

# **Making public sector procurement more accessible to SMEs**

## **Response by London Councils and The London Procurement Strategy Board**

London Councils represents all 32 London boroughs and the City of London. It is a cross-party organisation that works on behalf of all of its member authorities regardless of political persuasion. We develop policy, lobby Government and others, and run a range of services designed to make life better for Londoners.

The London Procurement Strategy Board (LPSB) is the principal, strategic procurement board for London local government. It brings together senior finance and procurement officers to develop and deliver a procurement strategy for London local government.

### **Introduction**

1. London local government recognises the important role of procurement in supporting small and medium sized enterprises.
2. London local authorities spend approximately £9 billion each year on a diverse range of goods and services. This represents approximately 15 per cent of all local government third party expenditure. These figures are significant and highlight not only the important role procurement can play in supporting the government's deficit reduction programme, but also in supporting local, regional and national economic growth.
8. It is important to recognise that London boroughs and the wider local government sector are working within a significantly constrained financial environment. By 2014-15, there will have been a reduction in core funding from central government of around 35 per cent with a further 15 per cent cut expected in 2015-16. It is also clear from recent government announcements that local government is set to face a period of prolonged financial austerity – in all probability up to 2020 and beyond.
9. In the face of a significantly challenging financial outlook, London local government is acutely aware of the need to use its resources as effectively and efficiently as possible and to exploit its significant purchasing power.

10. At the same time, local authorities are also mindful of their social and environmental responsibilities within the procurement process, including the need for apprenticeship opportunities and to support local SMEs. Indeed, London Councils, in conjunction with the London Region of the Federation of Small Businesses, recently organised the inaugural Small Business Friendly Borough awards to showcase and celebrate the efforts of London boroughs.<sup>1</sup> Annex A provides further detail on the event.
11. Balancing these potentially competing demands creates a number of issues and challenges and how these are managed will very much depend on local priorities and circumstance. With their strong local democratic mandate and knowledge of their communities, local authorities are best placed to respond to these challenges.
12. London Councils would refer Government to responses from our individual member authorities.
13. Further technical comments are provided below.

## Questions

### **1. What mechanisms and incentives would prevent contracting authorities from asking unnecessary and burdensome questions during the procurement process?**

This question is based upon the mistaken assumption that local authorities ask for information without considering its relevance or usefulness.

Local authorities in London recognise the need for a clear and simple procurement process. They are, arguably, the most efficient part of the public sector and have had to make some tough decisions in response to Government's deficit reduction programme. Authorities are very mindful of the need for streamlined back office functions to prevent reductions in funding from having a significant and negative impact on local frontline services, particularly to those most vulnerable in the community.

Since 2010, local government has seen its headcount reduce by 389, 000 (13 per cent) in contrast to 151,000 (5 per cent) within central government.<sup>2</sup>

It would clearly not be in the interests of a contracting authority to issue 'unnecessary and burdensome' questions. There would be a significant risk that they would potentially reduce the attractiveness of the opportunity with a negative impact on the number and quality of any bids.

Authorities currently hold market days with suppliers to understand the issues and challenges they face and to open up SME access through the procurement process. Staff development and training can be

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<sup>1</sup> <http://www.londoncouncils.gov.uk/policylobbying/economicdevelopment/boroughecdev/smallbusinessboroughawards.htm>

<sup>2</sup> Public Sector Employment, Q4 2012 - Office for National Statistics (2013)

used to improve skills, capacity and expertise in procurement, which in turn could lead to higher quality processes.

London Councils would oppose any attempts on behalf of Government to attempts to define and then seek to control 'unnecessary and burdensome questions'. The form and nature of questions posed during the procurement process should be left to local discretion.

- 2. Should the core PQQ currently used in central government (attached at Annex B) be adopted as standard across the public sector?**
- 3. Which, if any, questions could be removed from the core PQQ? Are there any additional questions or relevant standards that should be included because they are essential to a specific sector (and please explain why they are essential)?**

This is a response to both question 2 and 3.

It does feel that a standard PQQ for the whole of the public sector risks oversimplification and could fail to reflect important differences between different elements of the public sector. As such, there could well be some core questions across the public sector, but there should be scope for different sectors (e.g. health, local government, defence) to build in additional questions to reflect the unique characteristics of the service.

In London local government, the importance of a simple and accessible procurement process has been recognised. Recently, the London Heads of Procurement Network have agreed to use a standard PQQ within London local government. Whilst the agreed questionnaire broadly aligns with that used in central government, it covers a further four areas. These reflect some of local government's broader priorities and focus, including:

- Equality and Diversity
- Quality Management
- Health & Safety,
- Environmental and Sustainability and
- Safeguarding (optional).

It is also worth highlighting that in contrast to the Government PQQ, the London local government PQQ requests information on the size and nature of the business (e.g. micro organisation, small enterprise etc). Given the content of this consultation, it is thought that this is an essential requirement for current and future monitoring purposes.

- 4. How would a single online platform for managing, submitting and verifying PQQ responses provide advantages to bidders and contracting authorities over and above the PQQ reforms already described? Would suppliers be prepared to pay a small fee for using this system (assuming the option of manually submitting a PQQ without any charge is also still available)?**

London Councils and the LPSB recognise the benefits of a single online platform and are currently working towards adopting CompeteFor<sup>3</sup> as the procurement portal for all the London boroughs and the City of London. The platform is currently used by the Mayor of London, Transport for London (TfL) and Crossrail so in theory, CompeteFor will display all opportunities for London government. It can be used by both public and private sectors buyers and acts as a short-listing tool in front of a buyer's procurement process.

The service is currently free to use and has the support of business groups in London such as the London Chamber of Commerce and Industry, London First and the Federation of Small Businesses.

- 5. Do you agree that all public procurement opportunities over £10,000 should be accessible from Contracts Finder<sup>4</sup>? How can this be achieved simply and effectively? If you do not agree, why not?**
- 6. Do you agree that all award notices for public contracts over £10,000 should be accessible from Contracts Finder? How can this be achieved simply and effectively? If you do not agree, why not?**

As set out in the response to question 4 and 5 above, authorities in London will shortly be using the CompeteFor platform. This has the facility to publish both procurement opportunities and award notices.

Whilst London Councils and LPSB understand the rationale behind these proposals, Government should also be mindful of imposing an artificial threshold for contract value, particularly if this serves to undermine local attempts to promote enterprise and economic growth within their communities. In mandating a national approach for all opportunities, Government should be aware of the risk that these proposals could serve to consolidate the position of large, national firms with the resources to prepare large numbers of bids.

Local authorities will also be mindful of their administrative burden and will be focused on ensuring that this aligns with the size and scale of the potential contract opportunity. These proposals may risk introducing an additional and unnecessary level of bureaucracy for relatively small contract values.

- 7. Do you agree that all public bodies should publish data on their procurement spend with SMES in one place? How can this be achieved simply and effectively?**
- 8. For Local Authorities, how can this work integrate with existing open data practices, such as the Code of Transparency, whilst minimising data reporting burdens? Are there similar issues in other sectors?**

A response to both questions 7 and 8 is provided below

With their strong democratic mandate, local authorities are best placed to respond to the challenge of publishing procurement spend with arrangements already in place to publish all spending over £500. This allows local residents to understand how a local authority is spending its resources and to whom.

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<sup>3</sup> <https://www.competefor.com/business/login.jsp>

It should also be noted that many local authorities in London are developing approaches to further understand their relations with SMEs in line with their sustainability policies. In developing any future proposals, Government should be aware that an authority's direct expenditure may not provide a complete view of the financial impact they are having on SMEs. Whilst the direct contract may be with a large company, there may well be further opportunities for SMEs as second or third tier sub-contractors. Therefore, a more comprehensive view of the supply chain is required to assess an authority's role in supporting SMEs.

**9. Do you agree that public bodies should publish data on their use of centrally negotiated deals, together with pricing data, to demonstrate value for money? How can this be achieved simply and effectively?**

London Councils and LPSB do not agree that London local government should be required to publish data in an attempt to demonstrate value-for-money. It is the role and responsibility of locally elected Members to consider whether local arrangements deliver the appropriate level of value-for-money and the framework for any such publication. Local authorities in London have a strong and clear local democratic mandate with an embedded governance framework to consider these issues and Members will perform a range of duties either within full Council, Cabinet, Executive or within dedicated scrutiny committees.

In isolation, the simple publication of expenditure data will provide limited assurance and fails to recognise the wide range of local public service delivery models, as shaped by local circumstance. As highlighted above, local authorities in London face rising demand on its services from a growing population with increasingly complex demography. All this is set against a backdrop of significantly reduced resources. Whilst supporting SMEs is an important consideration, it is one element of a much wider sphere of responsibility. As such, local authorities will need to consider a range of issues – some of which may be competing – in making their procurement decisions. Without this contextual information, the publication of any data could introduce an unnecessary level of bureaucracy and creating misleading and meaningless comparisons.

**10. How can we ensure that standard payment terms are passed down through the supply chain for all public contracts?**

Local government in London has undertaken significant work to understand the supplier market and to develop strong and sustainable relationships with key suppliers.

Whilst contractual clauses may serve as a route through which standard payment terms could be introduced, there needs to be a comprehensive understanding of what this could potentially mean for the main contractors and their tenders.

**11. Should public authorities and their supply chains publish performance data on their prompt payment to suppliers? How can this be achieved simply and effectively?**

London Councils and LPSB believe that the publication of information and performance data should fall to local decision making.

If the Government were minded to pursue this, there needs to be a full assessment of the likely impact on prime contractors and their contract costs. Such reporting will, inevitably, increase the administrative burden and could potentially increase the contract costs. Government should be mindful that the benefits of any such approach are proportionate to the benefits realised.

**12. Do you consider that requirements for performance bonds are disproportionate and creating barriers for SMES aiming to win public contracts? How is this happening and what reforms could help alleviate this?**

The use of performance bonds need to be considered on a case-by-case basis. In some cases, they are necessary to secure the public investment of funds and are part of a broader risk management strategy from local government. In the absence of a central government guarantee, there would be a risk that some projects could then become unfeasible.

**13. How can government increase the take-up of electronic invoicing in public procurement to maximise the opportunities it affords and create a more enabling environment for SMEs?**

It is acknowledged that the use of digital technology is essential in improving productivity and speeding up payments and London local government recognises that e-invoicing has the potential to make payment easier for suppliers once they have won a contract.

For example, Kingston is looking to implement full Purchase2Pay in early 2014, LB Bexley is implementing an electronic strategy to move away from paper based financial transaction processing. This will involve the ending of paper invoices in terms of receiving and managing accounts payable. Using their electronic network, invoices received will be directed into their Accounts Payable (AP) systems and process them without the delays and inefficiencies associated with paper based invoicing.

**The London Procurement Strategy Board and London Councils**

## **Annex A: Examples of SME Procurement Achievements in London**

London Councils partnered with the London Region of the Federation of Small Businesses (FSB) for the inaugural Small Business Friendly Borough Awards for London. Recognising the importance of small and micro businesses, the awards highlighted councils across the capital, who have been actively cutting red tape, simplifying procurement processes, providing business support services and running campaigns to support local trade. Boroughs were invited to enter nominations for initiatives in four awards categories:

- 1) Best all round small business friendly borough
- 2) Best small business friendly procurement
- 3) Best programme or campaign to support local trade
- 4) Best cutting of red tape

### **Case Study 1: Best campaign to support local trade**

Winner: LB Waltham Forest

Waltham Forest's Love Your High Street project was built around three initiatives – a vouchers scheme, a directory of the borough's 'hidden gem' retailers, and sessions run at high street venues on topics selected by local businesses, including social media strategy and visual merchandising.

### **Case Study 2: Best all round small business friendly borough**

Winner: LB Barking and Dagenham

Barking and Dagenham's Single Programme provides enterprise and business support for new and existing businesses, including a one stop shop service, and free one to one support and low cost workspace through the Barking Enterprise Centre.

### **Case Study 3: Best small business friendly procurement**

Winner: LB Harrow

Harrow's Sustainable Procurement project encourages a diverse base of suppliers by identifying local suppliers, ensuring businesses are aware of tender opportunities, delivering pre tender workshops to explain the process, simplifying the tender process on the basis of feedback from suppliers, and introducing an e-procurement system.

### **Case Study 4: Best cutting of red tape**

Winner: LB Havering

Havering introduced an online procurement system (iProc) to simplify the procurement process and cut bureaucracy. The paperless system for ordering and paying for goods, works and services, has reduced payment times and increased the visibility of small businesses across the council, allowing the council to better monitor its spend with small businesses.