

Access all areas: Government

How the government can open its doors to small businesses, leading to a more equitable system, better value for the taxpayer and a more dynamic economy.

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Data from **tussell**



Foreword



Martin Traynor OBE
Small Business Crown
Representative, Cabinet Office

There are huge opportunities for small businesses to engage with the government, and government is very keen to support small businesses better. Now, every department has an SME action plan, a minister responsible for implementing it, and an SME champion who is a civil servant who advocates for the interests of small businesses.

My role within this is twofold. First, I work with government departments to make procurement practices, policies, and procedures easy to navigate. And second, I encourage small businesses to pitch for contracts.

Despite this being a priority it has been difficult to get this completely right. Our experience with Covid shows that we struggled to engage with SMEs in a targeted way and the proportion of public sector spending which went to them fell. Similarly, innovation is so important and we don't always get this right either. But, sometimes government departments can excel at this too. For example, the SME champion in the Department for Transport hosts Dragons Den style pitch events with suppliers who can explain what they're making. After all, you can't buy it if you don't know about it.

The message and the strategy from government is simple: it is that we are open for business. We want to encourage SMEs to join our supply chain and we are really keen for them to let us know what innovations they are coming up with. This report provides us with some fresh ideas about how we might do that better.

Foreword



Emma Jones CBE
Founder, Enterprise Nation

Government spends billions of pounds each year buying everything from landscape gardening to graphic design, professional services and catering. This represents a large opportunity for small business and I have always been passionate about working with government to ensure the processes to identify opportunities and then secure contracts are as small firm-friendly as possible.

We know procurement has to tick a lot of boxes. There's a very important balance to be made between cost-effective management, improved efficiency with taxpayers' money and an inclusive process that gives innovative and capable small businesses a chance to compete. Working with the public sector can be life-changing for smaller firms. It can provide them with relentless opportunities and can lead to sustainable and significant growth.

The government has done a great job over the years of encouraging the growth of the UK's start-up and small business ecosystem. The next logical step is for them to play a role in their growth, by ensuring they are buying from them, either directly or via consortiums with larger businesses that make a point of working in partnership with small firms.

There are some clear actions in this report we'd like the Government to take on board, such as writing bids in a more accessible or imaginative way, or encouraging more pre-procurement consortium building.

We're not suggesting a so-called 'bonfire of the red tape,' but we do suggest a reduction in bureaucracy that would allow businesses to submit information once, so that they could be eligible for all contracts of a certain type without having to duplicate work.

I look forward to ongoing work with government to action these recommendations.

Introduction

Throughout government - MPs, officials, and local authorities alike - are keen to support small businesses. You often hear people describing SMEs as the “backbone” or “lifeblood” of the economy. Despite this enthusiasm, the government often struggles to adequately support small businesses. This is not because politicians are disingenuous about their commitment to SMEs, but rather because small businesses are difficult to support.

There are 5.5 million small businesses in the economy, employing over 16 million people, and each with different goals and interests.¹ Government lacks information about where they are, what they are doing, and how they can be helped. While big businesses have well-staffed teams whose sole purpose is to effectively communicate the business's interests to government, people who run SMEs don't. Indeed, it is often not obvious where they can turn to communicate their needs.

This report aims to advocate for the interest of small businesses, and explain how the government can open its doors to them, leading to more effective procurement, which will then result in a more equitable system, better value for money for taxpayers, and a more dynamic economy.

1. Department for Business, Energy, and Industrial Strategy (2021). Business population estimates for the UK and regions 2021: statistical release



A History of SME Procurement

2010

The Coalition Government of 2010 to 2015 set out an ambition to spend a greater proportion of public procurement on SMEs. The goal was to increase the share of procurement budgets going to SMEs. Taking it from 6.5% in 2011 to 25% in indirect spending by the end of the government.²

2012

The first SME crown representative was appointed.

2015

Pre-qualification procedures, like pre-qualification questionnaires, were banned.

A new government target was set for one third of all procurement spending to go to SMEs through indirect spending.

2022

The government unveils a new Procurement Bill in the Queen's Speech, the goal of which is to make it easier for small businesses to bid for contracts.

2011

Contracts finder, an online database of public tenders, was first launched.

The Cabinet Office set up the small business advisory panel.

2014

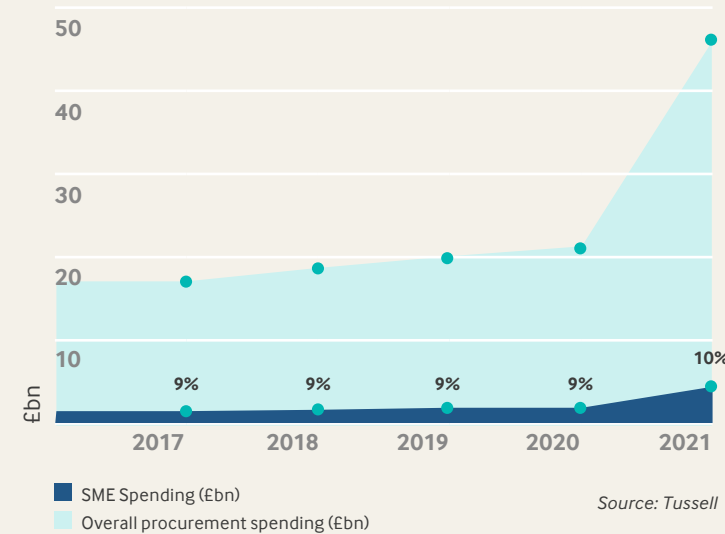
Government hit its target and 25% of procurement spendings through direct and indirect spending with SMEs.

2018

Oliver Dowden, the Minister for the Cabinet Office, announced new measures to improve access to procurement for SMEs. The reforms included rules excluding firms from bidding for contracts if they failed to pay small businesses in their supply chain on time.

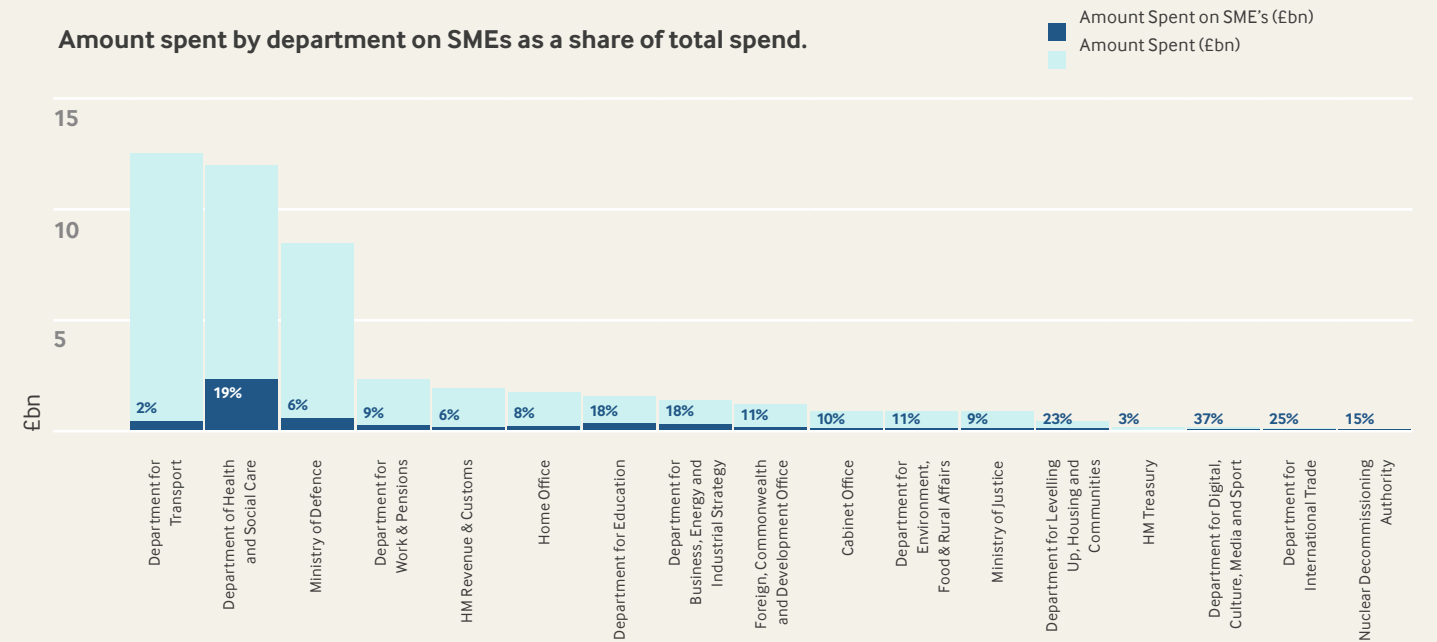
2. Cabinet Office (2012). SME procurement event – Francis Maude speech.
 3. Cabinet Office (2011). PM launches Contracts Finder.
 4. National Audit Office (2016). Government's spending with small and medium-sized enterprises.
 5. The Public Contracts Regulation 2015.

Proportion of procurement budgets that are directly spent on SMEs.



As we can see, the proportion of procurement going directly to SMEs has remained flat at about 10%. It is worth noting that this methodology differs from the government's own figures, which includes the amount that large suppliers to government sub-contract to SMEs in their supply chain. Including direct spend is how the government can meet their target of spending 25% of procurement budgets on SMEs while only spending 10% with them directly.

Amount spent by department on SMEs as a share of total spend.



The Department for Digital, Culture, Media and Sport (DCMS) is the best performer, spending 37% of its budget on small businesses, but due to the nature of its work, DCMS only spends £100m in a year. Close behind it are the Department for International Trade (25%) and the Department for Levelling Up, Housing and Communities (23%).

On the other hand, the worst performing department is the Department for Transport, which spends only 2% of its budget on small businesses. Spending £12.6bn, it is also the biggest department. Of course, department by department comparisons only have limited value. After all, the nature of each department's spending will depend on the kind of work it does - there are not many small firms who make submarines, for example, but they can be in the supply chain of larger entities.

Improving Procurement

Procurement in the UK accounts for a third of all government spending, and over a tenth of all spending in the economy.⁶ By deciding how procurement budgets are spent, government bodies have even more power over the economy than is immediately obvious. As a result, when public procurement processes create disproportionate burdens on SMEs, they not only lead to worse public services that are more expensive for the taxpayer, they also make our economy less dynamic and innovative.

The impact of procurement on the economy has led multiple governments to use procurement policy as a tool to pursue wider policy goals, alongside value-for-money for the taxpayer. For example, the government's Sustainable Procurement Strategy seeks to minimise the damage to the environment by making different purchasing choices.⁷

Tackling the problem of late payment for suppliers is one area where procurement policy is having a positive impact. In order to win contracts of over £5m from public bodies, firms must demonstrate that they paid 95% of their invoices within 60 days. As a result, strategic suppliers, a group of companies who, usually through the provision of £100m-worth of goods and services, are of strategic importance to the government, increased their compliance with late-payment rules by 30%.⁸

It makes sense for government to make sure that procurement processes are not biased against SMEs. An over-reliance on large companies reduces competition and means that failures like Carillion don't just affect one contract, but can impact multiple arms of the government at once. The Coalition Government had targets to increase the proportion of spending that went to SME suppliers but there are still several barriers that prevent departments from achieving such ends.⁹

The greatest issue is that the system currently requires a lot of unnecessary bureaucracy, which is easier for larger firms to cope with. Most SMEs do not have the slack to dedicate staff time and resources to searching for procurement opportunities or filling out arduously long tenders. For example, if an SME with 10 staff members dedicates 2% of its time to procurement, it will not have any staff members working on procurement full time. By contrast, a large company with 500 staff members dedicating 2% of its time to procurement would have a 10 person team who are specialised in fulfilling procurement contracts. To make matters worse, companies have also been given less time to manage these burdens, as the average amount of time a tender is posted for has decreased, further increasing the difficulty of submitting a bid.¹⁰ The extra bureaucracy is caused by a number of factors but there are three main drivers of excess bureaucracy.

6. House of Commons Library (2021). Procurement statistics: a short guide.

7. HM Revenue & Customs (2013). Sustainable Procurement.

8. Tussell (2022). Government policy has positive impact on supplier payment practices.

9. Loader, K. (2018). Small- and medium-sized enterprises and public procurement: A review of the UK coalition government's policies and their impact. *Environment and Planning C: Politics and Space*, 36(1), 47–66.

10. Spend Network (2021). UK Government Procurement Under Pressure

Procuring for Social Value increases uncertainty for businesses and biases the process towards companies with ESG and public affairs teams. There has been a recent push towards considering *Social Value*, considerations beyond value for money such as boosting employment and environmental benefits, in procurement.¹¹ This is problematic, not because there is anything inherently wrong with Social Value, but because in practice it is not well defined and therefore increases uncertainty. Procurers will not have a uniform view of what forms of Social Value matter. Some may prioritise job creation, while others may weight environmental considerations more. This mixture of goals makes submitting a bid more confusing for companies who have to decide between aiming to provide the service in the cheapest way possible or spending more to create more positive spillovers. The ability to navigate this extra complexity greatly improves if a company has ESG or public affairs staff - something which SMEs often do not have. Furthermore, SMEs are likely to find tracking and proving environmental claims to be expensive and difficult.

“Speaking as a small business owner, these red tape procedures just take far too long”

Lucy Hull, founder
For the Love of the North.



11. Cabinet Office (2021). Procurement policy note 10/12: The Public Services (Social Value) Act 2012

Risk aversion in the public sector means that procurers burden prospective suppliers with excessive red tape and favour older, larger businesses.

The people procuring a service do not want their particular tender to fail. As a result, they may favour more established and rigorously tested businesses, even if they are more expensive. As the old saying goes: “Nobody got fired for buying IBM.” Risk aversion is reasonable for services where failure to deliver would cause a great crisis, for example, when lives are at stake, such as medical equipment. But in other cases, such as uniforms or catering, procurers should be willing to take a small risk of failure for the opportunity to purchase a better quality or cheaper service. Risk aversion makes sense for the teams themselves, in a scenario where failure is punished but good, cost-effective procurement is seldom commensurably rewarded, teams are responding to the incentives given to them. But this means the entire system is poor value-for-money and penalises small and young businesses unnecessarily.

This risk aversion means that procurers require businesses to show a track record of delivering projects on a government-scale. Young companies have a shorter history to lean on and small companies usually take on smaller projects. As a result, it is difficult for SMEs to meet these requirements, and when they do, they have to fill out a lot of paperwork to prove that they qualify.



Surrey Heath-based strategic marketing consultant Jarmila Yu, founder of YUnique Marketing Ltd, had an initial conversation in May 2021 to provide marketing advisory services to clients of a government supported Regional Growth Hub.

But it took until December until she could begin work.

She said: *“It was quite a small contract, but meaningful, as it was a way to supplement my own work and crucially support more small and growing businesses needing help.*

“But the procurement process was highly burdensome, considering that from initial conversation to first client engagement it took eight months. The formal onboarding process involved information submission via a procurement portal that was cumbersome and counter-intuitive and whilst I already had relevant professional documentation such as insurances and IT systems in place I used for my private sector clients, I had to conform with the government requirements which involved added expense.”

But she added: *“Very soon I was in the rhythm of supporting clients. I had some very enjoyable interactions with the clients. Payment process was another thing - and not exactly speedy though.”*

Jarmila said the timeline for receiving payment for work done was also much longer than the standard in the private sector. Thankfully staff from the procurement system team were available and helpful in answering queries – this could well justify why a fee is placed on the adviser rate of pay to cover the procurement system management. Big procurement systems and processes might well be appropriate for big contracts and big businesses who have their own procurement teams that are used to such systems.

We can see that cumulatively, different policies have made submitting bids difficult for businesses. Large companies have increased their share of contract value, with the top 25 firms moving from taking 13% of all contract value in 2013 to 18% in 2017.¹² The number of single-bid-tenders, tenders for which only one company submits a bid and therefore wins the contract with no competition, has increased by 476% between 2012 to 2018.¹³

Another issue caused by this complexity is that government contracts become more nepotistic. People are much more likely to receive a contract if they have interacted with the buyer beforehand. If the goals of the procurer are obscured behind competing interests, having a simple conversation with the procurement team can give a business a much better sense of what they should talk about in their tender. Interaction with companies means procurers are more likely to write bids in a way that leaves it open to companies they are aware of, and may leave tenders closed to businesses they haven’t heard of. For example, an environmental agency may put together a procurement tender for a company that sends people to an area to sample local flora and fauna to monitor biodiversity. They may be unaware of

satellite technology which can monitor biodiversity and accidentally exclude them from the contract through the way they write the bid.

The upcoming reforms to procurement promise to simplify regulations, bring contracts under one framework, and promises to create a system where companies need to only submit their information once. Hopefully these reforms will take place and be done well.

Methods of measuring SME spend have changed repeatedly, meaning that it is difficult to compare policies against each other.

From 2010 to 2015, within the span of five years, the government changed the way it measured procurement spending four times. This is the same period that the share of procurement spending going to SMEs rose from 6.5% to 26%. One major change is that when the government gives money to a big business, and that big business spends part of its budget on small businesses, this now counts as SME spending. This is not problematic in and of itself, but the inconsistency does explain a large part of the jump from 2010 to 2015. It makes comparing numbers between years difficult, which makes it impossible to know whether policies have been effective.¹⁴

12. Penrose, J. (2021) The Penrose Report: Power to the People. HM Treasury & BEIS
13. Spend Network (2021). UK Government Procurement Under Pressure.
14. Convivio (2017). Is it a larger cow or has it just been moved closer?

Recommendations

With these problems in mind, what can be done to make public procurement more pro-SME? The Procurement Bill provides an opportunity to reform and refine how we do procurement in the UK, but as well as changing legislation public bodies will need to change their culture too.

Publish pipelines early. It of course makes sense that public bodies will wish to procure at speed so it is too much to ask that all tenders be published early. Instead we should make it easier for businesses to make reasonable guesses about what tenders are likely to come up. To enable this, public bodies should post a pipeline of contracts that are likely to come up. For example, the government knows that if it has cleaning services for their buildings and has negotiated a two year contract, it will want some form of cleaning services again in two years time.

Improve pre-procurement consortium building. Both small and big businesses have reason to want to submit bids together. Many government-scale contracts are too big for small businesses to handle by themselves, or at least, they are too big for small businesses to provide evidence of their ability to deliver projects at such a grand scale. As a result, while they are able to be part of a successful tender, they may not want to take on the whole thing. Larger businesses are often being asked to increase the number of small businesses in their supply chain and identify the right SMEs. One solution to this is to provide a platform which can allow businesses to connect with each other so that they can then decide to submit bids together.

Establish a pro-innovation culture. Procurers need to be less risk-averse when buying from small and young companies. A process that maximises value-for-money for the tax-payer will not necessarily succeed every time. Instead, it may make significant savings on 90% of contracts and allow for 0.5% of contracts to fail. As a result, procurers should not penalise companies for having a limited history of delivering projects. Instead they should look for other indicators of ability to deliver on scale, say, if some of the staff have worked on large projects or if the company has managed to scale quickly.





Move away from Social Value. Often, Social Value can mean a lot of different things and can be seemingly random for companies submitting bids. It is often not a cost effective way of delivering said value either. A procurer may choose a bid that costs an extra £100,000, because it hires people from their jurisdiction, thereby boosting employment in the local area. But if they had gone with the more cost-effective bid, they would have had a further £100,000 to spend on more targeted support for local people. Instead of requiring small businesses to work out the right Social Value language we should instead trust that procuring from small businesses is itself a valuable enterprise in and of itself.

Write bids in a way that allows for more innovative solutions. Procurement teams should avoid writing tenders in a too narrow format. Instead of procuring for “a local library” they should instead consider writing a tender for “a way of giving local people access to a broad catalogue of books” and see what solutions firms offer to their problems.

Hold more Meet-the-Buyer events. To give small businesses similar advantages to companies with good government relations teams, procuring teams should, as standard, host “meet the buyer” events so they can meet their likely suppliers. This will help small businesses understand what the government is looking for and allows the procurement team to better understand what new and innovative solutions could be available to them.

Connect SMEs to bid writers. Create a means for business owners to connect with people who have successfully won contracts so they can give them instruction and advice navigating the procurement system.

Decrease bureaucracy. Wherever possible, public bodies should be proactive about reducing the amount of compliance and red-tape suppliers have to go through, both as part of the procurement process but also as part of monitoring after the tender has been won. There are a number of ways this can be done. Dynamic procurement can allow for companies to submit information about their company at once, which then makes them eligible for all contracts of a certain

type. Similarly, when monitoring the progress of a project, procurers should think carefully about what monitoring is important. The small businesses that we have talked to have complained that government asks for much more outcome reporting and ESG indicators than large companies in the private sector. Procurers should take this criticism on board and proactively look for opportunities to minimise the administrative burden on suppliers. On this, we welcome news of the single sign-on referenced in the Procurement Bill now going through parliament.

Stick with one method of publishing SME spending. Government should establish one method of measuring the proportion of procurement budgets going towards SMEs and stick with it. There are benefits to calculating what proportion of contracts larger businesses are giving to SMEs, but it is not clear, to those outside of government, precisely how these calculations are done, so there is some question about how valid they are. Government should agree one way of measuring SME spend, publish what methods are being used, and stick with it for the long term.

Give more clarity about what SME champions are doing. There should be a central place on the government website where all the different departments’ SME champions are listed along with their action plans. That way businesses can find out what departments are doing for them, how they can engage, and hold them to account.

These reforms would be in the tax-payers best interest. By increasing competition, it would increase the quality of public services and save money. And, if these reforms work, it will rebalance procurement budgets in favour of small and young businesses.

The failure of Carillion indicates that over-reliance on a small handful of companies may mean fewer failures, but when failure does take place, the impact can be devastating.

Acknowledgements

This report was produced by Enterprise Nation and The Entrepreneurs Network.



Enterprise Nation is the UK's leading small business network and business support provider delivering support to more than 50,000 small businesses every month. Its aim is to help people turn their good ideas into great businesses – through expert advice (including a comprehensive resources library), events, acceleration support and networking.

Enterprise Nation was founded in 2005 by British entrepreneur Emma Jones CBE, also co-founder of national enterprise campaign StartUp Britain. She is author of best-selling business books including Spare Room Startup, Working 5 to 9, Go Global, Start a Business for £99 and the StartUp Kit. She is a frequently called-on and regular media commentator on a range of issues which affect the UK's growing number of SMEs. In 2018 FTSE 100 entrepreneur and HomeServe founder Richard Harpin invested in Enterprise Nation with the aim of creating a 'more entrepreneurial Britain'.

www.enterprisenation.com



The Entrepreneurs Network is a think tank for Britain's most ambitious entrepreneurs. We support entrepreneurs by:

- Producing cutting-edge research into the best policies to support entrepreneurship;
- Campaigning for policy changes that will help entrepreneurship flourish;
- Hosting regular events to bridge the gap between entrepreneurs and policymakers;
- Updating entrepreneurs on how policy changes will impact their business;
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www.tenentrepreneurs.org



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That includes:

- **access to finance** – to spur their growth;
- **access to people** – including mentors, networks, investors, trusted experts & employees;
- **access to markets** – both domestic and international;
- **access to government** – whether for procurement or lobbying.

'Access all areas: Government' is the second of four briefing papers from Enterprise Nation and The Entrepreneurs Network on key areas of policy for small business owners.

Informing the report are meetings with the Small Business Forum, a group of 20 business owners who provide valuable insights about the challenges SMEs are facing.