



**CabinetOffice**

# Making Government business more accessible to SMEs

Management Summary of the progress made to date  
on enabling more SMEs to tender for government  
procurements

July 2011

# CONTENTS

## THE REPORT

1. Introduction	3
2. Summary of progress	4
3. Impact of the programme	4
4. Next steps for Departments and ERG	8

## APPENDICES

Appendix A	SME Progress Report – detailed report on progress to date
Appendix B	Department-specific actions and data

## SME Progress Report – Management Summary

### 1. Introduction

This is the first report on Government's progress to open up more of government's procurement to SMEs.

On 11<sup>th</sup> February 2011, the Prime Minister, David Cameron said:

“We need to make the [procurement] system more open to new providers, more competitive between suppliers and more transparent for the taxpayer. This is vital as we get a grip with our deficit – helping us tackle waste, control public spending and boost enterprise and growth.

It will also help us modernise our public services, opening them up to the forces of competition and innovation, and give our great charities and social enterprises the opportunity to deliver services too.”

This came at a Strategic Supplier Summit for SMEs where he, and the Minister for the Cabinet Office, Francis Maude, announced a package of measures designed to open up the way that Government does business and to make sure that small companies, charities and voluntary organisations can compete for public sector contracts. These actions reflect the Government's intent that small firms and organisations, which are critical to the economy and promoting growth, should no longer be shut out of procurement processes because of excessive bureaucracy and unnecessary regulations. In the Coalition Programme for Government an aspiration was set that 25% of government business should go to SMEs.

To inform the announcements Number 10 launched a 'Problem with Procurement' feedback facility for small businesses on the website in December 2010, posing the questions:

- What nightmares have you had with procurement?
- What are we doing wrong?
- How should we fix it?

The site has received over 280 responses from suppliers to date expressing their frustrations with the procurement processes that public sector organisations follow. These responses provide the backdrop to the package of measures that have been announced.

## SME Progress Report – Management Summary

### 2. Summary of progress

The changes announced on the 11 February were radical and reforming and a significant amount of groundwork done over the first few months delivering them. These changes need time to embed and so it would be unrealistic, at this stage, to try and measure the long term impact of the changes we have put in place.

There have been indications of some early successes, which are welcomed; however, we also know that if we are to see sustainable change in procurement practice and an increase in business being awarded to SMEs there are further areas of work to address. We are examining potential future workstreams involving, wherever possible, representatives from the small business community, for example through the SME Panel and its sub groups.

### 3. Impact of the programme

The following sections summarise the actions taken and the impact thus far these actions have made. More detail on progress is contained in Annex A.

#### 3.1 Greater transparency in procurement and contracting

On transparency in government's procurement and contracting activity, the new on-line facility, Contracts Finder, is proving a valuable tool for the supply community to find out about current and future contracts. Contracts Finder received over 1 million page visits in the first three months of operation. All the procurement and contracting documents accessible on the site can be opened and downloaded. The majority of Departments are now publishing 100% of their information as part of normal business; the remaining Departments are working to achieve the same level of compliance. We are in the process of taking feedback from users on potential improvements to the facility and it will see further development as a result this feedback and in line with Government's emerging digital strategy. In addition, all central Departments have published their own Departmental Actions for how they will seek to open up more of their departmental business to SMEs<sup>1</sup>.

#### 3.2 Strategic dialogue and voice at the top levels of government

Stephen Allott, the Crown Representative for SMEs, is building a strategic dialogue between SMEs and government at senior levels. His primary role is to be "a strong voice at the top table"

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<sup>1</sup> Throughout this Report, the definition of a Small and Medium sized Enterprise (SME) is that it must be autonomous, i.e. an EU company not owned or controlled by a non EU parent, and employ fewer than 250 staff, and have annual sales below 50 million euros.

## SME Progress Report – Management Summary

inside Government. He meets with officials, puts over the SME perspective and helps shape the SME programme. This element of the design of his role works well.

A series of SME Product Surgeries is now underway. Following the launch of the Innovation Launch Pad in March, designed for SMEs to submit their innovation business proposals to government, the top SME business proposals are to be presented to senior procurement and operational professionals from central government and the wider public sector. The Launch Pad received a total of 351 business proposals, on which 12,500 votes were cast by 2,000 civil servants, and the most popular proposals have been taken through a short period of review and mentoring with senior officials from Government and industry. Departmental specific surgeries are also underway with the first held by Department for Transport in June; six further are planned by different departments.

In addition, the first SME Panel was held on 29<sup>th</sup> June with invited representatives from SMEs and industry bodies. The Panel provides a platform for genuine two-way discussion between government and SMEs and we were pleased with the level of engagement and challenge. As a result of this meeting several SME-led sub groups will be established to look at additional areas of concern.

### **3.3 Eliminating unnecessary procurement practices**

Part of any public sector procurement requires the selection of appropriate companies with whom government can do business. The practice of using PQQs (Pre-Qualification Questionnaires) to conduct the initial selection of potential suppliers was the key concern of contributors to the 'Problem with Procurement' site and is being radically overhauled. Already, fourteen (out of 17) Departments have eliminated PQQs altogether for procurements with a value below £100k, which is the EU threshold for the public sector procurement regulations<sup>2</sup>. In addition, some Departments are now piloting the use of the "Open" procurement route<sup>3</sup>, which does not require supplier selection at the initial stage, in order to assess the impact of a broader range of suppliers submitting tenders for government business. Where a pre-selection is still necessary for achieving the best outcome from a procurement Departments' can now use a much simplified selection process where fewer questions are asked and all questions are directly relevant and proportionate to the nature of the procurement.

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<sup>2</sup> The European Union (EU) procurement directives, and the Regulations that implement them in the UK, set out the law on public procurement. Their purpose is to open up the public procurement market and to ensure the free movement of goods and services within the EU.

<sup>3</sup> Under the EU regulations public procurement above the EU thresholds has to be run using one of the following procedures: restricted, open, negotiated or competitive dialogue,

## SME Progress Report – Management Summary

In seeking to simplify the procurement process we are also making recommendations to streamline the tendering process so that procurers are actively discouraged from over specifying, and being overly prescriptive, thus limiting the market's ability to come forward with innovative solutions. Wherever possible procurers will focus on the outcomes and outputs that the market can deliver as opposed to specifying the inputs they believe meet the requirement. This change is being embedded in the new 'lean' sourcing process which will be rolled out across Government from January 2012.

At the 11 February SME Summit Baroness Eaton, Chair of the Local Government Group, voiced her support for these measures and commitment to promote their use in local government. The simplified, standard PQQ has been widely circulated in local government with encouragement for procurers to adopt this standard.

### **3.4 Providing direct feedback**

The extended service for providing direct feedback to government on aspects of procurement that are causing concern to SMEs is also proving popular; in the period up to 31 May 2011 the Mystery Shopper facility has seen 38 cases where procurements were not transparent, or the process was blocking SME access. Of these, 24 cases have been closed so far with positive results for SMEs. In line with Government's commitments on openness and transparency the first Mystery Shopper cases, and their resolutions, have been published on the Cabinet Office website.

Following a successful resolution one complainant wrote:

"I want to commit to email again my thanks to your team. I spent a long time deliberating the Mystery Shopper concept and a weekend reading Government policy statements and politicians' speeches prior to sending the letter. If I am honest I was a little cynical about the process but I truly feel we suddenly had a voice -and even better, a voice that was listened to on a high level."

### **3.5 Streamlined procurement process**

Government has already signalled the introduction of a new 'lean' sourcing process, supported by an up-skilling programme to ensure procuring teams are properly equipped to adopt the new process. This work is currently testing and refining the new process on a series of Pathfinder procurement projects across Central Government.

Significantly this new process sees an emphasis on pre procurement engagement with industry and increased transparency in the tendering process. There is a commitment to signal demand to

## SME Progress Report – Management Summary

the market as early as possible and release all the tender documents to potential suppliers at the point of OJEU advertisement. These measures will increase the likelihood of smaller suppliers being involved in the procurement process at an earlier stage – and where there is still the opportunity to influence the development of outcome or output-based specifications which is a key component of the new ‘lean’ sourcing process.

### **3.6 Enabling technology**

The new Government eMarketplace (GeM) will enable significantly easier transactions for all suppliers, including SMEs, and is being launched on 19<sup>th</sup> July. Specifically, the Dynamic eMarketplace will provide suppliers with the facility to offer quick quotes so Departments can award low value contracts without any prolonged procurement process. A pre-registration process for this tool has been designed to reduce the burden on SMEs, enabling them to compete at minimal cost alongside larger suppliers.

### **3.7 Departmental action and impact**

Each central Department has now published its own specific actions for encouraging greater involvement of SMEs in their departmental procurement. Over the coming months, these actions will be implemented and the results assessed. The actions range from; breaking large contracts into smaller lots, working with major suppliers to increase SME access to sub-contracting opportunities, increasing the amount of information that is available to SMEs about contract opportunities, holding Product Surgeries for SMEs to pitch innovative ideas, and piloting new procurement methods that are more open to SMEs.

The impact of how changes in government behaviour can make a substantive difference to the outcome has recently been demonstrated by HM Revenue and Customs awarding a contract with voluntary and community sector SME, *Derwent Living*, to provide office services to staff at its Nottingham Castle Meadow office following a successful bid in its reverse auction ‘open’ procurement process.

### **3.8 Progress against the 25% aspiration**

On the 13 May up-dated business plans were published for each Department which included the amount of spend that was channelled to SMEs in the 2009/10 financial year. The data shows that in that financial year 6.5% of government spend flowed to SMEs, representing £3.11bn of spend. This data relates specifically to direct spend between Departments and small businesses.

## SME Progress Report – Management Summary

We know that a large amount of spend flows to SMEs as subcontractors in the government supply chain and so it is right that spend in the supply chain is included in the scope of the 25% aspiration. In order to build a fuller and more realistic picture of the amount of business Government does with SMEs we are working with key Government suppliers to sample the percentage of spend that flows to SMEs in the supply chain and will report on these findings in the next progress report

### **4. Next steps for Departments and ERG**

Over the coming months we will give further consideration of ways to increase the trajectory of spend going to SMEs, including increased adoption and supplier registration on GeM, and have initiated sub-groups of the SME Panel to ensure that SMEs have a strong voice in future planning. In addition ERG will continue to focus on delivering and measuring the benefits of the measures announced on the 11 February. These include:

- implementation of action plans,
- roll out of further product surgeries,
- progress of the lean pathfinders.