



# Buying the Future:

How the Public Sector  
Can Unlock Innovation,  
Generate Genuine  
Competition and Increase  
Skills and Capabilities

Simon Lydiard MA, FCIPS, FRSA



DRAGONGATE

Disruptieve.



**NATIONWIDEHIRE**  
BUILDING MOMENTUM



# Contents

<b>1. Executive Summary</b>	<b>4</b>
<b>2. The Value Proposition: The Benefits of Spending with SMEs</b>	<b>9</b>
<b>3. A Brief History of SME Procurement Policy</b>	<b>14</b>
<b>4. Transparency</b>	<b>17</b>
Access to Government Organisations	17
Information about Opportunities	19
Government Targets	22
<b>5. Contract Shape and Supply Chain Treatment</b>	<b>25</b>
Challenging Poor Practice	23
Bundling and Size of Contracts	25
Fair Treatment of Supply Chains	29
Risk Allocation between the Public and Private Sectors	32
<b>6. Collaboration and Innovation</b>	<b>34</b>
Collaboration and Innovative Forms of Contract	34
Enabling Innovation	36

## **7. Supporting Local Growth 37**

Personal and Organisational Leadership 44

## **8. Leadership, Governance and Capability 44**

Governance 48

Capability 48

## **9. Conclusion 50**

## **10. Recommendations 52**

Appendix A:  
DragonGate's 2017 Report for the CCS 56

## **11. Appendices 56**

Appendix B: Key Figures 64

Appendix C: Levelling the Playing Field Roundtable 66

## **12. Bibliography 67**

List of Interviewees 69

## **13. About the Author 70**

## **14. Sponsorship 71**

## 1

## Executive Summary

Over the past forty years, outsourcing has opened up public services to private sector competition. Initially, this provided new opportunities for SMEs, but as outsourcing matured, services were increasingly bundled together in pursuit of efficiencies of scale. Contracts grew larger, and this forced SMEs out of direct provision and down into the supply chain, where their treatment has not always been fair.

During the last ten years, governments of all colours have set targets to incentivise increased public sector spend with SMEs. However, there is evidence of a recent decline, and the National Audit Office (NAO) has questioned the Government's claim to be meeting its own targets.

We suggest that targets drive the wrong behaviour and that the public sector needs to move away from chasing targets and adopt a more strategic approach to procurement. This new approach must refocus on the solutions that new entrants – SMEs in particular – can deliver, and the means by which innovation can be harnessed.

There are three imperative business drivers behind this:

**The UK lacks skills and capabilities.** These are needed to deliver the Government's ambitious major projects portfolio and other critical needs, such as the housebuilding programme, as well as addressing the UK's low productivity. This issue is becoming more acute as the UK leaves the European Union. Investing in SMEs via procurement delivers faster outputs in skills and capabilities than investment in large companies.



**Old models of outsourcing are under strain.**

Carillion's collapse, and the risk to other large outsourcing companies, illustrates a model that is now harming the supply of businesses willing to sell to government. This supply must be augmented via new models that make business with government attractive and accessible to a greater number of providers, and that means increasing opportunities for SMEs. This would also enhance competition and, consequently, value for money.

**Public services reform requires innovation.**

Continuing with the same models of market engagement will not deliver the change that government requires. The source of radical innovation is most often new entrants to the market: agile SMEs that can quickly respond to the demand for change.

This report is a follow-up to DragonGate's 2017 report, commissioned by government (see Appendix A), but is this time wholly independent of government. It provides a detailed assessment of the drivers of change and specific recommendations on how to overcome the barriers to change. The points below bring together some of the key recommendations and set out the headlines of a Strategic Action Plan to meet government's needs.

**Planning: Vision, Leadership and Long-Term Planning**

Public procurement must become more strategic. It should be used to build the skills and capabilities required to meet national and local need – and not just in the public sector. To do this, assessments of need must be undertaken and used as the basis for planning procurement strategy. Individual contracts should not be seen in isolation, but as building blocks with important impacts on the development of skills and capabilities.

This means investing for a broader long-term benefit – not just the immediate requirement. That investment will pay back in the longer term, and the fastest way to build those skills and capabilities is through SMEs.

To achieve this:

**The Infrastructure and Projects Authority and Catapult Centres** should make a long-term estimate of the skills and capabilities required to deliver the government's major projects portfolio, the transformation of public services, and other critical national programmes such as the NHS Long Term Plan and housebuilding. This should also take into account the national Industrial Strategy.

**Local Enterprise Partnerships and Local and Combined Authorities** should collaborate to make a long-term estimate of the skills and capabilities required to meet the needs identified in Local Industrial Strategies,

and the local skills and capabilities that can contribute to national requirements.

### From Strategy to Implementation: Government

Government and broader public procurement should be opened up to a wider range of suppliers of all shapes and sizes. This will enable greater access to innovation, improve competition and, consequently, deliver better value for money. The best way to do this is by increasing opportunities for those businesses currently shut out of the market – principally SMEs.

To achieve this:

#### **The Government Commercial Function**

should amend or supplement its recently published Outsourcing Playbook to ensure that procurement officials throughout the 45,000 public bodies in the UK, from schools to government departments, are:

- Encouraged to “right-size” contracts, avoiding excessive “bundling”, and to balance the internal cost of procurement and contract management with the objective of getting the best out of the market.
- Encouraging and able to evaluate “variant” bids that deliver innovation by challenging the assumptions and prescriptions in the specification.
- Encouraged to ensure better outward communication, using data and the full range of media to reach a broader spectrum of potential suppliers at a much earlier stage in the procurement process.

#### **The Government Commercial Function**

should develop an outward-facing “playbook” that encourages SMEs to form alliances and consortia in order to bid for packages of work larger than would normally be considered suitable for SMEs. This should include guidance and model forms of agreement, and signpost other sources of advice.

#### **The Cabinet Office and MHCLG**

should develop new arrangements to enable public authorities – local authorities in particular – to contract under civil law rather than the Public Procurement Directive for ‘sub-threshold’ contracts. This would give greater freedom for lower-value contracts to be used to create social, economic and environmental value, supplementing that prescribed in the Social Value Act. It could be a major enabler for local and regional investment.

### From Strategy to Implementation: Industry

There will always be some public sector contracts beyond the scope of SMEs; hence there will always be SMEs in supply chains. Larger, ‘prime’ or Tier-1 contractors (those in a



direct contractual relationship with the public sector, managing a supply chain composed of other suppliers) should treat their suppliers as genuine partners, not a means to meet government targets at the competition stage (with no guarantee of work for the subcontractor). Subcontractors should be involved in planning, and they must be paid fairly.

To achieve this:

**Tier-1 Suppliers to the Public Sector should be required to:**

- Improve their transparency by advertising sub-contracting opportunities, using dynamic purchasing systems rather than frameworks, where appropriate, and sharing long-term planning assumptions with their supply chains.
- Encourage prospective suppliers to use the outward-facing “playbook” (see: Recommendation No. 14) to encourage SMEs to form alliances and consortia in order to bid for packages of work larger than would normally be considered suitable for a single SME.
- Commit in contract to supply chain strategies that provide fair access to new entrants and SMEs and publish the value of

supply-chain contracts (in value bands), highlighting new entrants and SMEs.

- Commit to paying sub-contractors within 30 days and pay interest on late payments or, in all appropriate industries, agree to use Project Bank Accounts (PBAs), enabling sub-contractors to draw down payments when due.

Delivering the Strategic Action Plan will present major challenges to the public sector and to larger, Tier-1 suppliers. It will require visionary leadership and serious commitment, but the prize could be huge. It is not political kudos or ticking-off targets, but to equip the UK with skills, capabilities and innovation for the future.





# 2 The Value Proposition: The Benefits of Spending

## Key Points:

Targets for SME spend are not enough – a convincing vision should be developed and adopted.

99% of companies in the UK are SMEs, accounting for a turnover of nearly £2 trillion, and 60% of employment.

There is a massive gap between the proportion of SMEs (by turnover) in the market and their proportion in government procurement.

The latest data claims that central government spends 10.5% of its budget directly with SMEs and 12% via the supply chain – a total of 22.5%

Closing this gap can deliver:

Macro-economic benefits, boosting employment and productivity whilst developing skills and capabilities.

The release of innovation and agility – enabling innovation and swifter responses to customer need and demand.

A vision is needed to underpin the

Government's target for SME spend. This is important not only to convince SMEs that government is a genuine source of opportunities but also to persuade government and the broader public sector that there is unrealised value in doing business with SMEs.

According to Department for Business, Energy & Industrial Strategy research published in October 2018, over 99% of UK businesses are SMEs, accounting for turnover of nearly £2 trillion – marginally more than large businesses (Department for Business, Energy & Industrial Strategy, 2018, p.5). SMEs provide 60% of employment, compared to 40% by large businesses.

The current government target to achieve 33% by value of procurement spend by 2022 seems unambitious in comparison; however, it is important to consider that many of the costliest goods and services government buys, from warships to nuclear power stations, cannot realistically be delivered by SMEs.

*UK SMEs by business, turnover and employment*

	Businesses	Employment (thousands)	Turnover
			£ millions
SMEs (0-249 employees)	5,660,000	16,284	1,993,507
With no employees	4,278,225	4,643	274,917
Micro (1-9 employees)	1,137,290	4,159	533,323
Small (10-49 employees)	209,650	4,083	590,263
Medium (50-249 employees)	34,835	3,399	595,004
Large (250 or more employees)	7,510	10,743	1,868,106
All businesses	5,667,510	27,027	3,861,613

As already mentioned, the Government's spending and investment programme – in particular, infrastructure projects – requires more skills and capabilities than the UK currently has, particularly when considering the UK's exit from the European Union. One sector of industry will be key to this: construction.

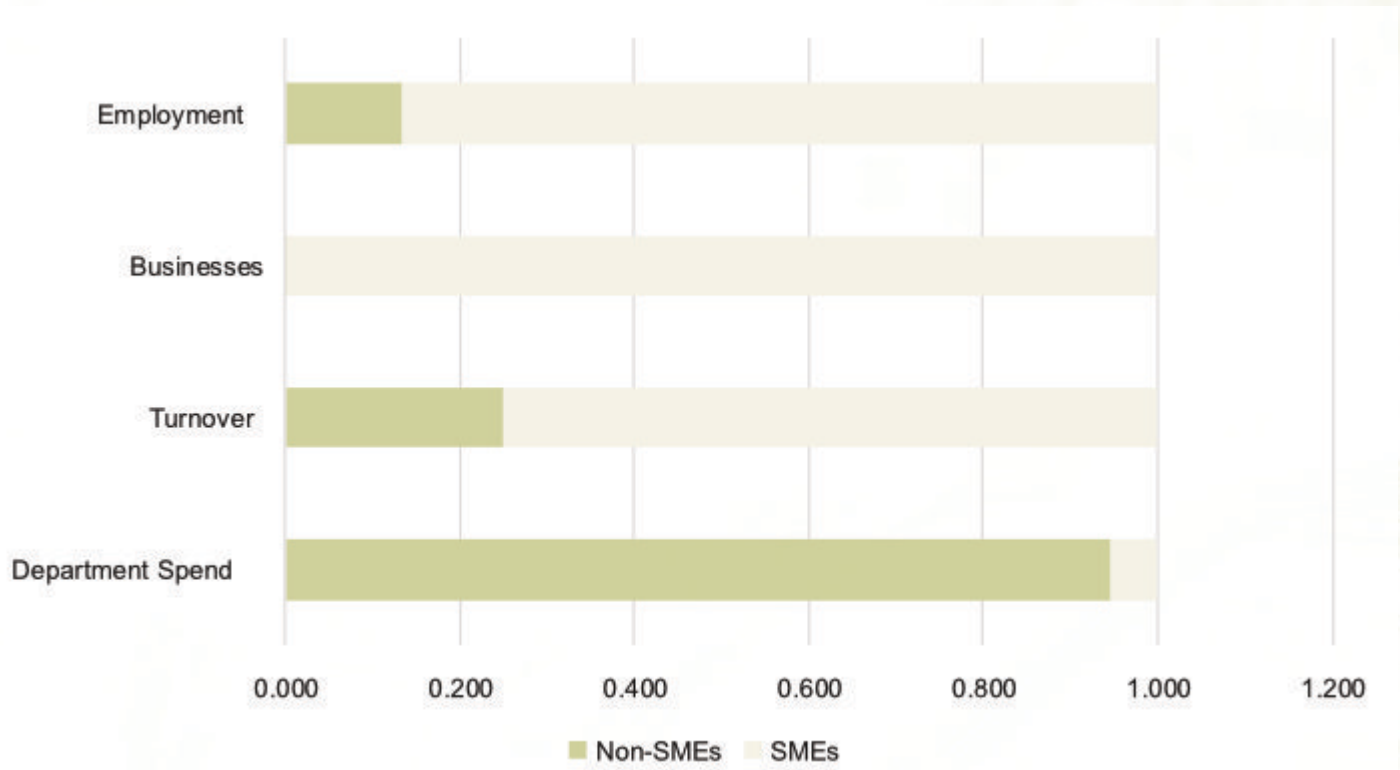
In our 2017 report to government, DragonGate analysed the structure of this market and what percentage of procurement spend government departments were achieving. In construction, SMEs accounted for 75% of turnover in the market, whereas the average departmental spend was only 5%.

The best-performing government body was Highways England – achieving 40% of its Construction spend with SMEs. If other

government bodies were able to emulate that success, government procurement spend with SMEs in Construction would leap by 35%. However, the benefits to public sector organisations of spending with SMEs go way beyond statistics.



*SMEs and Department Spend in the Construction Industry*



## Delivering Macroeconomic Benefit

Investment in large suppliers often results in money going off-shore, in bonuses to senior staff or pay-outs to shareholders, and the chain between investment and delivery is long and complicated. Investment in SMEs injects money into the economy quickly, driving rapid local growth, boosting employment (per £500,000 turnover, SMEs employ 4.9 employees, whilst large companies employ 2.8), and creating skills and capabilities essential to improving productivity and to delivering public sector projects. Data from the Office of National Statistics reveals that, on average, SMEs create £34 of gross value added per £100

turnover, whilst large companies produce around £27.

How new a company is can be an even greater determinant of whether it will drive employment and growth; therefore, new companies created to service public sector needs, or 'spun out' from public sector activities, can play a crucial role in the UK economy, particularly with the threat to employment and skills raised by leaving the European Union.

## Releasing Innovation

Too often when buying from larger suppliers you are buying an established, rigid methodology or legacy technology – a product that has not been built from the ground up and is impervious to innovation. With SMEs, you are more likely to get genuine innovation and a

flexible, iterative methodology. This might entail greater risk and some disruption, and crucially must be reflected in the tendering stage, but government needs to release and encourage that innovation.

## Agility and Responsiveness

For SMEs, work is personal, and unlike some larger government suppliers, SMEs live and die by their reputations. Anecdotally a great many interviewees attest to the quality and speed of response delivered by SMEs. Because of the lack of internal bureaucracy and onerous

procedure, SMEs can be more agile than larger companies – swiftly reacting to changing customer needs.



## Realising Genuine Competition

Many public sector competitions are aimed at larger companies, which assemble supply chains underneath them (and not always competitively). These larger companies (prime, or Tier-1 suppliers) are, effectively managers or aggregators of suppliers. Whilst they make it easier for the public sector to engage with the market – albeit a market largely driven by public sector buying behaviour – they act as a barrier between the public sector and the lower tier market sectors where more genuine competition can be accessed. The current approach to “value for money” in the public sector is not holistic. It takes as a given the

need to aggregate to the highest level of the market, and thereby the lowest effort of the public sector. Rather than being “spend to save”, it often leads to a “save to spend more” approach. An approach which tries to devolve the interface with the market to lower levels (even if not to the lowest) is likely to spur more genuine competition and demonstrate better value for money.

## 3

## A Brief History of SME Procurement Policy

### Key Points:

- Reforms in the 1980s enabled SMEs to become involved in the support and delivery of public services.
- Since those reforms, contracts have become larger with more disparate services bundled together, thereby forcing SMEs out of competition or pushing them down into the supply chain. PFI and PPP have made this worse.
- Since 2010, various governments have introduced targets for SME spend, and various initiatives to support SME participation in public sector projects.

The intent of ensuring that more government procurement, by value, is spent with Small and Medium Enterprises (SMEs) goes back at least twenty years.

**The Conservative Governments of 1979-1997** required government departments and local authorities to subject non-core activities to competition. Market Testing in government departments, and Compulsory Competitive

Tendering in local authorities, enabled the private sector to secure new contracts.

Initially, this resulted in many opportunities for SMEs to supply directly to the public sector – ostensibly at a reduced cost to the public purse – and gave a huge boost to the development of the facilities management sector. However, as the programmes matured, more and more services were ‘bundled up’ into single, long-term contracts, thereby either forcing SMEs out or pushing them further down the supply chain. The effect in the public sector was to “hollow out” the internal client function – making the public sector more and more dependent on the private sector for delivery and reducing the public sector’s ability to specify and manage non-core services.

Direct delivery by the public sector of non-core services was practically eliminated, with the privatising of the Property Services Agency in government, and the loss of Direct Labour Organisations in local authorities. This was compounded by the introduction of the Private Finance Initiative (PFI), which also included in the ‘bundle’ financing and delivery of major

capital assets, such as premises. PFI also increased the length of contracts, sometimes by decades, thereby “locking” the market for extended periods.

**The Labour Governments of 1997-2010** not only continued PFI (albeit re-branded as Public/Private Partnerships, PPP) but used this method as the channel through which to pursue their investment in public services, delivering – amongst other things – new and refurbished schools and hospitals. They also introduced a concept called ‘policy through procurement’, recognising the value of public procurement activity in delivering policy objectives, including promoting procurement with SMEs.

The major focus of that activity was to access innovation. The Government recognised the difficulties SMEs had in contracting with the public sector and ran a training programme, training 3,000 companies in 2005/6 alone and creating an online course called ‘Winning the Contract’.

For most of the period of the Government, the approach was outcome- rather than target-driven – with a target of 15% SME spend throughout the supply chain being introduced only in the 2010 budget (HM Treasury, 2010). That Government also laid the foundations for what would become Contracts Finder, and required departments to publish contract and

sub-contract opportunities through a single portal.

### **The Coalition Government of 2010-15**

abandoned the ‘policy through procurement’ approach in favour of a more purist value-for-money strategy, later modified to include ‘growth’. It set a target of achieving 25% of government procurement spend, by value, by the end of the Parliament. Initially, this target was understood to refer to direct spend with SMEs, but was later clarified as referring to total spend, including within supply chains.

During this Government, the Crown Representative for SMEs<sup>1</sup> was appointed, each government department was required to appoint both an SME Champion and an SME Minister, and the ‘Mystery Shopper Service’ was introduced – enabling SMEs to report poor practice by public procurement authorities. In addition, the Small Business Enterprise & Employment Act 2015 was passed.

### **The Conservative Government of 2015-17**

increased the procurement spend target to 33% by the end of the parliament (originally assumed to be 2020).

### **The minority Conservative Government**

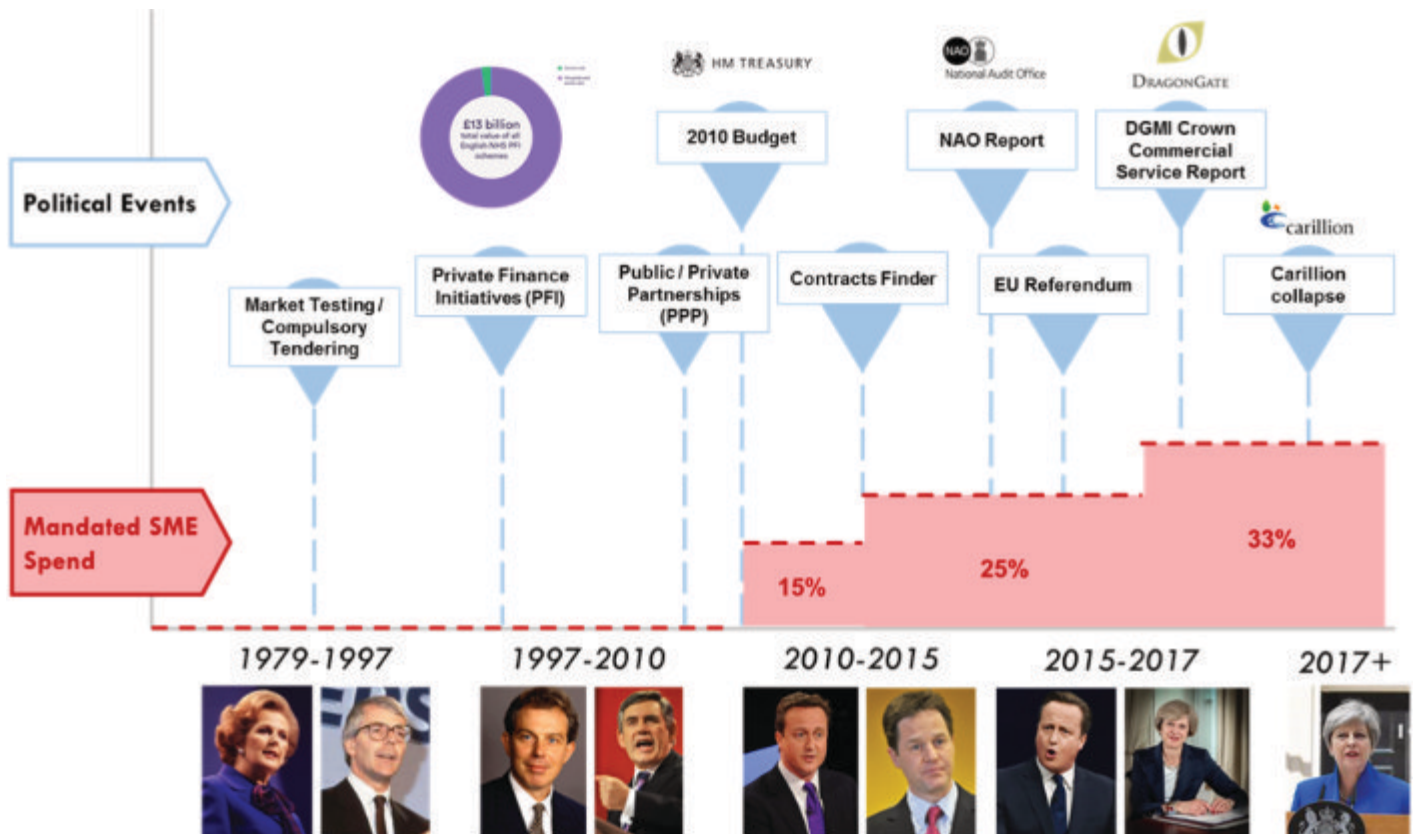
**formed in 2017** reaffirmed the procurement spend target of 33% but extended its deadline to 2022. The Government re-announced the

<sup>1</sup> The post was later re-titled ‘Small Business Crown Representative’.



appointment of SME Ministers, and changed the name of the Mystery Shopper Service scheme to the Public Procurement Review Service.

*A Brief History of SME Procurement Policy*



# 4

## Transparency

### Key Points:

- SME access to government departments has declined in recent years, whilst larger suppliers enjoy easier access.
- The transparency agenda has improved the information publicly available about procurement opportunities, but it is not detailed enough for SMEs, and provides insufficient opportunity for SMEs to plan in advance of competitions.
- Many SMEs are sceptical about government performance against their SME targets – particularly in relations to supply chains. Further transparency is essential to rebuild trust.

### Access to Government Organisations

*“Who do you speak to? Is there anyone you can call? If so they’re hard to find. If you’re waiting for a PQQ or an ITT on Contracts Finder, you’re dead in the water.”*

(DragonGate SME Workshop)

Each government department has an SME Champion appointed to oversee that department’s SME target. The names of those officials are published – as were their email addresses in years past. However, on commencing work on this report, DragonGate was disappointed to learn that SME Champions’ email addresses are no longer publicly available. This reflects a trend in the public sector to rely on “digital by default” or the provision of government data through transparency processes as an alternative to active engagement with the private sector beyond “the usual suspects”.

Without making contact information for relevant officials openly available, it is practically impossible for SMEs to engage with government departments on any basis other than in respect of specific competitions. Even after obtaining the email addresses of SME Champions, DragonGate was unable to get responses from the majority of government departments approached, despite repeated attempts to do so.

This contrasts sharply with the experience of some major strategic suppliers to government – in particular, the major accountancy firms – who have ready access to senior officials and who may, therefore, be able to shape decisions at the early stages of project development and pick up commercial intelligence informally. Larger firms have the resources to literally “walk the floors” of Whitehall.

Some balancing activities are needed to place SMEs on a level playing field with larger, strategic suppliers. Of necessity, is the publication of contact details for departmental SME Champions. It would also be helpful to standardise the approach of SME Champions through the development of a model role description. This could be based on the Department for Transport’s role description for its SME Lead:

The SME Lead works across the DfT Group in a variety of functions:

1. Analyses categorisation of spend to identify areas of SME spend, liaises with suppliers, organisations and the DfT Group to establish good working practices, and ascertain reasons why certain categories have high SME spend and others low SME spend.
2. Works with suppliers, policy teams, legal teams, assurance teams and cross government teams to introduce policy to support the SME take up across the DfT Group. The SME Lead also works with EAs, ALBs, suppliers and other government departments to share good working practices and resolve issues to eliminate barriers to SME take up.
3. Delivers workshops on the tools available to the DfT Group, which assists departments to identify capability and capacity to meet the demands of their pipelines.
4. Ensures ALBs and EAs in the DfT Group adhere to advertising their contracts and pipelines on Contracts Finder, where opportunities are easily accessible to SMEs.



5. Works with the DfT Group, suppliers and CCS to increase transparency within their supply chains and ensure prompt payment.” (Department for Transport, 2018, pp.4-5)

A useful addition to this would be a commitment to hold regular ‘open access’ days, during which SMEs could have discussions with SME Champions. This would not entirely balance the ability of larger companies to walk the floors of Whitehall but would provide some offset (a further counterbalancing recommendation can be found in Section 8: Governance).

### **Recommendation No. 1:**

**Each government department should publish the name and contact details of its SME Champion on its website, and the Cabinet Office should publish a combined list also.**

SME Champions should play an active role in spotting opportunities for SME involvement within their department’s procurement portfolio and provide advice to procurement teams to ensure that these are realised.

Whilst the workload of SME Champions will vary from department to department (and we commend DfT for appointing a full-time SME Lead), it is essential that the SME Champion in

each case has sufficient time and resource to fully commit to the role.

**Recommendation No. 2: The Cabinet Office should develop a standard role description for SME Champions, and agree its specific and tailored application for each government department, including the resources required to effectively discharge the role. The role description should include duties, powers and reporting lines and a clear obligation that SME Champions are “accessible” to SMEs on a regular basis and have effective oversight of, and influence in, their department’s procurement portfolio.**

### **Information about Opportunities**

In 2010, the Labour Government committed to “requiring departments to publish contracting and sub-contracting opportunities through a single portal that suppliers will be able to access free of charge” and appointed an SME to build that portal. Contracts Finder went live the following year under the Coalition Government (HM Treasury, 2010, p.54). It was a major step forward in transparency but, unfortunately, it has not been the “single portal” that was promised.

The Federation of Small Businesses has noted that “not all public bodies currently use Contracts Finder”, and that “local authorities have been some of the worst offenders when it comes to avoiding Contracts Finder” (Federation of Small Businesses, 2017, p.7). A 2019 report by the Information Commissioner’s Office used public data compiled by Spend Network to claim that 71% of all tenders listed on English public procurement portals were never published on ContractsFinder (2019, p.166).

The objective of providing a single portal for government or wider public sector procurement opportunities is laudable, but there are other advertising portals that are in wide use in specific markets. For example, CompeteFor is an established portal in construction. Such portals are widely used in the private sector and have a legitimate role. CompeteFor is used by HS2, who mandate that “all Tier-1 suppliers advertise all appropriate supply chain opportunities” on the portal, and whose “Enabling Work Contract (EWC) Joint Ventures are actively using [the] portal to advertise contract opportunities” (Department for Transport , 2018, p.7).

This use of CompeteFor does not conflict with the requirement for such opportunities to be advertised on Contracts Finder as an application links the CompeteFor notices to Contracts Finder. The same process should be applied to all other public procurement authorities using portals other than Contracts Finder.

**Recommendation No. 3: Public sector procurement authorities that place notices on portals other than Contracts Finder should ensure there is an application processing interface that links these notices to Contracts Finder, and that the content linked is sufficient to be understood by potential bidders.**

As referenced above, one significant area of the public sector which, according to the Federation of Small Businesses, is widely non-compliant in its use of Contracts Finder is local government (Federation of Small Businesses, 2017, p.7). There is always likely to be a tension between the centre of government and local authorities, so non-compliance is not entirely surprising (particularly as there is no penalty). In order to unblock this, government needs to be able to offer something to local authorities that encourages them to comply. One means of doing this would be to provide a new procedure

that enables local authorities to utilise their procurement spend for broader social and economic benefits to their communities. A proposal to do this is discussed at Section 7 (Supporting Local Growth).

For some years, governments have published a Major Projects Pipeline. In theory, this is helpful, and enables potential bidders to identify opportunities before they reach the formal procurement stage. However, the Major Projects Pipeline is riddled with acronyms and language only interpretable by “insiders”. Not enough attention is given to presenting information in clear, plain English.

Major suppliers familiar with government departments may find this useful but, for suppliers without experience of bidding for government contracts – SMEs in particular – the Pipeline as currently presented has almost no value. It is therefore necessary for information included to be “sense-checked” with SMEs borne in mind. Unless this is done, government will continue to narrow the field of competition – excluding not just SMEs, but any potential new entrants.

**Recommendation No. 4: Each government department's contribution to the Major Projects Pipeline should be reviewed and approved by its SME Non-Executive Director (see Recommendation No. 19).**

Even more useful to SMEs, would be the publication by each government department (and preferably each public body, including local authorities) of a forward plan of likely requirements below the value threshold of the Major Projects Pipeline. Contracts Finder, when properly used, advertises opportunities which SMEs could bid for, but it does not provide the early insight that larger suppliers gain from the Major Projects Pipeline.

The Government Commercial Function's Outsourcing Playbook advises procurement officials that "one of the most important things we can do is to prepare and maintain comprehensive pipelines of current and future government contracts" (Government Commercial Function, 2019d, p.12). However, this guidance only applies to central government and should be addressed to the broader public sector. It is also not clear that this applies to all prospective contracts, or whether it applies only to larger contracts traditionally identified for

outsourcing. Such clarification would be helpful.

In addition, public sector procurement organisations should consider, as proposed in DragonGate's previous report, using "low-cost, targeted social media campaigns on LinkedIn and other platforms that can easily target and measure successful engagement based on location, market sector, and relevance."

**Recommendation No. 5: Government departments (and other public sector procurement organisations as appropriate) should publish forward plans of potential procurements below the threshold of the Major Projects Pipeline and use targeted social media campaigns to increase awareness of such opportunities.**

### **Government Targets**

The introduction of targets for SME spend by government in 2010 was intended to drive behavioural change – initially in departments (direct spend), and progressively in the supply chains of larger suppliers to government (indirect spend). However, much of the indirect spend has been measured by surveys of those suppliers – effectively self-reporting without audit, and the methodology for measurement has not been



consistent. The National Audit Office expressed some scepticism when the Government reported it had met its 25% target in the 2010-2015 Parliament, concluding that “we cannot be certain that the amount government spends with SMEs has increased over the last Parliament” (National Audit Office, 2016, p.7).

The SMEs that participated in DragonGate’s workshop simply did not believe the figures reported for indirect spend. They found the measurement process opaque and lacking in credibility – indeed, where they had been able to trace reported spend back to its source, they suggested that much of it was not spent with SMEs, but rather with larger companies which had been mis-classified. Anecdotally, they suggested that between a quarter and a third of indirect spend fell foul of misclassification.

Two suggestions were made at the workshop to improve the reporting of indirect spend. First, greater transparency, by requiring large suppliers to publish the names of SMEs to whom they had sub-contracted and report the value of those sub-contracts – perhaps in value bands rather than exact figures. Second, offering a “carrot” to the larger suppliers by rewarding them for the delivery of SME spend in their supply chain – perhaps by considering historic good performance in future contract award decisions.

A straightforward way to ensure larger contractors provide a certain amount of business to SMEs in their supply chains is to make that a contract deliverable – as is common in the United States. This could be achieved by evaluating bidders’ plans for supply chain management and requiring them to commit to a hard percentage or cash sum spend with SMEs. The plans could be evaluated as part of the “quality” criteria for the award decision and made a “deliverable” in the contract.

**Recommendation No. 6: Tier-1 suppliers should be required to publish the names of SMEs in their supply chains and the value of sub contracts (perhaps in value bands). Good performance in supply chain spend with SMEs should be considered in future contract award decisions, and quality criteria should include the SME content in supply chain plans (which should be made a contractual deliverable).**

### **Challenging Poor Practice**

The Mystery Shopper service was introduced in 2011, enabling SMEs to challenge poor practice impeding their participation in public sector contracts. A welcome move by

government is the relaunch and re-naming of the Mystery Shopper service. One of the recommendations of this report would have been its renaming – but the Government has beaten DragonGate to it by rebranding it the “Public Procurement Review Service”. This change has been welcomed by the Federation of Small Businesses, but it is not clear that the relaunched service will have any additional powers. The FSB has previously commented that:

***“...FSB members and our field staff have reported a number of barriers to this service being as effective as would be desirable. In particular, they have voiced concerns that the service isn’t taken seriously by local authorities who often ignore guidance because of the lack of powers held by Mystery Shoppers to enforce their decisions.”***

(Federation of Small Businesses, 2017, p.9)

The Small Business, Enterprise and Employment Act 2015 did give some powers to the Mystery Shopper service, but it is clear that those powers are insufficient to address the concerns of SMEs. The FSB recommended that

the service “be given powers to enforce their decisions and for the Government to more effectively name and shame those worst-performing public sector bodies who are repeatedly reported for bad practice”. This report can do no more than repeat that recommendation.

**Recommendation No. 7: The Small Business, Enterprise and Employment Act 2015 should be amended to increase the powers of the Public Procurement Review Service such that it can investigate all public procurement authorities within the UK and enforce its decisions where appropriate.**

# 5 Contract Shape and Supply Chain Treatment

## Key Points:

- The “bundling” of contracts locks out SMEs and increases risk for the public sector – all public sector stakeholders need to strive to achieve a diverse range of suppliers.
- The Crown Commercial Service (CCS), as a buying entity, should play a more active role in supporting the SME strategy.
- Dynamic purchasing systems should be used in preference to framework contracts, where appropriate.
- Government departments should pay interest on late payments and require major suppliers to government to do the same.
- A more realistic assessment of risk allocation between the public and private sectors would deliver enhanced value for money and create greater opportunities for SMEs.

## Bundling and Size of Contracts

***“Aggregation of demand has created a toxic environment for SMEs. The relentless drive to buy from a small number of businesses – for a variety of reasons, few of them good – has created this.”***

(DragonGate SME Workshop)

There has been an increasing tendency amongst public sector organisations to “bundle” contracts up to the maximum possible scope, thereby creating complex and diverse supply chains under the management of prime contractors. There has also been an increasing tendency to centralise and aggregate demand.

A number of arguments have been put forward for these approaches. A principal one is that it means the public sector only has one contractual relationship to manage, thereby outsourcing the risk of delivery, utilising

perceived private sector expertise to manage integration, and achieving commercial value for money.

A somewhat pejorative phrase has sometimes been used to describe this – “one throat to choke”! However, this approach has resulted in public sector contracts being deemed “too big to fail” – though the example of Carillion’s collapse disproves this theory (and at least one other major outsourcing company is understood to be in danger). Indeed, that example would support the view that the public sector should be diversifying risk through networks of smaller contracts – thereby protecting itself against catastrophic system failure.

The New Local Government Network has commented:

***“To avoid over-reliance on one provider, commissioning bodies should seek to encourage a diverse range of suppliers, which could include local SMEs. Local authorities could seek to establish networks of local SMEs as potential providers and regularly engage with them, both prior to, and at the point of commissioning, in order to foster dialogue and***

***awareness. There is a pressing need to diversify the pool of potential contractors.”***

(New Local Government Network, 2018, pp.40-41)

From the SME perspective, the bundling approach and aggregation of demand has led to them being “locked out” of direct contract opportunities with the public sector. Their inclusion is often several layers down the supply chain – with profit being taken out at each layer – and further removed from the good payments terms government promises. One person interviewed for this report described bundling in government as “the enemy within” to SME participation.

In the past, much of the policy relating to procurement activity was purely the responsibility of the procurement profession. However, procurement activity only takes place to meet the needs of policy or project leads, and discussions about requirements often begin long before procurement professionals are involved (though this is not good practice).

Responsibility should therefore be shared. Obligations regarding the engagement of SMEs and the delivery of innovation through



procurement and contract mechanisms should be placed on requirement owners, with procurement professionals fulfilling the role of advisors, helping to deliver those objectives.

**Recommendation No. 8: Policy and project leads in public sector organisations should share responsibilities with procurement professionals to achieve the optimum procurement spend with SMEs.**

The CCS places framework contracts for commonly-required goods and services. Use of these frameworks is usually mandatory for government departments. This reduces departments' control of procurement spend – and therefore their ability to meet SME procurement targets. Often, the very nature of framework contracts, bringing together government requirements at a national level, makes them difficult for SMEs to compete for other than in the supply chain.

Of course, it is not just CCS that lets framework contracts – other public sector organisations do so, including local authorities in collaboration with each other. The Federation of Small Businesses highlighted evidence provided by Tussell that the use of frameworks has increased from 10 percent of the total award value in February 2015, to an average of 54

percent over the last six months of 2016 (Federation of Small Businesses, 2017, p.5). CCS needs to be held to account for supporting government departments in meeting their SME procurement targets.

The aim should be not just to make SMEs available to government departments but to design strategies that ensure SMEs (as appropriate) win work as a result. There is a danger that the presence of SMEs on framework contracts acts merely as “window dressing” so the contracting authority can claim that a certain percentage of SMEs is present on a framework, but they may not benefit from any spend.

There are examples of departments designing framework contracts that are divided into lots, sometimes by specialism, geography, or value band, making them much more accessible to SMEs.

- The Department for Transport promotes this approach, and its STAR (Specialist Technical Advice for Rail) framework is divided into five lots – each relating to a particular specialism.
- HMRC's Building Our Futures programme is delivering thirteen regional government offices and is planning to divide its Facilities Management Framework into regional lots.

- Credit should also go to the CCS for the Digital Marketplace (in effect, a Dynamic Purchasing System), which enables government departments to access a wide range of SME suppliers of digital services.

In our previous report, DragonGate argued for the increased use of Dynamic Purchasing Systems in preference to frameworks. The Federation of Small Businesses has stated:

*“...many FSB members have indicated that they [...] prefer to work with DPS, which they regard as a small business-friendly alternative to frameworks. DPS is a completely electronic system which enables public sector bodies to procure work or services through an open market of potential suppliers. However, unlike framework agreements, businesses looking to supply services can apply to join at any time in the life of the DPS and are not required to submit complicated tenders to join a DPS.”*

(Federation of Small Businesses, 2017, p.12)

Dynamic Purchasing Systems have an obvious benefit over frameworks for SMEs, and it is disappointing that they are not more widely used in public procurement.

Nevertheless, the same caveat applies that has been mentioned above for frameworks – it is not enough merely to have SMEs available on Dynamic Purchasing Systems; there has to be a realistic strategy to ensure they can actually win work as a result.

**Recommendation No. 9:**  
Framework agreements and Dynamic Purchasing Systems intended to improve access for SMEs should include a strategy to support them in winning business once they have been admitted.

## Fair Treatment of Supply Chains

***“SMEs are used and abused by Primes. Their inclusion and expertise are essential to the contract being awarded to a prime, but when the contract is won the prime doesn’t want anything to do with them.”***

***“When primes take these contracts, by the time the actual delivery filters down through the tiers, all you’re left with are little bits of short-term transactional work.”***

(DragonGate SME Workshop)

There are some excellent examples of the treatment of supply chains in public sector – in particular, Highways England’s use of Project Bank Accounts. This is an exemplar of best practice and has been cited and recommended many times over the years. It has been adopted by contracting authorities in France and Germany, though its application in the UK seems not to have spread much beyond the transport sector.

The Government has agreed charters with

some major suppliers in respect of their treatment of supply chains, including payment terms, though the target set (28 days) is significantly longer than government’s standard time to pay its suppliers, which is often only five days. There is an argument that this is because prime contractors bear a risk in respect of retentions – though this is not universally applicable and, in the case of long-term contractual relationships, could be resolved via “clawback”.

A particular problem for SMEs is disputed invoices in electronic invoicing systems. Invoices are approved when an order, invoice and acceptance confirmation match. Sometimes an acceptance confirmation is delayed – not always, but often, because the contract manager does not accept that the entirety of the order has been fulfilled. For SMEs this can be crippling – and it can sour long-time relationships.

A potential means of addressing this would be to introduce two-way matching (order and invoice) in long-term contracts for orders below a defined threshold, eliminating the requirement for a receipt to be placed on the system and speeding up payments to the supply chain. The contracting authority would still have the ability to “clawback” over-payments from later invoices (and standard government contract terms allow for this), but

healthy cash flow for the supplier would be maintained.

**Recommendation No. 10: The Government Commercial Function, in conjunction with the Government Finance Function, should consider developing guidance to enable two-way matching in electronic invoicing systems for long-term contracts with SMEs in relation to transactions below a defined value.**

The Government Commercial Function's Supplier Code of Conduct (2019e) sets an expectation that suppliers to government should "deal fairly with the subcontractors and suppliers in their supply chain." It also states, "We expect suppliers not to create barriers to the use of SMEs who are qualified to provide goods or services, and to encourage innovation in their supply chains to increase the value or quality of supply."

These are positive statements of intent. Given that the Code was only published in February 2019 it will not be possible to evaluate its impact until sufficient time has passed. However, anecdotal evidence suggests there is some way to go to convince SMEs that they can expect fair treatment from larger

companies, and the Government would be well advised to focus on managing expectations.

The Code also sets an expectation on prompt payment, stating that suppliers "should pay subcontractors within 30 days". However, the Code makes no mention of PBAs which, used in suitable projects, are a guarantee of prompt payment. At the time of writing, Debbie Abrahams MP has introduced a 10-minute rule bill, Public Sector Supply Chains (Project Bank Accounts), to mandate the use of PBAs in government contracts; however, without government support, this is unlikely to be adopted.

**Recommendation No. 11: The Government Commercial Function's Supplier Code of Conduct should be revised to include better and stricter payment terms, and to promote Project Bank Accounts.**

The Government's announcement in November 2018, that late payment can be taken into account in future procurement decisions is welcome. The proposal is due to come into effect in Autumn 2019. However, much will depend on what standard is set for payment terms – which should be defined both in contracts and charters with major suppliers



to government (recognising that some long-running contracts may not include appropriate terms). Most of all, the initiative should be judged on results – measurable improvements in payment performance and the exclusion of bidders from competitions for poor performance in relation to payment terms.

There is already legislation that enables small businesses to claim interest on late payments – The Late Payment of Commercial Debt (Interest) Act, 1998. The act enables small businesses to receive 8% on late payments; however, in order to receive interest, businesses have to claim it – a brave act for any SME that depends on such companies for future business.

The House of Commons Business, Energy and Industrial Strategy Committee recommended that “The Government should give serious and urgent consideration as to whether mandatory interest on late payments would offer a greater incentive to pay on time in a way that does not expose individual SMEs to supply chain vulnerability” (2018, p.42). Without entering the debate about the need for legislative change, there are three things the Government could do as reflected in the following:

**Recommendation No. 12: The Government Commercial Function should:**

- **Include in its Supplier Code of Conduct the requirement to pay interest on late payments as routine;**
- **Develop a standard condition, to be included in all government contracts, requiring contractors to pay interest on late payments to suppliers in lower tiers of government contracts; and**
- **Set an example by requiring the routine payment of interest on late payments made by government departments.**

## Risk Allocation between the Public and Private Sectors

***“UK governments have often transferred risks to contractors that they cannot possibly manage. [...] The transfer of large amounts of risk is often counter-productive: leading to more conservative approaches to service delivery. This situation has been made worse by the fact that governments have often not understood fully the services or projects they have wanted the private sector to manage”***

(House of Commons, 2018, p.23).

The delivery of public projects and public services is the responsibility of the public sector. Localis has noted that “Government’s longstanding position is risk should sit with those best placed to manage it. However, recent experience suggests this is often not the case” (2018, p.19).

The New Local Government Network suggests that a “collaborative partnership is underpinned by a clear understanding of where responsibilities and risks lie, drawing on the

distinct strengths and capacities of each partner” and that “Too often in the past, public sector bodies have sought to transfer risk unrealistically onto private providers. But failings will inevitably revert back to the institution with the statutory responsibility and democratic accountability” (2018, p.7; pp.26-27).

There are simply some risks that cannot be outsourced, and in attempting to do so the public sector pays an “insurance premium” that it can never claim against – thereby wasting public money, and unnecessarily excluding SMEs unable to bear such risks from bidding.

Each government department interviewed claimed to have the capabilities to properly assess and allocate risk, but this was not borne out by interviews with anyone outside of the public sector. The Government Commercial Function’s recently published Outsourcing Playbook states:

***“Inappropriate allocation of risk remains one of the main concerns of suppliers looking to do business with government. It is also one of the most frequent issues raised by the NAO in their audits of government contracts. It will therefore be***

*a key area of discussion with prospective suppliers. Proposals for risk allocation should be subject to extensive scrutiny prior to going to market. Formal engagement should include the sharing of risk registers with prospective suppliers”*

(2019d, p.8).

DragonGate was also pleased to note a commitment in the Department for Health and Social Care’s SME action plan to conduct “ongoing reviews and updating Terms and Conditions to ensure that contracts are proportionate to their risk and value” (2018, p.8).



**Recommendation No. 13: The Government Commercial Function should amend or supplement its recently published Outsourcing Playbook to ensure that procurement officials are encouraged to “right-size” contracts, avoiding excessive “bundling”, and to balance the internal cost of procurement and contract management with the objective of getting the best out of the market. This should include the option of identifying packages of work larger than would be traditionally suitable for SMEs – and enabling and encouraging SMEs to bid in alliances and consortia.**



# 6 Collaboration and Innovation

## Key Points:

- The public sector should promote and support collaboration between SMEs to bid for and deliver public sector contracts.
- The public sector should encourage innovative or “variant” bids and be able to evaluate them.

### Collaboration and Innovative Forms of Contract

Whilst it is acknowledged that many requirements within the Government’s major projects portfolio may be beyond the scope and capability of SMEs, the example given in the Hinkley Point C (HPC) case study (see pp.32-33) shows that SMEs can play an active role in such projects. However, to avoid being pushed down the supply chain, it is also necessary in some cases for SMEs to form consortia, alliances and joint ventures. The HPC case study also suggests that it is necessary for the public sector to support and encourage the formation of these relationships – to act as ‘midwife’ for the birth of these new business

structures. This is unfamiliar territory for the public sector – and many public sector procurement professionals may feel ill-equipped to aid their delivery, taking a risk averse approach. But the benefit of this approach to the public sector is that it eliminates what might be regarded as ‘unearned’ profit through the various tiers of the supply chain, simplifies the overall contract management network (although it does require greater ‘in house’ contract management activity in the public sector), and provides a better ‘line of sight’ to the public sector of delivery activity – quite apart from all the other benefits of using SMEs (see Section 2 – The Value Proposition). It is necessary, therefore, for guidance to be developed.

For the past nearly 30 years, the Institute for Collaborative Working has promoted collaboration within business. Its Chief Operating Officer, David Hawkins, has developed a concept aimed at enhancing the role of SMEs through collaborative clusters. He writes, “The Midas Proposition follows the traditional building community where one small



family building business is supported by several of local trades' people with various skills" (2011, p.12). He also states:

**By creating networks of smaller companies, innovative value propositions can be created that individually they could not support. The seven key characteristics are:**

- 1. Each partner in the virtual organisation is an independent player – obviating the need for expensive infrastructures.**
- 2. Each is recognised by the others as a specialist in a specific field – eliminating overlaps in resources.**
- 3. The skill base is highly flexible and can be configured to match particular requirements.**
- 4. Each takes a share of the revenue proportionate to input.**
- 5. There is a limited hierarchy, born out of mutual respect and simple reporting and communications processes.**
- 6. Each shares the risk of not maintaining performance and reputation.**
- 7. All are focused on customer satisfaction to maintain long-term market share and growth. (2011, p.5.)**

The Midas proposition provides considerable

evidence for the value and practicality of SMEs collaborating to win and deliver business. However, for its application there is need for more practical guidance, including example legal documentation and guidance on business processes. Nevertheless, the proposition provides an extremely useful contribution to the concept of collaboration between SMEs.

DragonGate acknowledges that the Cabinet Office may already be working on an outward-facing playbook to encourage SMEs to bid for work, but nevertheless has the following recommendation:

**Recommendation No. 14: The Government Commercial Function should develop an outward-facing playbook, including guidance and model forms of agreement, to enable SMEs to form alliances and consortia in order to bid for packages of work larger than would be traditionally suitable for SMEs.**

## Enabling Innovation

It is essential to engage the market prior to formal procurement activity to ensure that strategies and forms of contract are designed to get the best out of the market, including incorporating new ways of thinking. However, no matter how much pre-contractual activity is undertaken, the proscriptive nature of contract forms and specifications may either heavily dilute or entirely disable innovation. For that reason, procurement authorities need to allow, and be able to assess, innovative or 'variant' bids. In conducting research for this report, DragonGate found little capability in the public sector to do so.

This is in sharp contrast to the practice in, for example, Germany and the Netherlands. In the past, the Ministry of Defence has published guidance on the assessment of innovative bids – and even innovative (unsolicited) proposals. The Government Commercial Service's recently-published Outsourcing Playbook, and supplemental guidance on evaluating bids makes no reference to innovative bids. However, we did find evidence of the use of the Small Business Research Initiative, which entails public sector procurement organisations seeking innovative responses to broadly defined challenges.

**Recommendation No. 15: The Government Commercial Function should develop guidance on how public sector procurement organisations should enable and evaluate variant innovative bids.**

# 7 Supporting Local Growth

## Key Points:

- Public sector organisations should define the social, economic and environmental benefits that they will use their procurement activity to deliver.
- A new code should be developed for procurements below the threshold of the Public Procurement Directive enabling, in particular, local authorities to deliver local growth.

***“You have to spend locally if you want to drive growth. The idea that the EU won’t allow it is a smokescreen – it is a matter of willpower. If government wants to promote growth, they need to give SMEs contracts so that they can afford to invest in staff, train more apprentices without the prohibitive risk that exists today.”***

(DragonGate SME Workshop)

	Supply, Services and Design Contracts	Works Contracts	Social and other specific services
Central Government	£118,133 €144,000	£4,551,413 €5,548,000	£615,278 €750,000
Other contracting authorities	£181,302 €221,000	£4,551,413 €5,548,000	£615,278 €750,000
Small Lots	£65,630 €80,000	£820,370 €1,000,000	n/a

The 1997-2010 Labour Government developed an approach to procurement called ‘policy through procurement’ – utilising the procurement spend of the public sector to deliver broader public policy objectives, such as innovation and growth. Although the Coalition Government of 2010-15 formally abandoned this strategy in favour of a more purist value for money approach, this was later amended to include the achievement of growth. And in 2012 the Public Services (Social Value) Act, more commonly known as the Social Value Act, was passed.

The Act requires public sector organisations to consider how they can use procurement activity to secure wider social, economic and environmental benefits. However, public sector organisations have had mixed success in attempting to meet the aims of the Act, and its application is not widely understood.

Whilst elsewhere in this report, there is some criticism of local authorities with respect to their approach to procurement, local authorities have led the field in seeking to secure social value. Preston City Council has been one of the leading exponents in this approach – and has collaborated with partner cities across the European Union.

Preston, and its partners (the Procure Network), have sought to take advantage of changes that

were made to the European Procurement Directive in 2014, namely:

- A new emphasis on flexibility in procurement;
- A desire for more small to medium sized enterprises to bid for and potentially win procurement opportunities; and
- A desire for procurement to become more strategic.

The Procure Network noted:

***“the important role procurement plays within wider place-based strategy. The process of procurement and associated strategy should be seen as a sub-set of those wider strategies with the vision and objectives aligned. This enables procurement to contribute towards wider priorities, much in the same way that a regeneration or an economic development initiative can.”***

(Urbact, 2018, p.12)

In its final report, the Procure Network recommended:



1. Understand the European Procurement Directives, their translation to National Level Law and what can be achieved
2. Understand where existing procurement spend goes geographically, by sector, and in business type terms through spend analysis
3. Develop procurement strategies which are about legislation, compliance, cost efficiency AND addressing local economic, social and environmental challenges
4. Link the process of procurement to wider city priorities and develop Procurement Outcomes Frameworks which highlight the challenges procurement could contribute towards addressing
5. Think of procurement as a cycle of activity and embed considerations of social and environmental impact at an early stage. This means when designing goods and services (commissioning) identify the social and environmental outcomes that could be delivered
6. Understand the market and potential supply chain, particularly in terms of local organisations and SMEs and develop capability and skills
7. Innovate in procurement so that the market helps to define goods and service contracts and therefore deliver outcomes
8. Ask questions in tender documentation about how potential suppliers are going to deliver wider social and environmental considerations
9. Evaluate tender responses on not only cost and quality, but also response to social and environmental questions; and weigh decisions accordingly
10. Ensure social and environmental commitments are detailed as conditions in contracts
11. Monitor the delivery of social and environmental outcomes and the change the above activities have through both contract monitoring and further spend analysis.

(Ibid., p.21.)

One means of ensuring that public procurement authorities can achieve wider social, economic and environment benefits is to define the benefits that organisations are seeking to deliver. These need to be put into the context of specific procurement exercises so that they can be relevant and achievable.

The New Local Government Network has stressed the need for contracts to be calibrated to incentivise the provider to deliver against objectives that will benefit the local community (2018, p.40). However, it is also helpful for public sector organisations to set these out comprehensively, as the City of Wolverhampton have done in The City of Wolverhampton Charter (see opposite).



CITY OF  
WOLVERHAMPTON

# The City of Wolverhampton Charter

*Establishes 5 key principles that will underpin the commissioning and procurement activities of key partners in the City.*

*These are set out below along with the measures to be used annually by the City Board to monitor progress.*

*We will use our commissioning and procurement processes to:*

**Develop and grow a skilled workforce through** - Creating employment and training opportunities for local residents including supporting people into work and providing work experience placements; mentoring and supporting personal development and, where appropriate incorporating provision within contracts to offer training and employment opportunities for local people

*Measure - numbers of local people into employment, training and work experience as a result of commissioning and procurement.*

**Encourage healthy lifestyles and independence by** - Encouraging the adoption of workplace health initiatives which keep people in work, reduce sickness and also create a workplace that is more conducive to good health. Promoting active travel such as walking, cycling and public transport use

*Measure - number and % of suppliers adopting workplace health initiatives*

**Support more people to be active within their communities by** - Building the capacity of local voluntary and community organisations and schools through the provision of resources and expertise in areas with the greatest need e.g. mentoring and the provision of meeting facilities etc.

*Measure - number of small local voluntary and community organisations and schools supported as part of the commissioning and procurement process*

**Support business to develop and grow by** - Having a preference to buy locally on the condition that a suitable supplier exists and that this provides value for money.

*Measure - %, number and value of contracts to local suppliers*

**Support the reduction to the carbon footprint and eliminate unnecessary waste by** - Specifying goods and services on the basis of whole life costing and which minimise the use of resources and the creation of pollution and greenhouse gases

*Measure - % of goods and contracts procured on the basis of whole life costs (purchase use and disposal) and which minimise the use of resources (production, operation and disposal) pollution and greenhouse gases*

## *A commitment from the City Board*

Councillor Roger Lawrence

Jeremy Vanes

Claire Boliver

Geoff Layer

John Wood

Ian Darch

The UK Trade Observatory has suggested that, when leaving the EU and negotiating accession terms to the World Trade Organisation (WTO) Agreement on Government Procurement (GPA):

***“... the UK has the option of avoiding the current legal impasse the EU has encountered when promoting SMEs through government procurement contract awards. If the UK so chooses, it can establish a comprehensive policy framework to promote SMEs, in line with other signatory parties such as the US, Japan and S. Korea.”***

(UK Trade Policy Observatory, 2017, p.4.)

It is often claimed that other European Union countries favour their own, local businesses, often SMEs, by breaching the EU Public Procurement Directive. In describing the Lean Sourcing approach (see pp.35-36), this report highlights how early and extensive market engagement can achieve this end without breaching EU rules, and the case study on Hinkley Point C (see pp.32-33) provides a practical example of how this can be done even in the largest and most complex of projects.

However, Germany has gone further by formally exempting sub-threshold contracts from the principles of EU Procurement, effectively making the state – national, regional or local – just another consumer for such requirements (Dragos, 2016, p.207). Public sector organisations in Germany can use any process or procedure they like for sub-threshold requirements. That enables them to deliver social, economic and environmental benefits way beyond the achievements of UK organisations applying the Social Value Act.

This approach is permissible under the EU Public Procurement Directive, although it might require legislative change. Leaving the European Union is not necessary to enable the UK Government to take a similar approach. It might, though, be a useful juncture at which to do so. It could provide local authorities in particular, with a major opportunity to invest in local growth.



**Recommendation No. 16: The Cabinet Office, in conjunction with the Ministry of Housing, Communities and Local Government, should develop a new, formal Procurement Code for sub-threshold procurements empowering public procurers (including local authorities) to favour SMEs and local suppliers.**



## 8

## Leadership, Governance and Capability

### Key Points:

- Leadership is key to making a difference.
- Active engagement with the prospective supply base should be used to inform procurement strategies.
- Best practice should be recognised and rewarded.
- The SME “voice” in government departments should be enhanced through changes to governance.
- Public sector projects should be used to build skills and capabilities required in the UK.
- Improvements are required for public sector procurers and contract managers.

### Personal and Organisational Leadership

Leadership is key to driving forward this agenda – and it is personal. For all the systematic approaches that the public sector takes, including the role of SME Champions, it is the attitude and actions of individuals that count. To

best illustrate this, it is worth considering the following case study.

### Hinkley Point C: Case Study

Ken Owen joined HPC in August 2012 as Commercial Director, having previously worked for CLM – the delivery partner that had successfully delivered the London 2012 Olympics Infrastructure and Venue Construction Programme. One of his tasks upon joining HPC was the design of the supply network that would help deliver the nuclear power plant. Ken’s vision was to develop a framework in which local suppliers – mainly SMEs – could be integrated into the megaproject’s supply network, something which had not been done before on a project of this scale.

The first step was gaining the interest of local suppliers. However, the capabilities and experience of the SMEs were nowhere near the levels required. Ken developed a three-phase strategy, which would give him the one stop solution similar to that provided by established big multi-national corporations.

First, Ken needed to introduce local SMEs to the opportunity to engage with HPC. Although Jamie Driver (Senior Supply Chain Engagement Manager) and Chris Langdon (Hinkley Supply Chain Project Lead, Somerset Chamber of Commerce) had been trying to engage local businesses using an online portal, this strategy had been only partially successful.

This was because many local businesses did not have a vision or inclination to scale their capacity to the level required by HPC. Jamie started identifying and visiting local businesses at their premises. HPC also leveraged their advertisements, local public relations (PR) agencies and their local networks to create awareness about the opportunities available for local SMEs with regards to the megaproject.

The second phase required scope development and capability mapping. Local SMEs needed time and guidance to enable them to respond to HPC's call for proposals. This required early communication of requirements to the local SMEs to give them enough time to be able to respond to them. However, as is the case with megaprojects, HPC had a limited understanding of its own requirements. Since the local SMEs were experts in their areas, the only solution was to work with these experts to design the requirements of the service and then equip them with the resources to deliver these services efficiently and effectively.

The final phase of this three-pronged strategy was to create an engagement mechanism that would provide HPC and SMEs with a platform to interact and exchange ideas regarding the best way to deliver various contracts for HPC. These mechanisms were operationalised in the form of two committees: Site Operations Supplier Steering Group (SOSSG) and Industrial Partner Supplier Steering Group (IPSSG). However, contracting with every individual supplier for small parts of each work package would result in a complex and unmanageable supplier footprint. The only way this could work was if some of these businesses could combine their capabilities to deliver a complete work package. In other words, the solution was the creation of consortia, alliances and joint-ventures between suppliers, which HPC would contract with.

Ken encouraged SMEs to be bold, think beyond their own businesses and consider what they can do together for the Somerset area. Over the next few years, under Ken's direction, Jamie worked with Somerset Chamber of Commerce and local suppliers to facilitate the creation of consortia, alliances and joint-ventures of interested SMEs and help them bid for specific work packages. By 2016, the majority of HPC's supply network for site support services was composed of local

SMEs, with the estimated value of contracts being over £500 million during the construction phase. (Adapted from HPC Supply Chain Innovation Lab School of Management, University of Bath, 2018)

*This case study highlights the importance not only of leadership, but also determination and the will to deliver a strategy. It underlines the importance of active engagement with the prospective supply base to shape requirements and contractual forms (which is covered in more detail in Section 5 – Contract Shape & Supply Chain Management). The Procure Network (an international collaborative network of local authorities, led by Preston City Council) came to a similar view:*

*“The Procure Network has focused not only upon the procurement processes and behaviour of municipalities and wider institutions, but has also sought to link procurers with business representation organisations such as Chambers of Commerce. The outcome of*

*this is that all of our cities have developed much closer relationships with business representative organisations and a more effective understanding of their market and potential market.”*

(Urbact, 2018, p.13)

A further learning point from HPC (though not addressed in the above) is that the UK lacks in some of the capabilities required to deliver its major projects – for example, HPC requires 1000 steel benders, whereas there are only 100 in the UK.

The UK needs to become more self-reliant, building skills and businesses across its four nations. The Government should use its own major projects to build up skills and capabilities that are more broadly required, using contracts to fund the creation and development of skills and capabilities that will be required for others – investing in the medium term to save in the long-term. In order to do that effectively, it is necessary to estimate the long-term skills and capability requirements of the UK economy.

**Recommendation No. 17: To assess the need for future skills and capabilities:**



**The Infrastructure and Projects Authority, along with the Catapult Centres, should make a long-term estimate of the skills and capabilities required to deliver the Government's major projects portfolio, the transformation of public services, and other critical national programmes – such as the NHS Long Term Plan and housebuilding. This should also take into account the national Industrial Strategy**

**Local Enterprise Partnerships and local and regional authorities should collaborate to make a long-term estimate of the skills and capabilities required to meet the needs identified in Local Industrial Strategies, and the local skills and capabilities that can contribute to national requirements.**

procurement staff, project owners) and in the private sector (such as contract managers in major suppliers). Organisations should also be recognised in both the public sector (such as government departments and local authorities), and the private sector (such as SMEs delivering major innovations, or larger suppliers adopting “SME friendly” strategies).

**Recommendation No. 18: The Cabinet Office should develop an awards scheme to recognise outstanding personal and organisational contributions towards meeting the goal of improving public sector procurement spend with SMEs.**

Having suggested that systematic approaches are not the only answer, human behaviour is often driven by recognition and reward. Individual public sector organisations have their own means of rewarding good performance, but it might be useful to have a means of recognising outstanding achievement in the field of SME procurement across the UK. This could be achieved by an awards scheme, recognising outstanding contributions by individuals in the public sector (such as SME Champions,

## Governance

A further means of improving the SME voice in government necessitates a change of governance processes. Departments should be required to appoint at least one Non-Executive Director (NED) with an SME background – to provide a voice for SMEs at Departmental Board level. Those NEDs should be consulted on procurement plans and strategies and be informed of all access to departments by large companies. They should also work closely with the Crown Representatives<sup>3</sup> appointed to oversee government business with many of those large companies and be members of the Cabinet Office's SME Panel.<sup>4</sup>

**Recommendation No. 19: Each government department should appoint a Non-Executive Director with an SME background, who should also be a member of the Cabinet Office's SME Advisory Panel.**

## Capability

The “bundling” of contracts (see pp.19-21 and throughout) has resulted in a loss of capability from government and the public sector more broadly. As more and larger activities have been outsourced, so the “in house” corporate knowledge and contract management capability and capacity has been reduced. The consequence has been a reduced

knowledge of the market within the public sector (those who used to manage delivery are no longer in the public sector), coupled with an obscured “line of sight” to the specifics of delivery within complex, multi-tiered contractual arrangements.

Government departments interviewed during the course of preparing this report were confident that they still retained sufficient capability both in market engagement and contract management. However, these claims are contended by others outside government. One interviewee suggested that procurement authorities in the public sector lack capability in contract management and procurement design, suggesting that they fear including SMEs “because it may go wrong.”

The Coalition Government introduced an approach called ‘Lean Sourcing’, a standard operating model for procurement, supported by clear documentation and a rigorous and (mandatory for procurement staff) training programme. One of the aims of Lean Sourcing, as the name suggests, was to speed up the procurement process, eliminating unnecessary bureaucracy. However, another aim was to increase the amount of pre-contractual attention paid to engaging with the market – to build market knowledge, and to shape the procurement strategy such that it is designed to get the best out of the market.

This approach can be used, legally, to shape requirements and sourcing strategies to influence

<sup>3</sup> In 2011 the Government appointed Crown Commercial Representatives to help manage the relationship with key strategic suppliers to government, as well as some specific market sectors.

<sup>4</sup> The panel was formed in November 2016 and is made up of 24 entrepreneurs and leading business figures.



the type of businesses that are likely to win. It can be used to ensure procurements are most attractive to SMEs, and most likely to result in their appointment.

In our discussions with government departments during the preparation of this report DragonGate was unable to find evidence that Lean Sourcing was still an active programme. The documentation was still live on the Cabinet Office web site (and is referenced in the Government Commercial Function's Outsourcing Playbook), but even a senior procurement official within government was unaware of its current status. The revival of Lean Sourcing, reviewed in the light of the UK's exit from the European Union, would increase government capability to engage with the market at the pre-contractual stage.

**Recommendation No. 20: The Cabinet Office should re-launch the Lean Sourcing Programme, with guidance reviewed in the light of the UK's exit from the European Union.**

Many government departments overhauled their approach to contract management following the uncovering of over-charging by Serco and G4S in 2013. Indeed, the author of this report performed that function as Director of the Department for Transport's Contract Management Excellence Programme. There have been improvements to government departments' contract management

capability, though the landscape is still patchy.

DragonGate was pleased to learn, during its interviews with government stakeholders, that there is a plan to introduce a new training package for contract management across government. It is to be hoped that this will be sufficiently comprehensive and available throughout the public sector, not just government departments.

**Recommendation No. 21: The Government Commercial Function should ensure any training package it develops for Contract Management is sufficiently comprehensive to encompass the scope of Contract Management activities across the public sector, and that it is available to all public procurement authorities within the public sector.**

# 9 Conclusion

Increasing public sector spending with SMEs has been a political objective for at least a decade. There is no ideological divide over the subject. Though its extent is debated, progress has been made, but the subject now finds itself pushed down the political agenda. At the time of writing, Brexit dominates government and broader political activity.

The introduction of targets was meant to spur action and change behaviours. In practice, however, it has been a distraction and, too often, the pursuit of targets has been unthinking and procedural rather than strategic.

A wholesale change in emphasis is essential. There are problems to be solved, problems that can only be addressed by further opening up public procurement, not just to SMEs, but to new entrants more generally.

There are three headline issues which can be addressed through a radical transformation of procurement strategy:

- Using procurement to build skills and capabilities. These are essential to deliver the Government's major projects pipeline

and to address other critical needs such as the housebuilding programme.

- Re-engineering the outsourcing model. The current model is under strain and harming the supply of businesses willing to sell to government. A shift to a more dynamic, competitive model, meaning smaller contracts attracting specialist suppliers, and better distribution of risk is required.
- Reforming public service delivery through transformative innovation. Reaching out beyond the "usual suspects", the kind of innovation required can only be delivered by throwing open the doors to new entrants. An agile and innovative SME presence is essential to delivering the Government's transformative agendas.

This report provides a detailed analysis of the subject. It draws on interviews, an intensive literature review, a workshop comprised of SMEs and a roundtable of thought-leaders in the public and private sectors discussion, both held under the Chatham House Rule. It also draws on the personal experience of the

author. Many of its recommendations are technical in nature, and whilst implementing these individually might be helpful, that will not be enough.

The Executive Summary pulls together some of the themes of the recommendations into a strategic action plan. That plan requires commitment from government – national and local – and from industry. But most of all it requires leadership, without which things will not change.

The Strategic Action Plan, supported by the detailed recommendations, suggests which organisations should lead on specific actions; however, that still leaves a gap. Who will take the overall lead to co-ordinate and deliver this agenda?

Perhaps it is time to revive the National Economic Development Council, established in 1962 and abolished 30 years later under John Major's Government. The current Administration has introduced a National Industrial Strategy, once anathema to post-Thatcher Conservative Governments. A new approach to strategic procurement and planning could survive changes in administrations, and equip the nation with the skills, capabilities and innovations it needs to prosper in an increasingly globalised world.

## Transparency

1. Each government department should publish the name and contact details of its SME Champion on its website, and the Cabinet Office should publish a combined list also.
2. The Cabinet Office should develop a standard role description for SME Champions, and agree its specific and tailored application for each government department, including the resources required to effectively discharge the role. The role description should include duties, powers and reporting lines and a clear obligation that SME Champions are “accessible” to SMEs on a regular basis and have effective oversight of, and the ability to influence, their department’s procurement portfolio.
3. Public sector procurement authorities that place notices on portals other than Contracts Finder should ensure there is an application processing interface that links these notices to Contracts Finder, and that the content linked is sufficient to be understood by potential bidders.
4. Each government department’s contribution to the Major Projects Pipeline should be reviewed and approved by its SME Non-Executive Director (see Recommendation No. 19).
5. Government departments (and other public sector procurement organisations as appropriate) should publish forward plans of potential procurements below the threshold of the Major Projects Pipeline and use targeted social media campaigns to increase awareness of such opportunities.
6. Tier-1 suppliers should be required to publish the names of SMEs in their supply chains and the value of sub contracts (perhaps in value bands). Good performance in supply chain spend with SMEs should be considered in future contract award decisions, and quality criteria should include the SME content in supply chain plans (which should be made

a contractual deliverable).

7. The Small Business, Enterprise and Employment Act 2015 should be amended to increase the powers of the Public Procurement Review Service such that it can investigate all public procurement authorities within the UK and enforce its decisions where appropriate.

### **Contract Shape & Supply Chain Treatment**

8. Policy and project leads in public sector organisations should share responsibilities with procurement professionals to achieve the optimum procurement spend with SMEs.
9. Framework agreements and Dynamic Purchasing Systems intended to improve access for SMEs should include a strategy to support them in winning business once they have been admitted.
10. The Government Commercial Function, in conjunction with the Government Finance Function, should consider developing guidance to enable two-way matching in electronic invoicing systems for long-term contracts with SMEs in relation to transactions below a defined value.
11. The Government Commercial Function's Supplier Code of Conduct should be revised to include better and stricter payment terms,

and to promote Project Bank Accounts.

12. The Government Commercial Function should:
  - a. Include in its Supplier Code of Conduct the requirement to pay interest on late payments as routine;
  - b. Develop a standard condition, to be included in all government contracts, requiring contractors to pay interest on late payments to suppliers in lower tiers of government contracts; and
  - c. Set an example by requiring the routine payment of interest on late payments made by government departments.
13. The Government Commercial Function should amend or supplement its recently published Outsourcing Playbook to ensure that procurement officials are encouraged to "right-size" contracts, avoiding excessive "bundling", and to balance the internal cost of procurement and contract management with the objective of getting the best out of the market. This should include the option of identifying packages of work larger than would be traditionally suitable for SMEs – and enabling and encouraging SMEs to bid in alliances and consortia.



## Collaboration and Innovation

14. The Government Commercial Function should develop an outward-facing playbook, including guidance and model forms of agreement, to enable SMEs to form alliances and consortia in order to bid for packages of work larger than would be traditionally suitable for SMEs.
15. The Government Commercial Function should develop guidance on how public sector procurement organisations should enable and evaluate variant innovative bids.

## Supporting Local Growth

16. The Cabinet Office, in conjunction with the Ministry of Housing, Communities and Local Government, should develop a new, formal Procurement Code for sub-threshold procurements empowering public procurers (including local authorities) to favour SMEs and local suppliers.

## Leadership, Governance and Capability

17. To assess the need for future skills and capabilities:
  - a. The Infrastructure and Projects Authority, along with the Catapult Centres, should make a long-term estimate of the skills and capabilities required to deliver the Government's major projects portfolio, the transformation of public services, and other critical national programmes – such as the NHS Long Term Plan and housebuilding. This should also take into account the national Industrial Strategy
  - b. Local Enterprise Partnerships and local and regional authorities should collaborate to make a long-term estimate of the skills and capabilities

required to meet the needs identified in Local Industrial Strategies, and the local skills and capabilities that can contribute to national requirements.

18. The Cabinet Office should develop an awards scheme to recognise outstanding personal and organisational contributions towards meeting the goal of improving public sector procurement spend with SMEs.
19. Each government department should appoint a Non-Executive Director with an SME background, who should also be a member of the Cabinet Office's SME Advisory Panel.
20. The Cabinet Office should re-launch the Lean Sourcing Programme, with guidance reviewed in the light of the UK's exit from the European Union.
21. The Government Commercial Function should ensure any training package it develops for Contract Management is sufficiently comprehensive to encompass the scope of Contract Management activities across the public sector, and that it is available to all public procurement authorities within the public sector.

# 11 Appendices

## Appendix A: DragonGate's 2017 Report for the CCS

### Key Points:

- DragonGate produced a report for the Government in 2017 making recommendations for improving procurement spend with SMEs.
- Six Systematic barriers to change were identified, focused around:
  - a. Accessibility and Awareness
  - b. Sector Specific Data Capture
  - c. Lack of Full Control at Departmental Level over Spending
  - d. Bundling
  - e. Poor Data Classification, Low Transparency and Sharing between
  - f. Perception of Government Procurement by SMEs
- Six enablers for systematic change were identified, focussed around:
  - a. Strong Value Proposition for the Agenda
  - b. Greater transparency
  - c. Investment in Digital and Data-Driven Planning and Engagement Strategies
  - d. Greater Use of Dynamic Purchasing Systems
  - e. Increase use of Project Bank Accounts
  - f. Make Greater Use of Trade Associations throughout the Process of Engagement

The report DragonGate produced for the Government in 2017 covered procurement in seven government departments – the Ministry of Defence, Department of Work and Pensions, Department for Transport, Ministry of Justice, Her Majesty's Revenue and Customs, the Home Office and the Nuclear Decommissioning Authority. It examined procurement spend in six market sectors – Communications, Construction, Engineering Goods, Industrial services, Logistics and Office Solutions. In each case, DragonGate identified the percentage of the market accounted for by

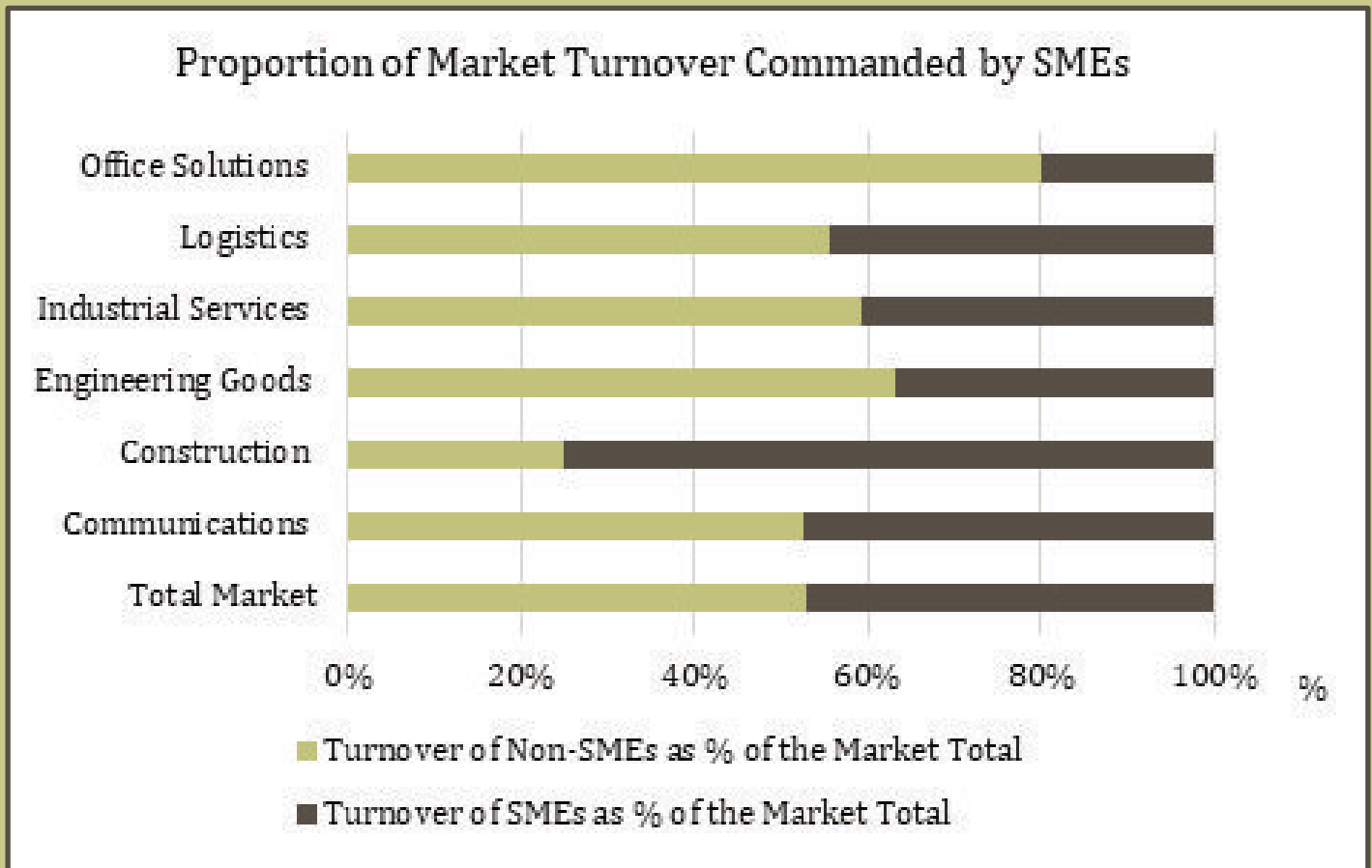
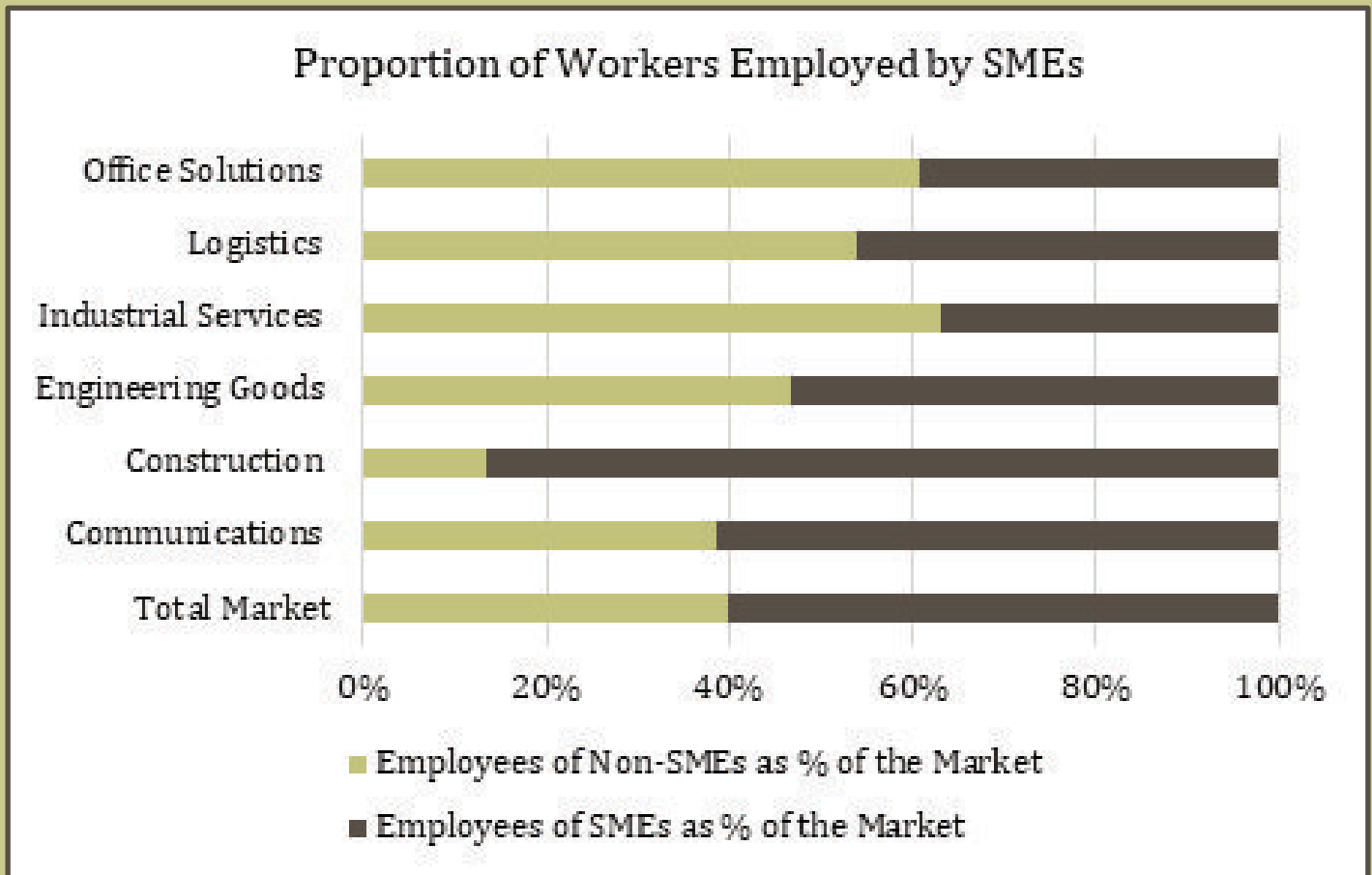
SMEs (by reference to turnover) and the percentage of spend with SMEs the subject departments were achieving in each market sector. In doing so, DragonGate was able to identify the gap between the SME composition of the market and the spend of the departments with SMEs.

The following charts demonstrate that no matter how SMEs' presence in and proportion of the market is defined – whether by the number of SMEs, by the turnover they collectively command, or by the proportion of workers in a market employed by SMEs – there are significant gaps compared with the sums government is spending with them.

It may not be practical, or useful, in all cases for the public sector to close the gaps identified. However, indicative targets were suggested for each market, based on DragonGate's detailed market analysis and the achievements of the best-performing departments.

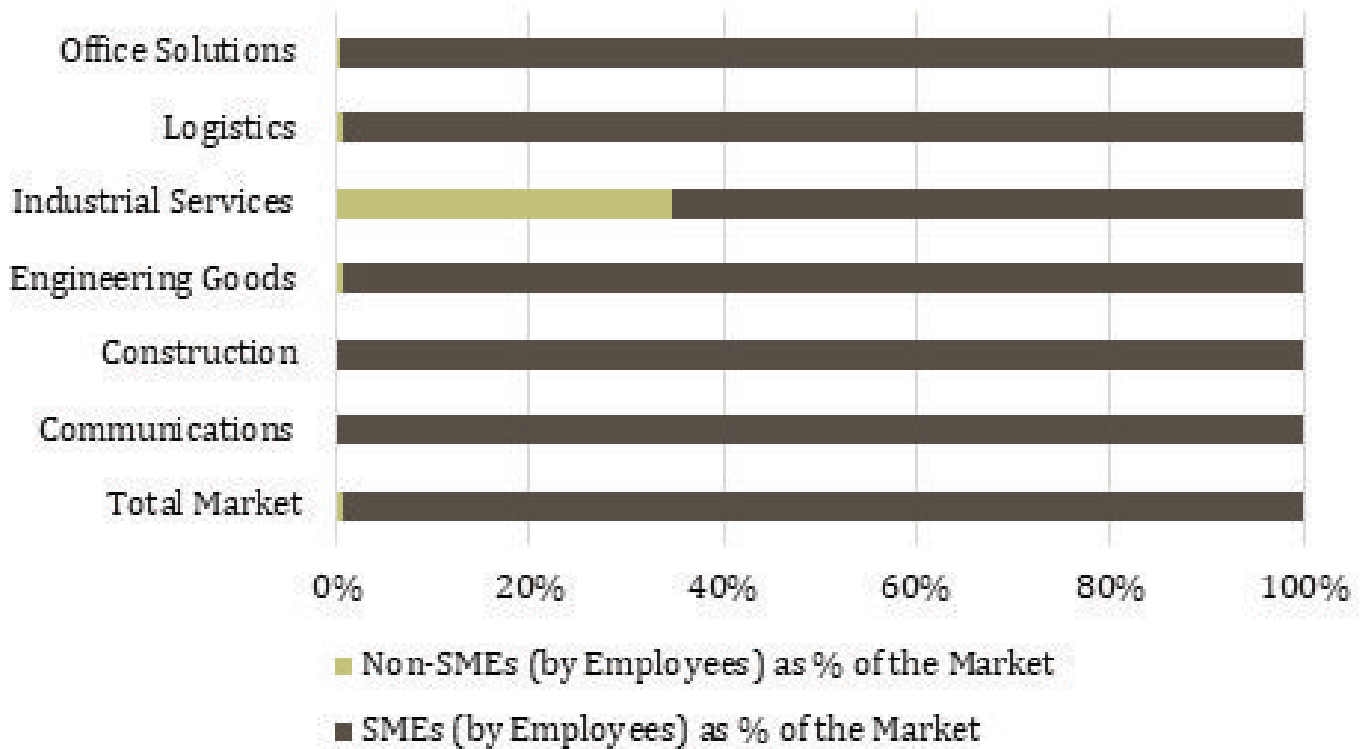
The greatest opportunity for increasing public sector spend with SMEs is within Construction, where DragonGate suggested a target of 40%, against the actual achievement of the departments covered, which was 5%. Had that been achieved in relation to Construction projects identified in the Infrastructure and Projects Authority's Annual Report on Major Projects 2017-18, £78.4bn in whole life costs

could have gone to SMEs.

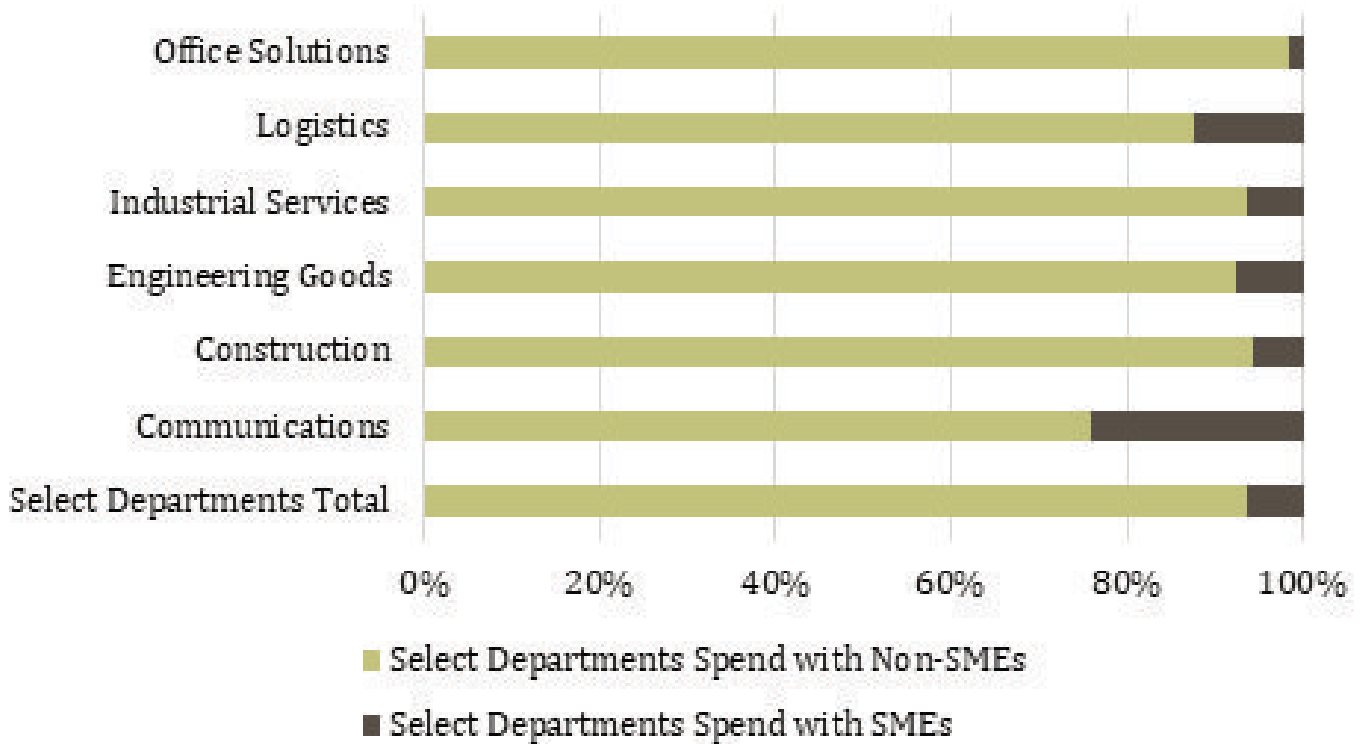




Proportion of SMEs Active in Each Market



Select Government Departments Spend with SMEs



As well as the detailed departmental and market analysis undertaken, six systematic barriers to change were identified and six enablers for systematic change. These are shown below.

### Six Systematic Barriers to Change

The key themes to the barriers are poor use of data and technology and lack of behavioural understanding. The fundamental issues for SMEs in the process are time and resources. If companies lack the ability to track, monitor and therefore be aware of government contracts then the barriers downstream will not even be relevant.

1. **Accessibility and Awareness.** A major part of the challenge is that only a very small percentage of SMEs are aware of government contract opportunities, where to find them and how to apply for them. Contracts Finder marks an important positive step in aggregating contracts into one portal. However, if this is to become a successful component in meeting the Government's commitment to being open to SMEs, then further investment is required in the portal in order for it to become:
  - a. More navigable, with far closer alignment between key words for contract opportunities and what SMEs are able to provide.

- b. Standardised, with boilerplate summaries for contracts so that the reader can quickly decide on relevance.
- c. Successfully mandated to ensure government departments place opportunities on Contracts Finder. The current mandate is not being adhered to, which, in addition to weakening confidence in the system as a one-stop-shop, means many SME engagement opportunities are being missed by companies who monitor Contracts Finder.

In addition to the use of Contracts Finder, more proactive engagement prior to advertisement of future project opportunities could be applied:

- a. Making greater use of trade associations as vehicles for project opportunity awareness.
- b. Prioritisation of SME-friendly opportunities at the project planning stage.
- c. Better awareness of project opportunities and how to apply for them using low cost, targeted social media campaigns on LinkedIn and other platforms that can easily target and measure successful engagement based

on location, market sector, and relevance.

Meet-the-buyer events can be useful components to the SME agenda – and putting a human face to the civil service client provides a key psychological enabler for the process. However, by comparison with the investment in measurable, data-driven digital engagement strategies that simplify the process, it is a secondary platform for change.

**2. Sector Specific Data Capture.** Many of the departments considered in this report concentrate on classifying procurement spend against their key outputs (e.g. the Work Programme in DWP, major platforms in MoD, HS2 in DfT etc.). There is less attention to detail in classifying non-core spend against the Common Areas of Spend – which is where many opportunities for SMEs might be found. This failure to classify against open, market-facing structures adversely impacts on departments' ability to identify, manage and publicise opportunities for SME involvement. A particular impact is that there are few examples of the publication of detailed procurement pipelines expressed in a manner that would be easily interpretable by SMEs.

**3. Lack of Full Control at Departmental Level over Spending.** With significant

areas of spending within the nominated categories centralised through CCS Frameworks, the sourcing strategies of which are not controlled by the departments.

**4. Bundling.** The disaggregation of contracts has long been understood as one of the key enablers to SMEs being able to compete for government business. Whilst much progress has been made in recent years in some sectors (technology in particular) there still remain examples of current, and planned, contracts which combine a number of different and unrelated market sectors, thereby blocking SMEs' direct access to government contracts.

**5. Poor Data Classification, Low Transparency and Sharing** between Departments' data that is already being captured on a comprehensive scale by government is not being used to its full potential to support the SME agenda.

**6. Perception of Government Procurement by SMEs.** Despite the barriers identified, major strides have been made in recent years to make government business more attractive and accessible to SMEs. However, a perception still exists that it is hard to find and win opportunities to do business with government. Indeed, even the Government's target of 33% spend with SMEs by the end of the Parliament is often perceived as a "tick-box" accounting exercise, rather than a means of growing business within the SME sector as a general spur to growth and enterprise.

### Six Enablers for Systematic Change

The recurring themes for enabling a more level playing field in SME engagement mirror the barriers. The strongest asset government has to hand in transforming its approach to SMEs is its comprehensive data – which is not being used to its full potential.

#### 1. Strong Value Proposition for the Agenda.

The range of benefits a more SME-friendly procurement system can provide to the government delivery agenda are not sufficiently articulated. Engagement with both project sponsors and commercial teams on opportunities that this agenda can enable needs to be treated as a priority. The value proposition for the SME agenda

should articulate benefits around commercial, innovative, and wider local economic benefits.

**2. Greater Transparency.** In future, projects and tender opportunities should be more transparent. A significant element of this can be achieved by ensuring Contracts Finder is used by all government departments for each project, that it speaks the language of small business and has a more intelligent opportunities selection criteria.

#### 3. Investment in Digital and Data-Driven Planning and Engagement Strategies.

Departments should have a co-ordinated approach to using data to identify SME-appropriate opportunities at a much earlier stage and challenge where appropriate the tendency towards bundling arrangements that reduce opportunities. Digital engagement models for project opportunities are not used to their fullest, and overall are far more cost effective than "meet-the-buyer" events as a means for mass engagement. Using digital platforms such as LinkedIn engagement can be far more accurately aligned with the SME audience in addition to providing feedback on engagement uptake.

#### 4. Greater Use of Dynamic Purchasing

**Systems.** These offer a far greater range of opportunities than traditional five-year framework contracts.

**5. Increase Use of Project Bank Accounts.**

These enable SMEs to be paid on time by government, irrespective of the prime contractor's approach to payment terms. Project Bank Accounts provide the benefit of making SME engagement in categories with significant elements of sub-contracting and supply chains such as construction far more attractive.

**6. Make Greater Use of Trade Associations**

throughout the Process of Engagement. Trade associations provide a resource for government to target its engagement with SMEs around distinct categories and with members in those markets. They have membership data, events, and websites that can be used specifically to engage SMEs around future opportunities”

(DragonGate, 2017, pp.5-7).



**Appendix B: Key Figures****Kelly Tolhurst MP**

Parliamentary Under Secretary of State,  
Minister for Small Business, Consumers and  
Corporate Responsibility at the Department for  
Business, Energy and Industrial Strategy

Appointed July 2018

**Martin Traynor OBE**

Small Business Crown Representative

Appointed February 2019

**Oliver Dowden CBE MP**

Parliamentary Secretary (Minister for  
Implementation) at the Cabinet Office

Appointed January 2018





*Departmental SME Champions*

<b>Department</b>	<b>Champion</b>	<b>Department</b>	<b>Champion</b>
<b>BEIS</b>	Martin Hayter	<b>DH</b>	Edward James
<b>CO</b>	Helen Gibson	<b>DWP</b>	Mike Day
<b>DCLG</b>	Richard McKean	<b>FCO</b>	Gary Mankelow
<b>DCMS</b>	Marc Bryant	<b>HMRC</b>	Samantha Bloyce
<b>Defra</b>	Clare Marsden	<b>HMT</b>	John Burran
<b>DfE</b>	Noel Williamson	<b>HO</b>	Lucy Moody
<b>DFID</b>	Stephanie Donachie & Michael Ross	<b>MoD</b>	John Kite
<b>DfT</b>	Robert Vaughan	<b>MoJ</b>	Laura Cassidy
<b>NDA</b>	Ron Gorham		

## **Appendix C: Levelling the Playing Field Roundtable**

On the 21st of February 2019, DragonGate convened the Levelling the Playing Field Roundtable in Westminster. This was a discussion forum for senior representatives from central and local government and arm's-length bodies to review DragonGate's interim findings and debate the big issues in the SME agenda.

During the course of the debate, participants identified many problems with the processes by which contracts are let, including a professional obsession with cost among procurement staff, unwillingness to countenance the additional risk and disruption that innovation naturally entails, and continued poor behaviours of prime contractors, up to and including flouting new requirements for prompt payment and whistleblowing.

Other participants were more concerned with strategic issues. Departments still think in silos and commission for their immediate requirement with little concern for the needs of other public bodies, or their procurement's impact on the skills and capacity of industry to serve future requirements. Furthermore, government is never going to access innovation via the current processes, when it is often a secondary concern, raised after a long and

prescriptive list of primary requirements.

Whilst there has been some progress – requirements to publish performance data on prompt payments has 'focussed minds', for example – there is much more to be done. Some public bodies are not making the most of these new requirements, preventing providers that might wish to compete on social value from doing so. Other providers are concerned that the public sector's obsession with cost comes at great expense to social value; as one participant put it, when it comes to assembling a supply chain, "if you have to buy cheap, you're not buying local."

Lastly, in spite of progress, years of poor experiences have made many small businesses deeply cynical; rebuilding that trust, such that businesses can have faith in government's stated ambitions, will be every part as important as changing culture and process in the public sector.

# 12 Bibliography

The following reports and publications have been consulted in preparing this report, but not all of these have been directly quoted.

CIPD in partnership with the Adecco Group, 2018. *Labour Market Outlook: Views from Employers*.

Crown Commercial Service, 2016. Procurement Policy Note: Procuring Growth Balanced Scorecard.

Dragos, D. C., 2016. 'Sub-dimensional public procurement in the European Union" in Bovis, C. (ed.), 2016. *Research Handbook on EU Public Procurement Law*, pp.176-212.

Department for Business, Energy & Industrial Strategy, 2018. *Business Population Estimates for The UK and Regions 2018*.

Department of Health and Social Care, 2018. *SME Action Plan 2017-2020*.

Department for Transport, 2018. *Small and Medium Enterprise Plan*.

DragonGate, 2017. *Identifying Areas where SMEs can Add Value*.

Enterprise Research Centre, Goldman Sachs 10,000 Small Businesses, British Business Bank, 2016. *Unlocking UK Productivity: Internationalism and Innovation in SMEs*.

European Commission, 2008. *European code of best practices facilitating access by SMEs to public procurement contracts*.

Federation of Small Businesses, 2017. *Unstacking the Deck: Balancing the Public Procurement Odds*.

Government Commercial Function, 2019a. *Commercial Pipeline: Supporting the Implementation of the Government Commercial Operating Standards*.



Government Commercial Function, 2019b. *Evaluating Bids: Outsourcing Guidance Note*.

Government Commercial Function, 2019c. *Market Management: Guidance Note*.

Government Commercial Function, 2019d. *The Outsourcing Playbook: Central Government Guidance on Outsourcing Decisions and Contracting*.

Government Commercial Function, 2019e. *Supplier Code of Conduct: delivering better public services together*.

Hawkins, D. E., 2011. *The Midas Proposition (Enhancing the role of Small and Medium size enterprises through Collaborative Clusters)*.

HM Treasury, 2010. *Budget 2010: Securing the Recovery*.

HPC Supply Chain Innovation Lab School of Management, University of Bath (Kalra J., Roehrich, J. K., Squire, B.), 2018. *Supplier Development: Developing and Scaling the Capabilities of Local SMEs*.

House of Commons Business, Energy and Industrial Strategy Committee, 2018. *Small Businesses and Productivity: Fifteenth Report of Session 2017-19*.

House of Commons, Business, Energy and Industry Strategy and Work and Pensions Committees, 2018. *Carillion, Second Joint report from the Business, Energy and Industrial Strategy and Work and Pensions Committees of Session 2017–19*.

House of Commons, Public Administration Select Committee, 2018. *After Carillion: Public sector outsourcing and contracting, Seventh Report of Session 2017–19*.

Infrastructure and Projects Authority, 2018. *Annual Report on Major Projects 2017-18*.

The Information Commissioner's Office, 2019. *Outsourcing Oversight? The case for reforming access to information law*.

Localis, 2018. *Ethical Commercialism: Reforming Public Service Markets*.

National Audit Office, 2016. *Government's spending with small and medium-sized enterprises*.



New Local Government Network (Walker, T. and Lawson, S.), 2018. *From Transactions to Changemaking: Rethinking Partnerships between the Public and Private Sectors*.

NHS England, 2019. *The NHS Long Term Plan*.

Northern Ireland Assembly (Perry, C.), 2011. *Supporting SME access to public procurement opportunities*.

Office of Government Commerce/Department for Business, Innovation and Skills, 2009. *Driving Innovation through Public Procurement*.

UK Trade Policy Observatory (K. Dawar), 2017. *Brexit and Government Procurement*.

Urbact, 2018. *Procure: Creating a Good Local Economy – Final Report*.

## List of Interviewees

- Professor Christopher Bovis, Professor of Business Law, University of Hull
- Professor Jens Roehrich, Director HPC Supply Chain Innovation Lab, University of Bath
- Eleven SMEs were interviewed or participated in a workshop in accordance with the Chatham House rule.
- Department of Health and Social Care
- Department for Transport
- Her Majesty's Customs and Excise

Note: Several more government departments were approached, but either did not respond or declined to make themselves available for interview.

# 13 About the Author



Simon Lydiard is a former senior civil servant, with a 38-year career spanning several government departments and specialisms. He joined the civil service at the most junior grade and worked his way up, attaining senior civil service rank eight years before he left.

Having started as a general administrator, Simon worked in HR, finance and property, before specialising in procurement mid-way through his career. He developed and led the introduction of new approaches to procurement in the civil service, working on the introduction of category management and the application of electronic business and supply chain

collaboration in the MoD and, as Director of Contract Management Excellence, overhauling the Department for Transport's (DfT) approach to managing commercial contracts through the introduction of new models, standards and training.

A particular passion for Simon has been the support of SMEs – DfT's spend with SMEs increased ten-fold whilst he was their SME Champion. He advised on procurement aspects of the Small Business, Enterprise and Employment Act 2015. After he left the civil service, he led a review of SME procurement for the CCS. He has also worked extensively on the development and promotion of the procurement profession, for which he was awarded Fellowship of the Chartered Institute of Procurement & Supply. He is also a fellow of the Institute of Leadership and Management, and the Royal Society of Arts, Manufactures and Commerce.

# 14 Sponsorship

## Disruptieve.

Disruptieve was formed in response to the need for change in the places we live – be that at a street, town or city level.

The pressures on local government finances has meant that less is being delivered for less; some authorities are at the point of only being able to deliver statutory services, so a different approach was needed.

Applying DISRUPTION to place, while putting PEOPLE at the centre, has resulted in a new way to understand and deliver change, in the form of MAGNETISM:

- Attract & retain talent
- Constant physical renewal (place)
- Sense of identity
- Connectivity (physical & digital)
- Ideas & innovation

- Attractive to investors
- Strong leadership

The model at the core of Disruptieve is about digital enablement, EV as the norm, and an MA in Disruption (launching November 2019), meaning that solutions needed for social, environmental or business issues, are created and delivered by students graduating from the MA – guided by coaches through a unique process and outcome.

Whitehaven has been selected as the place to prove the concept for a number of reasons, but one of the main enablers has been Pat Graham, CEO of Copeland Council, who is open to change, willing to work in a new way, and supportive on all fronts.

As an SME there are enormous challenges when responding to public tender requests – many unsurmountable.

Disruptieve's model and approach to Whitehaven has circumnavigated the challenges, by presenting a different way of working, and one that should be considered by

more public sector organisations.



## **NATIONWIDEHIRE**

BUILDING MOMENTUM

Nationwide Hire is an SME aggregator of all hire services across a large supply-chain of SME companies. This enable us to operate on a national scale whilst providing local services, for anyone, anywhere. We compete with the bigger companies by aggregating SMEs to provide an exceptionally high quality of service in an industry with a poor service record.

By actively maintaining a supplier network of over 9,000 UK locations with access to over 5 million products, we make hundreds of same-day deliveries every week. So, we can always supply and at short notice. We keep projects and businesses running with our critical service support approach. We rescued KFC when DHL could not deliver fresh chicken by providing emergency freezers. We helped provide the morgue extension at Grenfell. We regularly deliver emergency plant, powered access, tools, accommodation and waste solutions to sites on a last-minute basis.

We can deliver 100% UK postcode coverage

same day with an on time KPI record of 98%. We regularly deliver within an hour. Many struggle to believe this so we had our reliability record and NPS score checked and verified by Taylorcocks, an independent firm of registered auditors. Our Net Promoter Score (A global standard for measuring Customer Satisfaction) is 75 which is “World Class” and 60% higher than the big hire companies.





For further information please visit our website at [www.dgmi.co.uk](http://www.dgmi.co.uk) or contact:

**Matt Finucane**

**Senior Programme Manager, DragonGate Market Intelligence**

[Matthew.finucane@dgmi.co.uk](mailto:Matthew.finucane@dgmi.co.uk)

+44(0)20 7603 5086



DRAGONGATE

**Disruptive.**

