



Federation of Small Businesses
The UK's Leading Business Organisation

Summary



Local Procurement
***Making the most of small
businesses, one year on***



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Executive Summary

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, the 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.

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.

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.

**Research by the Centre for Local Economic Strategies (CLES)
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,

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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.

Survey Findings: Progress on 2012

Local Government survey results

In July 2012, the Federation of Small Businesses (FSB) published *Local Procurement: Making the most of small businesses*³. 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 commissioned the 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.

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.

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.

³ 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.

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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.
- **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.
- **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.

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.
- **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 12 months. For 69 per cent of local authorities instances of contract aggregation have stayed the same over the last 12 months.
- **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

“85 per cent of local authorities adopt different processes for below EU threshold tenders”

been demonstrated, the benefits to the 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 1: Use of payment policies for suppliers

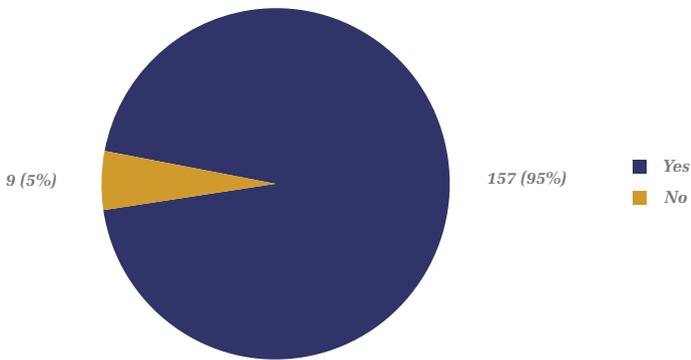
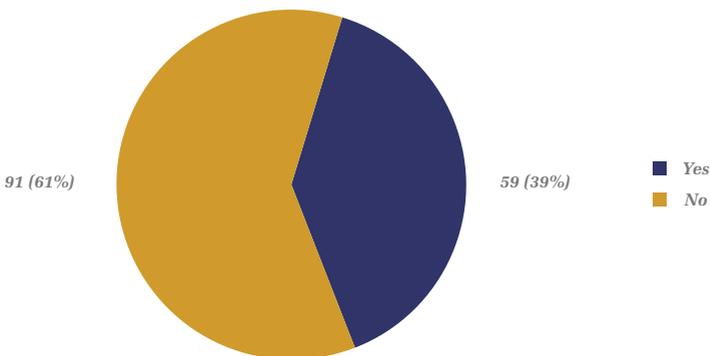


Chart 2: Proportion of authorities asking main contractors to pass on payment policy



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

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

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.

When asked to select from a list of options which are the most useful in identifying public sector procurement opportunities,⁴ an interesting pattern emerges. When results from 2012 and 2013

“Lack of awareness of contracts fell significantly from 49 per cent in 2012 to 31 per cent in 2013”

⁴ This question has a lower respondent base. 396 in 2012, 337 in 2013.

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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.

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',⁵ 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.

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.

⁵ This question has a lower respondent base. 353 in 2012, 329 in 2013.

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.

FSB Recommendations

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.

A best practice procurement model for local authorities

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



The FSB believes that a model procurement authority:

- Has an SME Procurement Policy with clear and identified links to wider corporate objectives.
- Has in place a mature supplier database that breaks suppliers down by:
 - Number of employees (not just by SME but by micro, small and medium)
 - Location (primary and secondary postcode)
 - Revenue or capital spend
 - Type of service/good delivered
- Has a close working relationship between procurement and economic development, with economic development providing market intelligence on local suppliers and SMEs.
- Has a mechanism for regular monitoring and mapping of procurement spend and the outcomes achieved through that spend.

- Has an effective understanding of the barriers facing certain organisations in the procurement process and a menu of appropriate initiatives with which to respond.
- Has clear advice and guidance available for SMEs on how to supply to the council.
- Has a range of means of advertising and promoting contract opportunities according to the scale of the contract and the types of good and service on offer, including:
 - A clearly accessible dedicated procurement section of the council website.
 - Consistent use of online mechanisms for bidders to register their organisation's information and interest in contract opportunities.
 - Use of the relevant national portal in addition to any other methods to publicise opportunities.
- Has effective cross-departmental relations and partnership working with local business forums and networks.
- Has transparent mechanisms and a policy for the prompt payment of suppliers, and the passing on of payment terms to subcontracted suppliers.
- Reviews its use of PQQs and considered best practice options such as discontinuing their use below EU thresholds.
- Has a means of engaging with SMEs from market testing through to contract award.
- Provides a host of tender support activities, including training and workshops.
- Actively promotes supplier engagement policies with core contractors.

- Provides training for procurement staff in economic, social and environmental benefits.
- Provides timely and detailed feedback to unsuccessful bidders when requested.
- Has a clear and simplified process for undertaking procurements below the EU threshold.
- Has in place steps to ensure future procurements will comply with the relevant national government legislation and guidance.



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