately £175 million on procuring goods and services in the financial year 2012/13. Around a quarter of this is spent on capital procurements (£62 million), with the remainder on the revenue side. Rhondda Cynon Taf Council seeks to maximise the benefit of its capital spend through the creation of apprenticeships, which is considered to lend itself well to these mechanisms. Social clauses for community benefits have allowed considerable numbers of local people and contractors to benefit from procurement since the Council became an early adopter of these processes around six to seven years ago.

Rhondda Cynon Taf Council actively records the amount they spend with organisations based in their local authority boundary. In the financial year 2012/13, 73 per cent of total procurement spend was with organisations based in the boundary. Spend with local organisations is so high because of the successes created through engagement events, and the strong networks these have helped to create between local firms and the authority.

Rhondda Cynon Taf Council have put targets in place for improvements in spend with locally based suppliers. The target is 76 per cent. The procurement unit are confident they will meet this target as a result of the ongoing approach they undertake to engage local firms and SMEs; however this is dependent on the success of various projects. Different sectors have different levels of commitment to developing the local economy, and this is perhaps due to the intrinsic nature and operation of different businesses (e.g. the social care sector is likely to employ more local people due to the geographical focus of its work; and the construction sector offers many opportunities to source different parts of its operation locally, but this requires more changes to existing practice). It is recognised that businesses tend to work rationally and towards their own goals, thus the role of the authority is to make it essential for firms to focus on the use of local suppliers and labour if they wish to compete for contracts.

Rhondda Cynon Taf Council actively records levels of spend with SMEs. In financial year 2012/13, 62 per cent of total procurement spend was with SMEs, an increase from 54 per cent in 2011/12. The proportion of spend with SMEs has increased due to engagement between the Council and local businesses through workshops and 'meet the buyer' events. These have helped to build strong working relationships and networks between local businesses, in addition to helping firms submit bids which are compliant with procurement processes. Where previously small mistakes in paperwork might have excluded bids from consideration, these mistakes are generally now avoided through the support firms are given in completing their bids.

The value of procurement to the Rhondda Cynon Taf economy

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

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

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

$£175,000,000 \times 73\text{per cent} = £127,750,000$

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

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

$£127,750,000 \times 0.40 = £51,100,000$

Step 3 – Local economic benefit of procurement spend

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

$£127,750,000 + £51,100,000 = £178,850,000$

Therefore investment of £175,000,000 in procurement brings £178,850,000 of benefit for the Rhondda Cynon Taf economy or £1.02 for every £1 invested.

Barriers and engagement

Rhondda Cynon Taf Council believes that SMEs do face barriers in accessing procurement opportunities and have introduced a number of initiatives, particularly over the last twelve months, to support SMEs in tendering.

Paperwork, resources and time are key barriers for SMEs. Larger organisations have staff and teams dedicated to bidding, which creates an imbalance between the abilities of differently sized firms to engage with the tendering process. Confidence may have been an issue previously for SMEs competing in tenders, but this has been overcome through workshops and events designed to support them through this.

The initiatives adopted by Rhondda Cynon Taf Council to support SMEs in tendering include:

- Pre-tender meetings with potential suppliers
- Regular 'meet the buyer' events
- Transferring council procurement strategy and policy to other procurers in the public sector

Welsh Government Business Wales have a Supplier Development Service (now Business Wales), which facilitates events and workshops for specific procurements, and supports organisations through the procurement process. Supplier Champions provide one-to-one support if needed. This has helped to address gaps in understanding of procurement processes, so that higher levels

of bids are compliant with the process, enabling smaller and local businesses to be considered and compete alongside more experienced bidders.

In addition to this, the procurement unit at Rhondda Cynon Taf Council have developed strong relationships with small business through work with their economic development team. There are very good working relationships with the economic development team, with an action plan in place and regular meetings between the teams. The Employability Group looks at opportunities to support the objectives of both teams, such as the use of local apprentices to develop the local economy and provide job opportunities.

Events are advertised at the time of promoting contracts, and in the paperwork which must be completed. Invitations are also sent out to all businesses on the Business Wales database, so everyone who may have an interest is aware of events and has equal access to them. The events seek to support businesses through the procurement process so that all bids are considered on an even playing field, and this has been very successful in increasing SME and local engagement. The most recent 'meet the buyer' event hosted over 200 meetings between commissioning firms and potential bidders. Using SMEs and local firms supports the authority in working towards national objectives and benefits the local economy. A significant benefit of running these events is for the authority to get to know the local market, to understand the skills and resources of local firms, and to establish mutually beneficial working relationships.

Process

Rhondda Cynon Taf Council uses a PQQ now known as SQulD in Wales. The SQulD was developed by Value Wales to standardise these pre-qualification processes for all businesses applying for tenders with any public sector organisation in Wales. Eventually, suppliers will have access to their own database, thus questions answered in response to one SQulD can easily be utilised for another and will considerably simplify these processes, particularly for SMEs. The Council has also sought to reduce the burden upon SMEs in relation to PQQs by reducing the number of questions which require answering, and removing the need for PQQs on certain lower value contracts. Rhondda Cynon Taf Council are working collaboratively with Cardiff and Caerphilly Councils to look specifically at the accessibility of procurement opportunities for small business. For contracts below £50,000, they utilise a quotation process where only two bids are required.

Depending on contract specific concerns and risk, the authority may remove the need for PQQs; risk is the predominant factor in this (e.g. the use of Construction Line significantly reduces risk in the construction sector, allowing the authority to use higher thresholds for PQQs). As part of the Welsh Purchasing Consortium there is a great deal of cross-authority working. There is very high value in terms of money, but also in terms of best practice, sharing knowledge and legal information (e.g. Rhondda Cynon Taf Council has pushed for a comparable approach to procurement across participating authorities, which has helped develop regional best practice). The benefits are felt to be significant but intangible, and therefore difficult to quantify.

Local Procurement

Use of framework agreements and incidences of contract aggregation by Rhondda Cynon Taf Council has increased over the course of the last twelve months. The authority regularly breaks contracts down into lots to assist SMEs to bid.

Rhondda Cynon Taf Council utilise their own website and the national procurement portal (Sell2Wales) to advertise tender opportunities. They view both means as very effective vehicles in raising awareness of procurement opportunities to SMEs. The portals are very important; they are the main way of advertising for Rhondda Cynon Taf. All contracts are advertised on the system, and they are also used for market research and sourcing. Requests for information can also be run through these, to help inform the Council's strategies.

Payment

Rhondda Cynon Taf Council has a policy statement in place detailing the number of days it takes to pay suppliers. They seek to make payment in less than fourteen days. They also require the main contractors to pass these terms on to subcontractors across all goods and service areas. This is enforced through a fair payment clause in frameworks and contracts.

There is a very strong, quick turnaround policy for payments – fourteen days for SMEs. This is comparable to other authorities in Wales. There are systems in place whereby businesses can get paid within four working days if they have a business credit card.

Improvement

Rhondda Cynon Taf Council is aware of the FSB's publication *Local procurement: Making the most of small business*. Table 2 details the extent to which they agreed their procurement practice reflected the following statements:

Scale of agreement with statements: Rhondda Cynon Taf Council

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

The procurement team at Rhondda Cynon Taf Council are all up to date with relevant training in procurement, which alongside a performance management approach feeds a very positive culture of supporting SMEs and local firms. The Council runs its own self-assessments with the University of Glamorgan to critique their procurement practices. They are currently most interested in seeing how they can improve things at the lower spend end of procurement, to get improved control and maximise opportunities at this level.

Using Business Wales has been key to Rhondda Cynon Taf Council employing a greater proportion of SMEs from the local area. Advertising and 'meet the buyer' events have also made a significant impact in engaging these sections of the economy. A final key outcome and benefit of the authority's approach has been the reciprocal feedback loop they have established through strong relationships with local firms, meaning that when firms are unsuccessful the details of this are shared with them, and the firm can develop their approach towards a greater chance of success for their next bid. This benefits the Council's own objectives by enabling local firms to bid more competitively as their strategy progresses.

Summary

The effectiveness of Rhondda Cynon Taf Council's procurement policy and practice in relation to local and small business is evidenced through a number of factors:

- There has been growth over the last year in spend with local organisations and small business.
- Procurement strategy and policy is closely aligned to the national policy for Wales.
- Rhondda Cynon Taf Council are increasingly sharing their practice with other authorities and developing cross-authority approaches.
- The procurement and economic development teams work collaboratively to gather local and small business intelligence about the capabilities of local and small business.

Case study 4

Northern Ireland Councils

Having applied the criteria for selecting the case studies to Northern Ireland Councils which responded to the survey in both 2012 and 2013, it was clear that no one individual authority stood out to be a case study for the work across all the criteria. This is no fault of the Councils themselves, but recognition that local authorities in Northern Ireland have far fewer responsibilities for purchasing and subsequently smaller budgets than counterparts in England, Scotland and Wales. Scope for developing initiatives is therefore lighter and not as evident. However, there is some good practice in relation to SME spend from Newtownabbey and a supplier development programme from Cookstown District Council which are detailed below.

Newtownabbey District Council

Newtownabbey is a small district council in terms of area, situated directly to the North of the City of Belfast. The procurement team has two staff with responsibility for ensuring procurement practice meets legislative protocol and in raising awareness of procurement opportunities to local and Northern Ireland markets.

Newtownabbey District Council spent approximately £14.1 million on procuring goods and services in the financial year 2012/13. This is a decrease from £15.1 million in 2011/12.

Newtownabbey District Council actively records the amount they spend with organisations based in their local authority boundary. In the financial year 2012/13, 18 per cent of total procurement spend was with organisations based in the local authority boundary. Whilst this is a relatively low percentage when compared to the Northern Ireland average of 38 per cent, it must be taken into account that Newtownabbey is the fourth smallest authority in Northern Ireland in area terms and is located in close proximity to a key market for goods and services in the form of Belfast.

What Newtownabbey lacks in local spend; it certainly makes up for in terms of spend with SMEs. In the financial year 2012/13, 90 per cent of all procurement spend was with SMEs; this is significantly above the UK average of 47 per cent. The high levels of SME spend are reflective not only of the size of the Northern Ireland economy but also the support and guidance which the authority are providing to small business. All of the councils tenders and quotations are advertised on an e-tendering portal; with associated guidance for small business about the procurement process on the authorities website. The Council has also reduced the need for PQQs with these only applied in the procurement of capital projects.

Cookstown District Council

Cookstown District Council is a relatively large authority in area terms located in the centre of Northern Ireland. The Cookstown District has a largely rural and dispersed population with Cookstown town accounting for one third of the district's figures. A large proportion of employment within the District is focused on the manufacturing, construction, business services and retail sectors. In the initial years of the economic downturn, unemployment levels rose sharply in the District, particularly in these sectors. The Council felt it was essential that businesses received targeted support to broaden their customer base and access new markets. This means that local and small business development is a priority for the local authority in relation to procurement. The feedback from businesses participating on Cookstown District Council's Multi-Sectoral Tendering Programme highlighted that SMEs have historically faced a series of barriers in relation to the procurement process (these were identified in the 2012 survey). These include:

- A lack of awareness about public sector opportunities.
- The process is too costly and time-consuming for small business.
- Small business, unlike large firms, tend not to have specialist capacity and support for bid writing.
- Lack of awareness of public sector procedures in relation to procurement such as PQQ.
- Lack of awareness of the opportunity for collaboration with other SMEs.

In last year's report we described Cookstown District Council's 'Multi-Sectoral Tendering Programme' as a model of best practice and some of its early outcomes. The programme is now complete and the outstanding results are included below.

Multi-Sectoral Tendering Programme

In direct response to the procurement issues raised by the local SME sector, in 2010 Cookstown District Council's Local Economic Development Department applied to the Department of Enterprise, Trade and Investment (DETI) and was successful in accessing 50 per cent match funding from the EU Sustainable Competitiveness Programme to deliver a two year pilot programme of bespoke one-to-one tendering support to SMEs. The pilot 'Multi-Sectoral Tendering Programme' aimed to build the capacity of up to 80 SMEs from the Cookstown District from the sectors of construction, engineering, manufacturing and business services (excluding retail), to identify tender opportunities in the public and private sector, and prepare and submit professional tender bids.

*Following the provision of bespoke procurement support to the 80 participant businesses, an independent evaluation was carried out to assess the **Programme's key economic outcomes**. The results were outstanding and surpassed all expectations, as the Programme resulted in creating a **£15 million boost to the District's economy, comprising:***

- Supporting participating businesses to win new contracts worth £12.6 million
- Contributing to the creation of 43 new jobs valued at £2 million
- Helping companies access other sources of support worth £354,000
- Developing 7 consortia bids
- 59 businesses (74%) were supported to develop PQQ documentation
- 20 businesses referred to Invest NI for further support
- 10 businesses also accessed support from six other sources.

In 2012, Cookstown Multi-Sectoral Tendering Programme won the NILGA 'Best European Funded Project' Award in Northern Ireland for the design and implementation of an initiative which improved the local economy and which recognised its tangible impact and outcomes at a local level, and how it should be considered as an example of best practice by other regions.

Whilst the economic climate undoubtedly affected the Programme in terms of reducing the number of 'live' tendering opportunities that were available over the course of the two years for businesses to bid for, this makes the achievements of the Programme even more significant.

The quantitative and qualitative impact of the 'Multi-Sectoral Tendering Programme' has been profound. As a direct result of the feedback from participating businesses, Council used the learning outcomes from this Programme to design a new Suite of Business Development Programmes, cumulatively valued at **£605,301** with 25 per cent funding from Council and 75 per cent funding being secured from Invest NI and the European Sustainable Competitiveness Programme.

These include a follow on 'Tender Programme' providing a greater level of bespoke tender support to a further 50 businesses in the Cookstown District and also making provision for a small amount of marketing assistance to enable businesses to develop promotional materials to present their products/services more professionally.

In terms of impact participating businesses felt that the programme has brought a number of benefits and impacts. First, it has enabled SMEs to become far more aware of how and where to source 'live' tender opportunities and importantly become more selective over the opportunities which they bid for. Participating SMEs have also adopted more efficient procurement processes in how they identify, source and respond to tendering opportunities. The programme has enabled SMEs through specific support to more effectively match their capabilities and products with relevant opportunities. This also saves time and resources for small businesses.

Second, the programme has enabled SMEs to become more aware of and compliant with public sector procurement procedures and rules. For example, why PQOs are necessary and the compliance required in them. This has developed the procurement capacity and expertise of SMEs and enabled a major barrier to be overcome. It has also enabled SMEs to understand the difference between public and private sector procurement and the need for, at times, a more bureaucratic approach.

Third, the programme has enabled SMEs to think about the value of collaboration when it comes to being a main contractor for a local authority and that subcontracting opportunities are also a route to resource and business. SMEs in Cookstown now recognise the opportunities of working collaboratively as this enables them to bid for larger work packages and expand their customer base. The programme has also enabled SMEs to become more proactive with suppliers thus spreading the impact of public spend.

With a cost of £101,270, the Programme represented outstanding value for money achieving an overall economic return of £15 million, in spite of the difficult economic climate in which it was delivered. This represents a huge return on investment as well as a significant boost to participating businesses and the economic health of the District.

To hear first-hand how Cookstown's Multi-Sectoral Tendering Programme assisted a variety of local businesses, log on to Cookstown's YouTube Channel:

www.youtube.com/VisitCookstown.

Best practice bite size: Quick examples of what other authorities are doing

A number of local authorities participating in the Best council's to do Business with Competition have shown that pre-qualification questionnaires can be abolished for smaller contracts.

Halton Borough Council: 86 per cent of their procurement spend went to small businesses in 2011 to 2012.

Bury Metropolitan Borough Council: 74 per cent of their spend and contracts went to small businesses last year.

Norfolk County Council and Sheffield City Council have broken up large contracts by geographical areas or specialism to make them more accessible to a wider variety of suppliers. Subcontracts and consortia have proven to be another way of ensuring small business can be involved at any level – not just for small contracts.

Sunderland City Council followed an intensive engagement/awareness campaign, with the Federation of Small Business and local suppliers before implementing the Buy Sunderland First system for quotations below tender threshold, and the NEPO Portal for all opportunities above it.

Wakefield Council is launching a new 'quick quotes' system for smaller value contracts where they only require three quotes. Small businesses can register for the new quick quotes system, saying what sort of goods and services they are interested in supplying. When a new small value contract comes up the system automatically selects several companies at random to invite for a quote rather than pre-select companies from an approved list of suppliers.

Leicester City Council has opened up opportunities for SMEs within larger contracts, produced simplified and proportionate documentation for small suppliers, and ensured large contracts include clauses with regard to the use of small, local businesses. Leadership is key with the City Mayor Sir Peter Soulsby, driving reform and giving procurement a major part in the economic development plan.

Surrey County Council has set an ambitious target for expenditure with Surrey based businesses. They involve small businesses directly in developments. For example Supply2Surrey has an SME representative on its steering group and has committed to switch £7.7 million of lower value construction and maintenance projects from a single prime contractor contract to a panel of smaller, local suppliers, and to offer a further £15 million of opportunities at a subcontractor level. Subsequently they have established a Small Works Panel that consists of around 130 pre-qualified local construction suppliers who will deliver building works under £75,000.

Nuneaton and Bedworth Borough Council reviewed insurance requirements and now apply differential levels based on projects thereby enabling SMEs to quote when there is no need for high insurance. They also have 10 day payment terms for all SMEs. Adoption of the Spikes Cavell data analysis

tool has enabled analysis of SME expenditure, transactions and relevant categories. This empowers them to influence their spend profile and maintain a healthy balance between SMEs and large contractors.

Torridge District Council uses an electronic procurement system, with an internal electronic catalogue for many of the products purchased. The process is very swift allowing over 96 per cent of commercial invoices to be settled within fourteen days of receipt, and many within ten days.

Specimen contract clause on payment terms

Our research shows that, despite 95 per cent of authorities having a policy in place for the payment of suppliers, only 39 per cent of authorities seek to pass on their payment terms to their main contractors. This means that, although many local authorities are paying promptly, the benefits are not always felt by the supply chain. This can be particularly problematic for small firms which tend to be more vulnerable to cash flow crises than larger firms. To assist those local authorities not already requiring suppliers to pass the council's payment terms on down their supply chains, an example of how this can be done through a single contract term has been included below:

In the event that the Supplier, in accordance with the terms of this Agreement, enters into a supply contract or a sub-contract in connection with this Agreement, the Supplier shall ensure that a term is included in the supply contract or sub-contract which requires the Supplier to pay all sums due there under to the sub-contractor within a specified period, not to exceed thirty (30) days, from the date of receipt of a valid invoice as defined by the terms of the supply contract or sub-contract (as appropriate).

This clause was taken from Wakefield Council's 'Terms and Conditions for the Supply of Services' July 2012. The same clause appears in their Terms and Conditions for the Supply of Goods. The FSB thanks Wakefield council for permitting the publication of this section and strongly recommends the use of such clauses by other local authorities as a means of helping small firms.

FSB best practice procurement model gap analysis tool

The FSB has developed a best practice procurement model for local authorities seeking to engage with SMEs. This has been adapted into an easy to use tool for identifying what more a local authority can do to help increase their business with local SMEs.

Criteria	Yes	No	Action
1. Does the authority have an SME Procurement Policy with clear and identified links to wider corporate objectives?			
2. Does the authority have in place a mature supplier database that breaks suppliers down by? <ul style="list-style-type: none"> a. Number of employees (not just by SME but by micro, small and medium) b. Location (primary and secondary postcode) c. Revenue or capital spend d. Type of service/good delivered 			
3. Does the authority have a close working relationship between procurement and economic development, with economic development providing market intelligence on local suppliers and SMEs?			
4. Does the authority have a mechanism for regular monitoring and mapping of procurement spend and the outcomes achieved through that spend?			
5. Does the authority have an effective understanding of the barriers facing certain organisations in the procurement process and a menu of appropriate initiatives with which to respond?			
6. Does the authority have clear advice and guidance available for SMEs on how to supply to the council?			
7. Does the authority have 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: <ul style="list-style-type: none"> a. A clearly accessible dedicated procurement section of the council website b. Consistent use of online mechanisms for bidders to register their organisation's information and interest in contract opportunities c. Use of the relevant national portal in addition to any other methods to publicise opportunities 			
8. Does the authority have effective cross-departmental relations and partnership working with local business forums and networks			
9. Does the authority have transparent mechanisms and a policy for the prompt payment of suppliers, and the passing on of payment terms to subcontracted suppliers?			
10. Has the authority reviewed its use of PQOs and considered best practice options such as discontinuing their use below EU thresholds?			
11. Does the authority have a means of engaging with SMEs from market testing through to contract award?			
12. Does the authority provide a host of tender support activities, including training and workshops?			
13. Does the authority have actively promotes supplier engagement policies with core contractors?			
14. Does the authority provide training for procurement staff in economic, social and environmental benefits?			
15. Does the authority provide timely and detailed feedback to unsuccessful bidders?			
16. Does the authority have a clear and simplified process for undertaking procurements below the EU threshold?			
17. Does the authority have in place steps to ensure future procurements will comply with the relevant national government legislation and guidance?			

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:

Misconception	Explanation
Procurers should use standard minimum turnover and insurance requirements, which all businesses must meet.	<ul style="list-style-type: none"> 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 excludes 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.
EU procurement rules apply to all procurements.	<ul style="list-style-type: none"> Although contracting authorities must adhere to EU regulation when conducting their procurements, there are a number of instances where the detailed provisions of 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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'. As the Local Government Association points out in <i>Buying into Communities: Jobs, skills training and business opportunities from local contracts</i>, the latest EU guidance "Buying Social" states that social clauses relevant to what the council is building can be included in contracts, and relevant social award criteria can be applied if the requirement have been written in to contract specifications. This enables bidders' jobs, skills and supply chain proposals to be considered when deciding which tender is the most economically advantageous from the council perspective. The Public Services (Social Value) Act means that all public bodies in England and Wales are required to consider how their services procurement might improve the economic, social and environmental well-being of the area.

Annex: Calculating the benefits of spending with small local firms

Using the principles of the Local Multiplier 3 methodology and wider CLES research with local authorities, we can develop local economic benefit figures for investment by local authorities in both small local and large local firms. This multiplier figure relates to how small local and large local firms will re-spend in a local economy through their own spending with their suppliers and their labour. There are a number of stages in the approach to developing the multiplier which are described below in the following sections:

- The approach
- Applying the approach
 - The value of buying small and locally
 - The value of buying large and locally
- Comparing small local and large local benefit
- Overarching benefit to local economy of procuring locally

The approach

- The first step is to work out the proportion of total procurement spend which is with each small local and large local firms. This is done by:

Multiplying total procurement spend of responding local authorities (28.1 billion) by Average proportion of spend of local authorities in own local authority boundary (31.1%).

This figure is subsequently multiplied by either the average proportion of spend of local authorities with small firms (47%) or the average proportion of local authorities spend with large firms (53%).

This effectively provides a total spend figure for investment with tier 1 small local firms and large local firms to be used in the first round of the multiplier.

- The second step is to work out the extent to which small local suppliers and large local suppliers reinvest back in the local economy in which they are procured to provide goods or deliver services. CLES wider research with local authorities has found that small firms will re-spend 49p in every £1 they receive back in a local economy; whereas large firms will re-spend 31p in every £1 back in a local economy. The wider research has also revealed that 26.5 per cent of supplier re-spend will be upon labour and the remaining 73.5 per cent on supplies.

We can therefore work out the amount which is re-spent by tier 1 local suppliers upon tier 2 local suppliers by:

Multiplying total spend with tier 1 suppliers by the relevant proxy (0.49) for small firms and (0.31) for large firms.

This then, for the purposes of the multiplier, needs to be broken down by re-spend upon local suppliers and re-spend upon local labour. This is done by:

Multiplying spend upon tier 2 suppliers by 26.5 per cent to identify investment in local labour and by 73.5 per cent to identify investment in local suppliers.

The figure for spend with local labour is taken forward to the final formula. The figure for spend with local tier 2 suppliers is taken forward to the final formula and also the third step.

- The third step is to work out the extent to which tier 2 suppliers further re-spend back in the local economy upon tier 3 local suppliers and subsequently further local labour. At this stage we do not know the extent to which tier 2 suppliers will spend on large or small firms. We therefore apply a proxy which is the mid-point between the proxies for re-spend of small firms and large firms in the local economy (40p in every £1). We can therefore work out the amount which is spent by tier 2 local suppliers upon tier 3 local suppliers by:

Multiplying total re-spend by tier 2 suppliers upon local suppliers by the proxy (0.40).

This again for the purposes of the multiplier, needs to be broken down by re-spend upon local suppliers and re-spend upon local labour. This is done by:

Multiplying re-spend by tier 2 suppliers by 26.5 per cent to identify investment in local labour and by 73.5 per cent to identify investment in local suppliers.

The figure for spend with local labour is taken forward to the final formula as is the re-spend with local tier 3 suppliers.

- The fourth step is to work out the multiplier effect of the investment in small local firms. This is undertaken by adding together all the elements of re-spend upon labour and suppliers and dividing by the initial investment. This is done by:

1. Adding together re-spend of tier 1 suppliers on local labour and re-spend of tier 2 suppliers on local labour
2. Adding together re-spend of tier 1 suppliers with local suppliers and the re-spend of tier 2 suppliers with local suppliers.

Applying the approach

a. The value of buying small and locally

Using the principles of the multiplier model described above we can therefore determine the value of buying small and locally when compared to large business.

Step 1 – Spend with small local business (tier 1)

- Total spend of local authorities upon procuring goods and services x average proportion of spend by local authorities in own boundary
 $\text{£}28.1 \text{ billion} \times 31.1 \text{ per cent} = \text{£}8,739,100,000$
- Total spend in local economies x average proportion of spend by local authorities with SMEs
 $\text{£}8,739,100,000 \times 47 \text{ per cent} = \text{£}4,107,377,000$

Step 2 – Re-spend of small local business in local economy (tier 1 to tier 2)

- Spend with small local business x proxy re-spend of small local business in local economy
 $\text{£}4,107,377,000 \times 0.49 = \text{£}2,012,614,730$
- Re-spend of tier 1 suppliers in local economy x proportion of re-spend with local labour
 $\text{£}2,012,614,730 \times 26.5 \text{ per cent} = \text{£}533,342,903.45$
- Re-spend of tier 1 suppliers in local economy x proportion of re-spend with local suppliers (tier 2)
 $\text{£}2,012,614,730 \times 73.5 \text{ per cent} = \text{£}1,479,271,827.55$

Step 3 – Re-spend of small local business in local economy (tier 2 to tier 3)

- Re-spend of tier 1 suppliers with tier 2 suppliers x mid-point proxy
 $\text{£}1,479,271,827.55 \times 0.40 = \text{£}591,708,730.60$
- Re-spend of tier 2 suppliers in local economy x proportion of re-spend with local labour
 $\text{£}591,708,730.60 \times 26.5 \text{ per cent} = \text{£}156,802,813.61$
- Re-spend of tier 2 suppliers in local economy x proportion of re-spend with local suppliers
 $\text{£}591,708,730.62 \times 73.5 \text{ per cent} = \text{£}434,905,917.01$

Step 4 – Local economic benefit of investing in small and local business

- Re-spend of tier 1 and tier 2 suppliers on local labour
 $= \text{£}533,342,903.45 + \text{£}156,802,813.61 = \text{£}690,145,717.06$
- Re-spend of tier 1 and 2 suppliers on local suppliers
 $= \text{£}1,479,271,827.55 + \text{£}434,905,917.01 = \text{£}1,914,177,744.56$
- Total re-spend of tier 1 and 2 suppliers on local labour and local suppliers
 $= \text{£}690,145,717.06 + \text{£}1,914,177,744.56 = \text{£}2,604,323,461.62$

Therefore investment of **£4,107,377,000** in small local firms generates **£2,604,323,461.62** of benefit for local economies or **63.4p** for every **£1** invested.

Summary of local economic impact

Spend with small local business	Re-spend of tier 1 suppliers in local economy	Re-spend of tier 2 suppliers in local economy	Total re-spend	Total local economic benefit generated
£4,107,377,000	£533,342,903.45 (labour)	£156,802,813.61 (labour)	£690,145,717.06 (labour)	
	£1,479,271,827.55 (supplies)	£434,905,917.01 (supplies)	£1,914,177,744.56 (supplies)	
				£2,604,323,461.62

b. The value of buying large and locally

In order to enable comparison between the benefit brought by small and large firms to the local economy we need to calculate multiplier figures for spend with local and large firms.

Step 1 – Spend with large local business (tier 1)

- Total spend of local authorities upon procuring goods and services x average proportion of spend by local authorities in own boundary
 $£28.1\text{billion} \times 31.1\text{ per cent} = £8,739,100,000$
- Total spend in local economies x average proportion of spend by local authorities with large firms
 $£8,739,100,000 \times 53\text{ per cent} = \mathbf{£4,631,723,000}$

Step 2 – Re-spend of large local business in local economy (tier 1 to tier 2)

- Spend with large local business x proxy re-spend of large local business in local economy
 $£4,631,723,000 \times 0.31 = \mathbf{£1,435,834,130}$
- Re-spend of tier 1 suppliers in local economy x proportion of re-spend with local labour
 $£1,435,834,130 \times 26.5\text{ per cent} = \mathbf{£380,496,044.45}$
- Re-spend of tier 1 suppliers in local economy x proportion of re-spend with local suppliers (tier 2)
 $£1,435,834,130 \times 73.5\text{ per cent} = \mathbf{£1,055,338,086.55}$

Step 3 – Re-spend of large local business in local economy (tier 2 to tier 3)

- Re-spend of tier 1 suppliers with tier 2 suppliers x mid-point proxy
 $£1,055,338,086.55 \times 0.40 = \mathbf{£422,135,234.22}$
- Re-spend of tier 2 suppliers in local economy x proportion of re-spend with local labour
 $£422,135,234.22 \times 26.5\text{ per cent} = \mathbf{£111,865,837.07}$
- Re-spend of tier 2 suppliers in local economy x proportion of re-spend with local suppliers
 $£422,135,234.22 \times 73.5\text{ per cent} = \mathbf{£310,269,397.15}$

Step 4 – Local economic benefit of investing in large and local business

- Re-spend of tier 1 and tier 2 suppliers on local labour
 $= £380,496,044.45 + £111,865,837.07 = \mathbf{£492,361,881.52}$
- Re-spend of tier 1 and 2 suppliers on local suppliers
 $= £1,055,338,086.55 + £310,269,397.15 = \mathbf{£1,365,607,483.70}$
- Total re-spend of tier 1 and 2 suppliers on local labour and local suppliers
 $= £492,361,881.52 + £1,365,607,483.70 = \mathbf{£1,857,969,364.22}$

Therefore investment of £4,631,723,000 in large local firms generates £1,857,969,364.22 of benefit for local economies or 40.1p for every £1 invested.

Summary of local economic impact

Spend with large local business	Re-spend of tier 1 suppliers in local economy	Re-spend of tier 2 suppliers in local economy	Total re-spend	Total local economic benefit generated
£4,631,723,000	£380,496,044.545 (labour)	£111,865,837.07 (labour)	£492,361,881.52 (labour)	
	£1,055,338,086.55 (supplies)	£310,269,397.15 (supplies)	£1,365,607,483.70 (supplies)	
				£1,857,969,364.22

Comparing small local and large local benefit

On the whole small local firms generate £746,354,096.40 more benefit for local economies than large firms through their re-spend and through the re-spend of their suppliers. This is despite receiving £524,346,000 less than large local firms. In percentage terms, this means small local firms generate 58.1 per cent more benefit for local economies over two rounds of re-spending than large local firms do. This is calculated by:

(amount generated by large local firms for local economy as proportion of initial spend) – amount generated by small local firms for local economy as proportion of initial spend) multiplied by 100 and divided by amount generated by large local firms for local economy as proportion of initial spend)

$$= (40.1p - 63.4p) \times 100 / 40.1p$$

$$= 58.1 \text{ per cent}$$

Overarching benefit to local economy of procuring locally

Using the calculations detailed above we can additionally work out an overarching local economic benefit figure for local authorities investing in both small local and large local businesses. This is calculated by:

(benefit of small firms to local economy + benefit of large firms to local economy)/total spend on small local and large local firms;

$$= (£2,604,323,461.62 + £1,857,969,364.22) / (£4,107,377,000 + £4,631,723,000)$$

$$= 51.1p$$

Therefore investment of £8,739,100,000 in local firms generates £4,462,292,824.84 of benefit for local economies or 51.1p for every £1 invested.



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