



small
business
service

Access to public procurement for small and medium enterprises

Progress Report – December 2005

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SMALL BUSINESS SERVICE

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Introduction

1. *The Government Action Plan for Small Businesses* (January 2004) identified the need to create 'an environment in which small businesses are able to compete effectively for a bigger proportion of government contracts'. This action plan highlighted difficulties for small businesses in finding out about opportunities, the disproportionate costs and complexity involved in tendering, and the trend towards larger and longer contracts. The DTI Small Business Service (SBS) and the Office of Government Commerce (OGC) have been working to tackle these barriers and other recommendations contained in the Better Regulation Task Force/Small Business Council report '*Government: Supporter and Customer?*' (May 2003).

2. The Government continues to be committed to levelling the playing field for business seeking to bid for public contracts. At present public sector structures and practices can mean that small businesses are disadvantaged through lack of knowledge of available opportunities or assessment systems that disadvantage them unfairly. As a result the public sector too often misses out on gaining access to best value, efficient and innovative suppliers of goods and services. The Government's Budget Report in March 2005 stated:

The Government is ...committed to improving access to public sector procurement for SMEs. SME involvement improves competition and drives innovation, and thus improves value for money in the delivery of public services. ...the Government is introducing a mandatory requirement that at least 2.5 per cent of public sector extra-mural R&D will be with small businesses.

The SBS published further details of how these goals will be met, including:

- *with the involvement of RDAs, OGC and SBS will roll out measures nationwide to improve SMEs' ability to tender effectively for public sector contracts, building on the success of pilot projects in the West Midlands and Haringey which involved 1,600 businesses, increasing the number of small businesses competing for public sector projects and increasing the overall success rates of small businesses, including ethnic minority-owned businesses. In the West Midlands pilot, 14 per cent of SMEs had won government projects at the start – by the end, SMEs had won 26 per cent of contracts awarded through the pilot portal, improving competition and innovation;*
- *the OGC and the SBS will launch a national portal for low-value contracts in the summer, making it easier for SMEs to compete for business;*

- the SBS will publish an annual review of departments' spending, and explore how to extend this to local government. Furthermore, the SBS, OGC and others will review SME and other procurement information gathering across government to investigate opportunities for efficiencies and more robust data;
- publish the first phase of research commissioned by the SBS, providing evidence on the costs and benefits of SME involvement in public sector markets; and
- in response to particular concerns from SMEs on the public sector's use of third party assessment providers to pre-qualify suppliers, the OGC and SBS will research the effect this has on potential suppliers and identify options to reduce any barriers to small business participation".

3. This report provides an update on progress since the report published in March 2005 alongside the Budget. It details the actions that have been taken by the SBS and the OGC to tackle the issues confronted by smaller suppliers and to encourage a more diverse supplier base.

Better knowledge base

4. Research commissioned by the SBS demonstrated that removing barriers to the participation by small businesses in the public procurement market helps achieve efficiency. This study reviewed the statistical data available on three issues – the role of small businesses in the economy as a whole, government procurement by sector of the economy, and the extent to which small businesses currently supply central and local government. The study also contained a review of the literature on the contribution of small businesses to economic activity and economic growth. It provided evidence of the benefits that the public sector can gain from using small firms through better levels of service, innovative solutions and increased competitiveness in the longer term.

5. Through 20 case studies, from across the public sector, the report shows small firms winning contracts against competition from larger companies and then going on to deliver successfully. The report also provides strong evidence of the willingness of small firms to "go the extra mile", in terms of commitment and service delivery. The report is available from the SBS website.¹

6. The findings of the report have been incorporated into the updated document 'Smaller Supplier: Better Value?', which will be published shortly by the SBS and OGC and made available on the OGC website.² Its purpose is to raise awareness within the public sector of the value for money that small businesses can offer and the issues that can make it difficult for small businesses to win public sector business.

Simplifying procurement processes and reducing the barriers that disproportionately affect small businesses

7. A simplified national Pre-Qualification Questionnaire (PQQ) for sub-EU threshold procurements was launched by OGC in August 2005 (see OGC website³). The PQQ enables public sector purchasers to identify the most suitable suppliers to invite to tender for contracts. OGC is now working to encourage adoption of the questionnaire by procurers. As this questionnaire becomes more widely adopted it will reduce the time businesses have to spend providing information when bidding for government contracts. It will greatly reduce the work needed to re-format the same information for subsequent contracts.

8. In the Budget 2005, OGC and SBS were asked to investigate the public sector's use of third party accreditation services. Research was completed in October 2005. Recommendations are likely to include more standardisation of accreditation models and greater clarity for contracting authorities on the most effective way to use accreditation services.

9. SBS worked with the Office of the Deputy Prime Minister and the Local Government Association to produce the Small Business Concordat⁴, which was launched on 1 March 2005. The Concordat has been promoted in various ways, with the aim of all local authorities being signed up by the end of the financial year. SBS is monitoring responses.

1 http://www.sbs.gov.uk/SBS_Gov_files/services/sme-procurement-study.pdf .

2 www.ogc.gov.uk

3 <http://www.ogc.gov.uk/index.asp?id=1003755>

4 <http://www.odpm.gov.uk/index.asp?id=1136698>

10. OGC is delivering training to procurers across the English regions, designed to help procurers understand the potential efficiency, value for money and innovative benefits from giving consideration to procurement from small businesses, social enterprises and the voluntary community. Details of upcoming training events are on the OGC website.⁵

Working with small businesses to improve the skills that will enable them to compete in government market places

11. In parallel with the OGC training mentioned above, the SBS has worked with the Regional Development Agencies and partners to deliver training across the English regions to small businesses and social enterprises. Details of the training are available on the Supplying Government website.⁶ Training will have been delivered in all 9 regions by the end of the current financial year. Training has been oversubscribed in many regions, and in those where training is completed, evaluations have shown a high success rate in business won in the six weeks after the training. SBS is currently developing an online version of the training to complement the regional delivery.

Improving the visibility of public procurement opportunities

12. Small businesses can only compete for public procurement opportunities which they know about. Small businesses cannot devote the same level of resource to finding such opportunities as larger firms. Progress continues on a national opportunities portal to help businesses find opportunities in a single place. The SBS expects to appoint a provider before the New Year and launch the portal in the first Quarter of 2006. The portal will:

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- enable public sector buyers to advertise sub-OJEU opportunities more widely and specifically help lower the barriers for small and medium sized enterprises (SME) to gain access to those opportunities;
 - provide a mechanism to enable public sector buyers to identify potential suppliers;
 - bring the buyer and the supplier together as an opportunities and supplier database portal.
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13. OGC has issued guidance on supply chain management⁷ which helps explain how, in those procurements when it is more efficient to work through prime contractors, procurers can ensure the supply chain is managed efficiently and encourage prime contractors to consider using small businesses. The project has now moved into its second phase, which aims to embed the use of supply chain management principles into the public sector and the key suppliers to government. The project is also working with public sector procurers to adopt effective supply chain management practices. This includes encouraging them to publish details on their websites on how small businesses can access sub-contracting opportunities.

Promoting innovation

14. SBS and HM Treasury officials have been implementing the mandatory requirement that at least 2.5 per cent of public sector extra-mural R&D will be with small businesses as announced in the budget. Participants have taken a constructive approach to meeting the mandatory target and, from figures recently received from departments for 2003/04 and 2004/05, the initial indications are that it would appear that government has collectively been meeting the 2.5 per cent target. The SBS will be monitoring spend and publishing the figures annually.

⁵ <http://www.ogc.gov.uk/index.asp?docid=1003912>

⁶ <http://www.supplyinggovernment.gov.uk/viewHotTopic.asp?ID=692>

⁷ http://www.ogc.gov.uk/sdtoolkit/reference/ogc_library/procurement/index.html#supply

Signs of progress

15. The SBS survey of central government procurement in 2004/2005 found that £1.039 billion of **contract value** was reported to have been awarded to small businesses⁸, (compared with £792 million for 2003/04) with the remaining £3,634 million of the expenditure being awarded to large companies (£3,802 million in 2003/04). By percentage 22%⁹ (18% in 2003/04) of the value of contracts reported was awarded to small businesses, with 78% (85% in 2003/04) being awarded to large companies.

16. The total **number of contracts** reported to have been awarded was 106,053; of which 61,214 went to small businesses (41,990 in 2003/04) with the remaining 44,639 to large organisations (20,792 in 2003/04). By percentage small businesses were awarded 58% of contracts, with 42% being awarded to large companies.

17. The number of responses from departments providing useable data has increased over previous years to reach 75%. These improvements in responses are largely responsible for the large increase in the *number of contracts* recorded as awarded to small businesses. Improvements in data collection means that caution should be used when comparing results in the number of contracts from year to year.

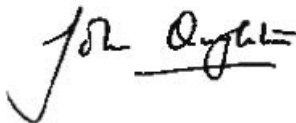
18. Health Service and Ministry of Defence spend were again excluded from the survey, since the nature and scale of such expenditure masks the overall picture.

19. The SBS has now made contact with all government departments which are known to collect data from procurers with a view to identifying opportunities for efficiencies and more robust data. It is also exploring options for centralising the collection of data on procurement from small businesses.

20. The Regional Centres of Excellence are working with local authorities to introduce tools for spend analysis. These tools will, for the most part, give high quality data on the share of government procurement from small and medium enterprises. The SBS will work with the regional centres to access this data. Initial indications suggest the share of value of procurement from small and medium enterprises is considerably higher than for central government – probably greater than 50%.



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⁸ In this case businesses under 250 employees following the EU definition of a small and medium enterprise (SME).

⁹ Not all responses received account for 100% of contracts. This distorts the percentages calculated across the survey.

