dti

<u>Progress on improving access to public sector procurement</u>

Introduction

1. The Government is seeking to promote competition, innovation and value for money in the delivery of public services. To do this it is improving its procurement processes and aiming to ensure small businesses are better able to find out about, and bid for, public procurement opportunities.

2. To achieve this goal it is important to ensure that public sector practices do not disadvantage small businesses. Disadvantage can occur if small businesses lack knowledge of available opportunities or if the costs involved in assessment and selection systems unfairly disadvantage them. Removing such obstacles helps ensure the public sector benefits from best value and efficient, innovative suppliers of goods and services.

Recent progress

3. This document updates the Progress Report published in December 2005 which covered 2004/5.[1] New data for 2005/6 shows there has been real progress taking forward initiatives developed since the 2003 Better Regulation Task Force / Small Business Council Report *Government: Supporter or Customer?*[2]. The launch of the www.supply2.gov.uk portal in March 2006 has been welcomed by business. Over 40,000 businesses have already registered to use the portal to gain access to small scale public procurement opportunities. Information on over 12,000 lower-value business opportunities were posted through the portal in its first ten months. These opportunities were below the threshold above which mandatory advertising in the Official Journal of the EU is required, and would otherwise have been very difficult for small businesses to access. Over 3,000 public sector buyers are subscribed to the portal. DTI and the contractor are now working to put in place further feeds of opportunities with major public sector buyers. Suppliers receive a daily email alert of opportunities, can browse for opportunities online, and publish a Supplier Information Profile giving details of their capabilities.

4. A new online training package, which will enable small businesses to learn how to access public sector opportunities, will be launched in Spring 2007. This package will enable small businesses to learn new skills at a time and place which suits them and will supplement face-to-face training which many Regional Development Agencies, Business Links and other business bodies provide.

5. Some help now being offered by Regional Development Agencies is focused around assisting businesses attracted by the opportunities offered by the London Olympics in 2012. The Games provide a spur to encourage small businesses to hone their skills so they can make effective bids. However, whilst the Olympics provide exciting opportunities over the next five years the

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[1] http://www.sbs.gov.uk/SBS_Gov_files/services/procurement-SBS-progress-rep.pdf
[2] http://www.brc.gov.uk/downloads/pdf/smeprocurement.pdf

sums involved are still small relative to the approximate £150 billion spent annually by the public sector as a whole.

6. By harnessing interest in the Olympics to encourage small businesses to develop their capabilities, a lasting legacy will be stronger, fitter businesses capable of selling to the public sector, bidding for private sector contracts, and more able to compete in international markets. The business opportunities network, being developed by the RDAs in conjunction with the Olympic Delivery Authority, will help suppliers locate sub-contract opportunities, and find the help they need to compete.

7. DTI has surveyed central government and agencies annually for several years to identify the proportion of public procurement work won by SMEs. Although data collection has improved over that period, the data obtained remains incomplete. Steps to improve the quality of data on public procurement are, however, on going and are being taken through the work of the Office of National Statistics, the Office of Government Commerce and the Regional Centres of Excellence.

8. The results of the 2005/6 survey of central government procurement are set out below starting at Paragraph 9. A majority of local authorities have conducted supplier analysis and data is now available which gives a relatively reliable snapshot of what they are spending and with what type of business. The data quality is expected to improve further in future years. Local authorities remain particularly important market for small businesses and some key facts on local authority procurement and policy implications are set out below starting at Paragraph 17.

Annual procurement survey of contracts awarded by public sector bodies to Small and Medium-sized Enterprises (SMEs) 2005-06

Objective of the survey

9. The main aim is to measure, year on year, the number and value of contracts awarded by central government departments and agencies to small and medium sized enterprises (SMEs).

Key Findings

10. This survey accounts for 115,196 contracts, covering £5.9bn[3] of public sector expenditure.

11. Of the total **contract value** awarded, 16% was awarded to SMEs.

12. Of the total **number** of contracts awarded, 50% went to SMEs.

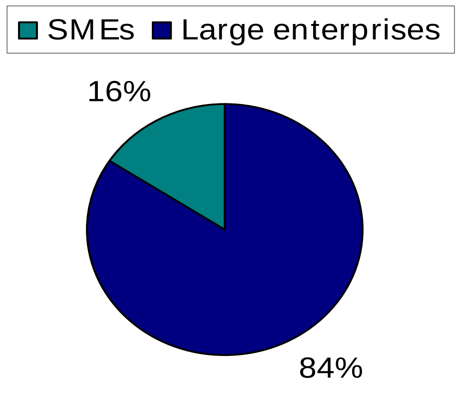


Figure 1
Value of contracts awarded

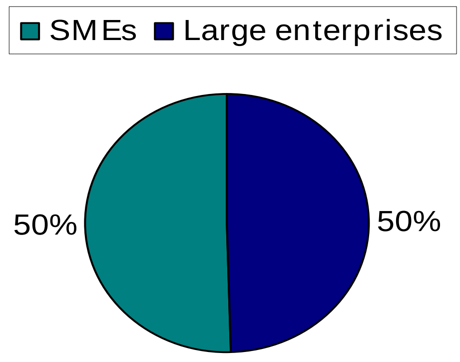


Figure 2
Number of contracts awarded

Methodology

13. Departments and agencies were asked to provide the total number and value of the contracts their organisation awarded between 1 April 2005 and 31 March 2006, broken down by enterprises with 249 or fewer employees (SMEs) and enterprises with 250 or more employees (large). There is however no legal requirement for respondents to supply this information, and no standard methodology by which respondents collected it. Figures from Ministry of Defence and some other Departments were excluded from the data – See Annex 1.

Comparison with previous years

14. It remains very difficult to make any direct meaningful comparisons between the surveys or draw conclusions from the responses as a result of

[3] In this document "£bn" means £1,000,000,000 and "£m" means £1,000,000.

limitations in data quality. The reasons for this include differences between the samples used in this and previous surveys in both the number and nature of public sector respondents. Also, the methods used by each organisation to compile their data may not be consistent over time.

15. Recognising the qualifications above, it appears that the proportion of the **number** of contracts awarded to SMEs in 2005-06 is less than in previous years. Also, the proportion of the **value** of contracts awarded to SMEs has returned to earlier levels following the rise in 2004-05. However this is as against a backdrop of approximately £1.2 billion higher expenditure including significant increases on major highway projects. More detailed information on the survey is at Annex A.

Table 1. Comparison of 2005-06 data with earlier years

		All enterprises	Awarded to SMEs		Large enterprises	
Contract value awarded (/ £m)	2005-06	5,915	938	*16%*	4,977	*84%*
	2004-05	4,693	1,039	*22%*	3,634	*78%*
	2003-04[4]	4,594	792	*17%*	3,802	*83%*
	2002-03	4,312	759	*18%*	3,552	*82%*
	2001-02		Not available			
Number of contracts awarded	2005-06	115,196	58,069	*50%*	57,094	*50%*
	2004-05	106,053	61,214	*58%*	44,639	*42%*
	2003-04	62,782	41,990	*67%*	20,792	*33%*
	2002-03	50,855	36,980	*73%*	13,875	*27%*
	2001-02	29,821	13,772	*46%*	13,858	*46%*

16. These figures do not include business won by SMEs through sub-contracts.

Data on local authority procurement

17. As part of work to improve value for money many local authorities have undertaken supplier analysis to determine where efficiencies can be made. Information on the share of business won by micro, small and medium businesses is therefore increasingly coming available. This is achieved by taking information from the authorities' records, cleaning the data to remove duplicates, and determining the size of the business from commercial databases. Local authorities use a number of companies to undertake this work, and the DTI purchased access to one of the commercial suppliers, which holds data from in excess of 100 local authorities. An exercise by the Office of Government Commerce showed that information from the two largest suppliers produced very similar results in terms of the overall share of procurement by value and volume from local authorities. This suggests the data is reasonably robust.

[4] Revised from the 2004-05 report, "Small Business Service annual survey of contracts awarded by public sector bodies to small and medium sized enterprises (SMEs) 2004-05", http://www.sbs.gov.uk/sbsgov/action/layer?r.s=sl&topicId=7000024685, URN 05/1021,.

18. Data in the analysis below was extracted in 2006, though that represents a snapshot in time. It should be borne in mind that the data have been entered at different times for different authorities. Notably the authorities in the database have changed and as new data has been included, the share of value won by SMEs has remained constant at 58 or 59%.

The share of local authority procurement won by SMEs

19. An assessment has been made of i) the share of procurement won by different sizes of business, ii) how this varied across sectors, and iiii) variations in the size of businesses. The Figures in Table 2 suggest that SMEs as a whole perform better than might be expected by their share of the economy in local authority procurement.

Table 2. Share of local authority procurement won by micro, small and medium businesses in relation to turnover in the economy:

Source: Spikes Cavell & Co	Sector's share by value	Sector's share by turnover in economy	Difference: Minus figure = underrepresented.
Micro – 0-9	12%	21.5%	-9.5%
Small – 10-49	22%	13.7%	8.3%
Medium 50-249	26%	13.8%	12.2
SME total – 0-249	60%	49%	11%
Large 250+	40%	43.2%	-3.2

20. However, within the SME total micro-businesses are under-represented if sole-traders are included in the figures for turnover in the economy. When sole traders are excluded from the turnover in the economy then the share won by micros is 14% so the under-representation is only 2%.

What share of local authority procurement do new businesses win?

21. Businesses say that it is hard for new businesses to win tenders due to difficulty of proving financial track record.

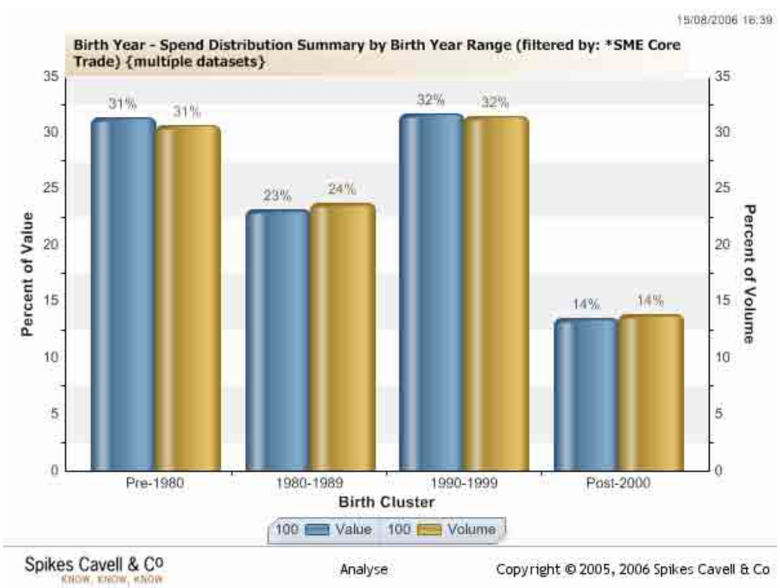


Table 3. Share of local authority procurement won by new (started since 2000) micro, small and medium businesses:

Source: Spikes Cavell & Co	Share by value (new businesses/ all businesses in the size band)	Share by turnover in economy (new businesses/ all businesses in the size band)	Difference: Minus figure = new businesses are underrepresented in the size band.
All businesses	15%	11%	+4%
SMEs – 0-249	14%	22%	-8%
Micro – 0-9	22%	38%	-16%

22. Data analysis (see Table 3) shows that all businesses started since the year 2000 win 15% of local authority procurement, whilst data on the business population as a whole[5] shows that all businesses started since 2000 account for 11% of total turnover, so new businesses as a whole are well-represented in terms of contracts won.

23. However, SMEs started since the year 2000 win 14% of local authority procurement from SMEs, but that SMEs started since 2000 account for 22% of SME turnover in the economy, therefore new SMEs are winning a smaller share than might be expected of local authority procurement[6]. Micro businesses started since the year 2000 win 22% of local authority procurement from micro businesses, but again, micros started since 2000 account for 38% of all micro business turnover, so they also appear to be under-represented, showing that it is the more established SMEs and micro businesses are the ones winning contracts.

24. Only 4% of local authority business in 2005/6 was won by businesses created in 2003 or later. This compares approximately with business population data which shows businesses created in 2003 or later account for 5% of turnover and 10% of SME turnover, so very new businesses also appear to be under-represented.

25. It is possible to conclude that some businesses which have been created recently are winning local authority business but not as much as their share of total business. Therefore it is possible that there are barriers disproportionately affecting new businesses. This could be a result of requirements for potential suppliers to prove financial track record.

Does size matter? Does the share of local authority procurement won by SMEs vary in relation to the size of council (for these purposes defined by their total procurement spend)?

26. Analysis of the data suggests there is no correlation between the total value of a local authority's council spend and the share won by SMEs. The

[5] VAT registered businesses in England, excluding the financial intermediation sector for which turnover data is not on a comparable basis. Data from the IDBR (as at Dec 05), produced by SBS Analytical Unit (Statistics Team). Start date is based on date of VAT registration.

[6] Note that some businesses with recent start dates may be as the result of mergers and may not be "pure" births. This may be more likely as the size of business increases.

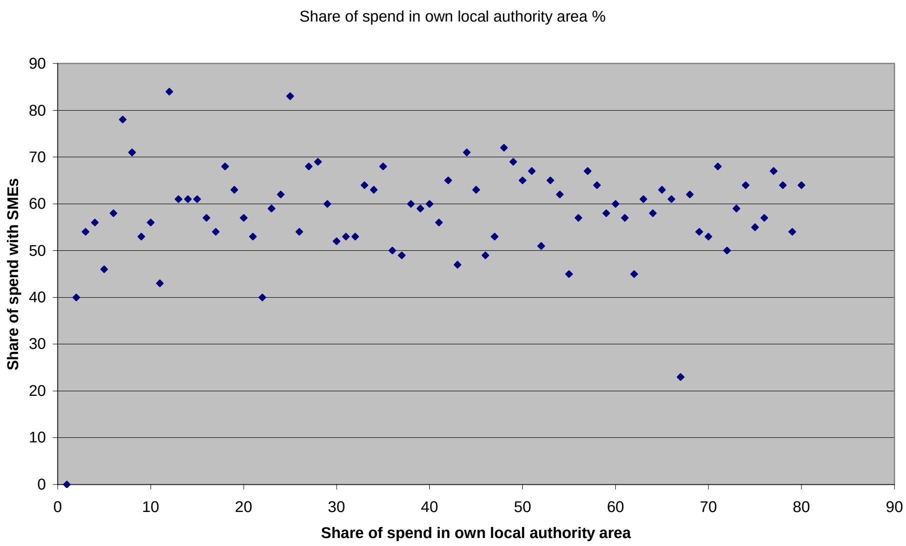
same result obtains comparing the total value of a local authority's spend and the amount spent with micro businesses. Results for smaller councils, which are perhaps less likely to have a professional procurement function, show greater variation in the share of procurement going to SMEs.

Does contract size matter? Do councils with a larger average spend per supplier award a lower share to SMEs?

27. There is no evidence of a relationship between average spend with suppliers and the share of procurement from SMEs. There is, however, a greater spread with councils with a low average spend – again perhaps such councils are the ones less likely to have a dedicated procurement officer.

Does geography matter? Does the share of procurement from small businesses vary according to how much of a council's procurement is bought locally or regionally?

28. Data analysis shows no correlation between the proportion spent within the local authority area and the percentage spent with SMEs.



Does sector matter?

29. Figures on the share of procurement from SMEs by just over 100 local authorities in the database. The figures in Table 4 are shown by absolute value, share of volume and by share of suppliers. However, it is not possible to compare these figures with the share of SME activity in the wider economy at a meaningful level. Figures are presented by SIC classification.

Table 4. SIC classification by total value.

Industrial Sector **Source: Spikes Cavell & Co database**	**Value %**	**Volume**	**Suppliers**
General construction of buildings etc	43%	63%	57%
Private sector hospital activities	50%	55%	63%
Medical nursing home activities	55%	60%	63%
Labour recruitment etc	46%	44%	57%

Other service activities	45%	48%	49%
Construction of domestic buildings	68%	47%	75%
Software consultancy and supply	54%	28%	71%
Installation: electrical wires/fittings	70%	74%	68%
Plumbing	75%	78%	73%
Construction of commercial buildings	65%	84%	78%
Renting of buses and coaches	85%	82%	77%
Taxi operation	72%	73%	64%
Construction of civil engineering constructions	22%	23%	62%
Letting of own property	35%	37%	47%
Construction of highways, roads etc	27%	10%	66%
Other building completion	46%	51%	53%
Solicitors	54%	57%	63%
Construction	40%	47%	52%
Other constr. involving special trades	46%	52%	67%
Real estate agencies	57%	57%	66%
Architectural activities	72%	73%	82%
Financial leasing	51%	50%	56%
Erection of roof covering and frames	80%	87%	75%
Business/management consultancy activity	28%	34%	39%
Painting and glazing	72%	72%	69%
Other computer related activities	55%	61%	65%
Management of real estate	37%	37%	50%
Agricultural service activities	50%	55%	66%
Sewage and refuse disposal etc	10%	30%	45%
Activities of private training providers	66%	60%	65%
Recycling	21%	72%	65%
Other wholesale	53%	42%	69%
Printing nec	74%	83%	79%
Manufacture: lifting/handling equipment	66%	64%	71%
Non-specialised wholesale of food etc	51%	56%	68%
Business and management consultancy activities not elsewhere classified	50%	42%	77%
Telecommunications	13%	10%	43%
Manufacture: builders' carpentry/joinery	82%	58%	71%
Retail sale of photographic, optical & precision equipment, office supplies and equipment (including computers, etc.)	36%	19%	59%
Other scheduled passenger land transport	37%	33%	53%
Manufacture of other builders' ware of plastic	89%	61%	82%
Other service activities nec	48%	63%	47%
Other building installation	60%	73%	69%
Security and related activities	43%	47%	55%
Manufacture of sports goods	90%	92%	87%
Urban planning and landscape architectural activities	58%	62%	64%
Engineering related scientific and technical consulting activities	56%	47%	67%
Other business activities nec	25%	25%	38%
Hardware consultancy	21%	66%	74%

What do local authorities buy from small and micro businesses?

30. The following tables illustrate the main areas of local authority spend with SMEs and micro businesses by value. These figures use the ProClass classification which classifies by Thomson Local categories, but aggregated

into the ways in which local authorities buy goods and services[7]. The tables are presented by share.

Table 5. What share of local authority spend goes to SME suppliers?

ProClass Level 1	SME share of total spend	ProClass Level 1	SME share of total spend
Cemetery & Crematorium	87%	Building Construction Materials	46%
Sports & Playground	83%	Unclassified Trade	46%
Horticultural	76%	Human Resources	46%
Furniture	74%	Leisure Services	45%
Domestic Goods	67%	Construction	41%
Health and Safety	66%	Catering	40%
Medical	60%	Cleaning and Janitorial	37%
Clothing	58%	Consultancy	35%
Vehicles Not Buses	58%	ICT	30%
Highway Equipment and Materials	57%	Unclassified Non Trade	28%
Transport	52%	Traffic Management	25%
Social Community Care	51%	Financial Services	24%
Facilities Management	51%	Environmental Services	19%
Legal Services	50%	Mail Services	13%
Education	50%	Utilities	8%
Stationery	47%		

Source: Spikes Cavell database

[7] More details at http://www.swce.gov.uk/proclass_000.htm

Table 6. What share of local authority spend goes to micro businesses?

ProClass Level 1	Total Spend - micro share	ProClass Level 1	Total Spend - micro share
Horticultural	24%	Vehicles Not Buses	10%
Domestic Goods	20%	Cleaning and Janitorial	10%
Clothing	19%	Building Construction Materials	10%
Health and Safety	18%	Education	9%
Furniture	17%	Catering	8%
Transport	17%	Consultancy	7%
Unclassified Trade	16%	Social Community Care	6%
Highway Equipment and Materials	16%	Construction	6%
Sports & Playground	16%	Mail Services	5%
Leisure Services	15%	Unclassified Non Trade	4%
Medical	14%	ICT	4%
Facilities Management	13%	Traffic Management	3%
Legal Services	13%	Environmental Services	3%
Stationery	12%	Financial Services	2%
Cemetery & Crematorium	11%	Utilities	1%
Human Resources	11%		

Source: Spikes Cavell database

Conclusions

31. With respect to Central Government procurement there remains considerable uncertainty in the numbers. It is not possible, therefore, to draw firm conclusions on whether the changes between 2004/5 and 2005/6 result from factors such as the aggregation of demand into larger contracts, or from statistical noise.

32. The local authority data shows, notwithstanding the difficulties SMEs face when tendering for public contracts, that large numbers of SMEs are successfully supplying local authorities. Local authorities therefore continue to be a good starting point for small businesses wanting to supply the public sector. Both new businesses and micro-businesses, however, appear to face greater challenges supplying local authorities than longer established small and medium sized firms. Local authorities therefore need to be particularly sensitive to ensuring these businesses are not excluded from procurement opportunities, for example, by making excessive demands to demonstrate financial track record. Similarly it is clear from the data that the size of a local authority has no impact on the proportion of spend made with SMEs.

Annex A.

More detailed information on respondents and exclusions from the annual procurement survey of contracts awarded by Central Government bodies to Small and Medium-sized Enterprises (SMEs) 2005-06

Introduction

1. For reasons of consistency with earlier year figures Table 1 excludes spend by the DTI, Ministry of Defence, NHS[8] and Ordnance Survey. Data for these bodies appears in Tables 8 to 11.

2. Notwithstanding adjustments, Table 1 still includes organisations that supplied data for 2005-06 but not for 2004-05, and vice versa. To aid comparison Table 7 excludes such data.

Table 7. Comparison with earlier years – only including organisations that responded in 2004-05 and 2005-06

		All enterprises	SMEs		Large enterprises	
Contract value awarded (/ £m)	2005-06	4,335	772	*18%*	3,563	*82%*
	2004-05	3,746	872	*23%*	2,893	*77%*
No. of contracts awarded	2005-06	106,689	53,367	*50%*	53,316	*50%*
	2004-05	95,681	53,577	*56%*	42,008	*44%*

3. The proportion of both the number, and value, of contracts going to SMEs in 2005-06 is still less than in 2004-05, but not by as significantly as at first appears from Table 1.

4. A large proportion of the decline in share appears to result from an increase in the expenditure of the Highways Agency. The Agency's contract value awarded to SMEs actually rose from £13m in 2004-05 to £50m in 2005-06. However, its total contract value rose from £1.1bn in 2004-05 to £1.5bn in 2005-06 some 95% of the Highways Agency's expenditure arises from major civil engineering contracts, the proportion of the value of contracts awarded directly to SMEs falls far below the average for central civil government. These factors mean that the total proportion of contract value awarded to SMEs across all central government has fallen.

5. While the size, value and duration of major contracts awarded by the Highways Agency may reduce the number of direct opportunities for SMEs to contract as a first tier supplier, SMEs continue to play a significant role in the delivery of these contracts through their active involvement in the supply chain. In order to deliver best value the Department of Transport and the Highways Agency continue to recognise the need to ensure the extended supply chain is fully integrated into the delivery process. The principles of early contractor involvement continue to encourage first tier suppliers to work as integrated teams with SMEs within their supply chain. The Department of

[8] http://www.hm-treasury.gov.uk/help/help_acro.cfm has a list of Departmental abbreviations.

Transport and the Agency continue actively to promote opportunities for SMEs and continue to contract directly with SMEs.

Comparison of responses

6. Table 8 shows that the number of organisations supplying useable data continues to increase. The number of contracts that organisations have supplied information on has also increased, for four years running; see Table 1 earlier.

Table 8. Comparison of response rates by year

Year	Organisations Contacted	Useable replies		Full data unavailable		No response		No response required	
2005-06	144	104	*72%*	23	*16%*	17	*12%*	0	*0%*
2004-05	127	95	*75%*	22	*17%*	4	*3%*	6	*5%*
2003-04	116	74	*64%*	25	*22%*	4	*3%*	13	*11%*
2002-03	105	75	*71%*	27	*25%*	2	*2%*	1	*1%*
2001-02	208	63	*30%*	24	*11%*	26	*13%*	95	*46%*

Excluded data

7. Results from DTI, MoD, NHS Purchasing and Supply Agency (PASA), and Ordnance Survey have again been excluded from the consolidated tables and, instead, shown separately in Tables 9 to 12. MoD and NHS PASA account for high expenditure that would distort the general picture. Ordnance Survey and DTI use a different data collection methodologies which are not comparable with other Departments.

Table 9. Ministry of Defence

		All enterprises	SMEs		Large enterprises	
Contract value awarded (/ £m)	2005-06	11,321	932	*8%*	10,388	*92%*
	2004-05	6,700	562	*8%*	6,138	*92%*
	2003-04	10,897	530	*5%*	10,367	*95%*
	2002-03	12,000	71	*1%*	11,929	*99%*
Number of contracts awarded	2005-06	10,277	4,418	*43*	5,859	*57*
	2004-05	11,091	4,982	*45%*	6,109	*55%*
	2003-04	15,692	7,201	*46%*	8,491	*54%*
	2002-03	35,000	1,600	*5%*	33,400	*95%*

Table 10. NHS PASA

		All enterprises	SMEs		Large enterprises	
Contract value awarded (/ £m)	2005-06	4,703	1,277	*27%*	3,426	*73%*
	2004-05[9]	4,266	1,731	*41%*	2,534	*59%*
	2003-04	4,143	1,578	*38%*	2,565	*62%*
	2002-03	1,069	156	*15%*	912	*85%*
Number of contracts awarded	2005-06	7,281	3,482	*48%*	3,799	*52%*
	2004-05[5]	5,597	2,564	*46%*	3,033	*54%*
	2003-04	2,877	1,365	*47%*	1,512	*53%*
	2002-03	1,174	413	*35%*	761	*65%*

[9] Figures provided by NHS PASA for 2004/05 are up to August 2005, not March 2005

Table 11. Ordnance Survey

		All enterprises	SMEs		Large enterprises	
Contract value awarded (/ £m)	2005-06	53	28	*52%*	25	*48%*
	2004-05	43	27	*64%*	16	*36%*
	2003-04	16	10	*61%*	6	*39%*
	2002-03	21	19	*90%*	2	*10%*
Number of contracts awarded	2005-06	2,117	1,235	*58%*	882	*42%*
	2004-05	2,513	1,923	*77%*	590	*23%*
	2003-04	57	35	*61%*	22	*39%*
	2002-03	1,224	197	*16%*	1,027	*84%*

Table 12. DTI

Contract value awarded (/ £m)		All enterprises	SMEs		Large enterprises	
	2005-06	776	163	*21%*	613	*79%*
	2004-05	548	129	*24%*	402	*76%*