



HOUSE OF COMMONS
LONDON SW1A 0AA

Andrew Dilnot CBE
Chair of the UK Statistics Authority
UK Statistics Authority
1 Drummond Gate
London, SW1V 2QQ

07 August 2013

Dear Mr Dilnot CBE,

RE: Procurement spend with SMEs

I am writing to raise concerns about the way I believe Ministers are repeatedly using misleading statistics to portray a substantial increase in the percentage of direct central Government procurement spend going to Small and Medium sized businesses (SMEs).

In February 2011, Cabinet Office Minister, Francis Maude, outlined Government procurement reforms at a conference for SME suppliers and set out the Government's aim that "25% of all government contracts are awarded to small and medium-sized enterprises"¹ by 2015.

Since then, Ministers have published reports and made statements about how the Government's reforms have led to a big increase in the proportion of procurement spend going to SMEs. For example:

- **Minister for the Cabinet Office, Francis Maude:** "The value of contracts being given to SMEs is rising and rising markedly from the very low base that we inherited."² **House of Commons, 8 February 2012**
- **Minister for the Cabinet Office, Francis Maude:** "Across the whole of Government spend with SMEs has doubled"³. **House of Commons, 13 June 2012**
- **Minister for the Cabinet Office, Francis Maude:** "So we've made real progress as a one-year-on report published today highlights. And I am pleased to announce today that central Government's direct spend with SMEs is on track to double since we took office from 6.5 % to 13.7%."⁴ **Speech at SME procurement event, 9 March 2012**
- **Cabinet Office Minister, Chloe Smith:** "Direct spend with small and medium-sized companies across Government has steadily increased since 2010 as a result of the steps we have taken."⁵ **House of Commons, 20 March 2013**

¹ <https://www.gov.uk/government/news/government-opens-up-contracts-to-small-business>

² <http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120208/debtext/120208-0001.htm>

³ <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120613/debtext/120613-0001.htm#12061361001700>

⁴ <https://www.gov.uk/government/speeches/sme-procurement-event-francis-maude-speech>

⁵ <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130320/debtext/130320-0001.htm>



- **Cabinet Office Minister, Chloe Smith:** "On how the measures [the Government's procurement reforms] are giving results, I should say that direct spend with SMEs across Government has increased from the paltry 6.5% when we took office to 10% in 2011-12."⁶ **Westminster Hall debate, 11 June 2013**
- **Minister for the Cabinet Office, Francis Maude:** "We have a long way to go but there are signs these reforms are working. Overall government has increased its direct spend with SMEs from 6.5% in 2009-10 to 10% in 2011-12."⁷ **Speech on technology procurement and SMEs, 27 June 2013**

These statements usually come after an outline of all the reforms the Government is implementing around procurement, crediting their actions for the increase.

The latest annual figures (enclosed) were released by the Cabinet Office on 27 February 2013⁸. The table shows that, overall, direct spend with SMEs has increased from 6.5 per cent in 2009/10 to 10 per cent in 2011/12. But when you look at the breakdown of the departmental figures, the percentage spend going to SMEs has actually decreased in the majority of departments and there has only been a substantial jump in one department, the Ministry of Justice (9 per cent in 2009/10, 9 per cent in 2010/11 and then 34 per cent in 2011/12). This equates to an increase of over £1.2 billion going to SMEs just from this one department.

But in an answer to a Parliamentary Question⁹, this sudden increase at the Ministry of Justice is explained by the fact that Legal Aid providers have only been included in the department's figures for procurement expenditure with SMEs since April 2011.

And in an answer to another Parliamentary Question¹⁰, the Ministry of Justice said that the percentage of Legal Aid spend with SMEs as a proportion of the department's total procurement expenditure on SMEs was 92 per cent for Q1 2011/12, and 97 per cent for Q2 2011/12.

I have not been given figures for Q3 2011/12 and Q4 2011/12 yet, but if we say that the percentage was above 90 per cent for the whole year 2011-12, this would mean that the percentage of spend going to SMEs from the MoJ was in fact just 5 per cent, a decrease on previous years. And it would also mean that the total direct spend going to SMEs across central government would have been £2,885 million in 2011/12, less than the £3,096 million recorded in 2009/10.

As I am sure you appreciate, this is a very different picture to the one that Ministers have been portraying, with talk of doubling spend to SMEs from £3 billion to £6 billion.

The Government has never made clear in any of its reports or statements regarding procurement spend with SMEs that the Ministry of Justice changed the way it recorded SME statistics in April 2011, despite this having an obvious and considerable impact on the figures when making comparisons to figures from previous years.

⁶ <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm130611/halltext/130611h0002.htm>

⁷ <https://www.gov.uk/government/speeches/francis-maude-spoke-on-technology-procurement-and-smes>

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/120649/Direct___indirect_spend_SMEs.pdf

⁹ <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120523/text/120523w0004.htm#12052384002674>

¹⁰ <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120712/text/120712w0003.htm>



I am concerned that Government Ministers are using statistics in a misleading way, clearly not comparing like for like. It seems that a technicality – the fact that the Ministry of Justice has changed the way it records certain statistics – is being used in a very political way to take credit for a big increase in procurement spend to SMEs that, in reality, has not happened. In fact, it looks like spend to SMEs has decreased overall since 2009/10.

I would be very grateful if you could look into this as a matter of urgency.

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink that reads "Michael Dugher". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

Michael Dugher MP
Shadow Cabinet Office Minister



CabinetOffice

Making Government business more accessible to SMEs – One Year On

Progress report on enabling more SMEs to tender for
government procurements

March 2012

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SME Progress Report

1. Introduction

On the 11th February 2011 the Prime Minister announced a package of measures designed to open up the way that Government does business and to make sure that SMEs, charities and voluntary organisations can successfully compete for Government business. These announcements were a reflection of the Government's intent that SMEs, which are critical to the economy and promoting growth, should no longer be shut out of the procurement process because of excessive bureaucracy and unnecessary regulation. An aspiration was set, in the Coalition Programme for Government, that 25% of Central Government procurement spend – directly and in the supply chain – should go to SMEs by the end of this Parliament.

When we started this journey a consultation exercise on the Number 10 website had identified a number of key concerns and barriers faced by SMEs, the most significant were:

- The lack of visibility of contract opportunities;
- Overly bureaucratic and burdensome pre-qualification requirements; and
- Access to government to pitch ideas and promote innovation.

This report outlines the progress made over the last 12 months.

2. Summary of Progress

The announcements made in February 2011 signalled a fundamental change in the way central government procures and the behaviour it expects of its procurers; from appointing the first Crown Representative to provide a voice at the top table for SMEs and increasing transparency through the launch of the Contracts Finder facility; abolishing PQQ for procurements below £100,000 and publishing recommendations to make procurement faster and cheaper as a result of the Lean Review; to giving SMEs new channels to challenge procurement practice through Mystery Shopper and the SME Panel.

Over the past 12 months good progress has been made, procurement practice is beginning to change and, in central government, many of the systemic and institutional barriers have been removed.

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These successes are welcome; however, this is just the start of a process of radical procurement reform. We know that there is more that can be done if we are to completely change procurement behaviours and practices, make these reforms sustainable, and continue to see an increase in the amount of government (direct and indirect) business being awarded to SMEs.

Impact of the Programme

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

3.1 Progress against the 25% aspiration

We are starting to get a much clearer and more robust picture of the amount of business Government does with SMEs, both directly and indirectly through the supply chain, in support of the Coalition aspiration that 25% of Central Government procurement spend should go to SMEs by the end of this Parliament (2015). At the 'one year' point for the programme we can report that, for the first time, all Central Government departments have been able to provide data on their spend with SMEs.

These figures show that the proportion of central government direct spending with SMEs is on track to double, from 6.5% of direct spend in 2009/10, to 13.7%¹ (year to date) for 2011/12². In addition, when we factor in indirect spend being tracked through the supply chains of DWP, Home Office and HMRC, this figure increases to 14.5%. In summary we are confident that over £6bn of Government spend will be channeled to SMEs in the 2011/12 financial year an increase from the £3bn awarded in 2010/11. It is a positive signal for Central Government achieving its 25% aspiration by 2015.

Taking a broader view of indirect spend, we know that a number of our large suppliers pass on spend to SMEs as subcontractors within their supply chains. We recently carried out a survey³ across 50 of the largest suppliers to Government to gather sample data of their spend with SMEs. These 50 suppliers were responsible for around 35% of Central

¹ A comparable figure, excluding DFID and FCO, who were unable to provide data for the baseline period 2009/10, would be 13.5%.

² Data represents period to end December 2011. MoD data represents period to end September 2011 and has been extrapolated to estimate spend to end December 2011.

³ Conducted February 2012

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Government's spend in 2010/11⁴. We have had full responses from 27 suppliers⁵ which suggested that, between them, they passed approximately 13% of their Central Government revenue to SME subcontractors.

These suppliers provided details of their Year to Date (Q3) 2011-12⁶ Central Government revenues, which we have used in conjunction with Central Government's 2011/12 spend data⁷, to start to build a picture of how much indirect spend might be flowing to SMEs. Using this data we are able to calculate that the 27 suppliers' spend with SMEs equates to approximately 4% of Government spend as a whole.

This work is only the start of Government better managing its supply chain through prime contractors, with the aim to deliver more transparency and alignment with the Government's 25% of total spend aspiration.

Going forward, there is more to do to obtain better quality data on Departmental spend with SMEs. We are tackling this issue and have completed the procurement of a Government wide Spend Analytics solution to address, through common technology and process, the capture, enrichment and reporting of spend and supplier data. This is the first time that Government will have a single solution for understanding how taxpayer's money is spent and with whom.

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

The appointment of Stephen Allott as Crown Representative for SMEs has, for the first time, given SMEs a strong voice at the top table. He is building a strategic link with, and promoting dialogue between, SMEs and the highest levels of Government, as well as taking direct interventions in procurements to ensure they are as SME friendly as possible.

Stephen has also developed the concept of Product Surgeries, where suppliers are invited to pitch their innovative new ideas and services directly to senior Government officials. This has provided them with a level of direct access that was previously not available and given procurers an opportunity to see what the market can offer before they launch a procurement

⁴ Source: Departmental returns to Government spend analytics process.

⁵ Four suppliers were able to provide partial data only. Six suppliers were unable to provide usable data. Eleven suppliers are yet to provide data but have promised to do so. Two suppliers are due to meet the Chief Procurement Officer to discuss further.

⁶ Survey conducted February 2012

⁷ Data represents period to end December 2011.

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exercise. So far eight departments have been involved in six surgeries, including the cross Government 'Innovation Launch Pad'.

The 'Innovation Launch Pad' involved a web based portal, where suppliers were invited to submit innovative ideas and business proposals for products and services to deliver better value for money for Government. The aim was to stimulate new, open competitions in Government markets in which SMEs are able to participate.

Following evaluation of three hundred and fifty proposals, twenty-five of the suppliers were provided with mentoring on how to present their proposals to Government and nine were subsequently invited to present their proposals and then attend a Downing Street reception. We know that this approach can be successful as three of these nine businesses have already gone on to win new Government business.

3.3 Greater transparency in procurement and contracting

One of the key concerns for suppliers was the lack of visibility of contracting opportunities and confusing landscape of local and regional portals. To address this issue, we launched Contracts Finder as a 'one stop shop' to enable suppliers to find procurement opportunities, tender documents and contracts online, free of charge. Contracts Finder has gone from strength to strength in the last year - for example, in January 2012 (the most recent full month of reporting), over seven times more contracts were posted than in March 2011 (the first full month of reporting).

Contracts Finder is able to take direct feeds from four major regional portals (with more due to go live in the coming months) and the European Tenders Electronic Daily (TED) website where all EU procurement opportunities over £100,000 for goods and services are advertised. This means that as well as all central government departments, local authorities are able to post low value opportunities directly onto Contracts Finder. We know however, that only 20% currently do so and we are working with representatives from Local Government to increase this in the coming months.

Departments are also able to flag opportunities which they feel are suitable for SMEs, so suppliers are able to better target their efforts when bidding for work. Contracts Finder receives around 97,000 viewings per week, with an average of 7,500 free daily email alerts

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sent and 1,000 UK public sector opportunities available every day. Suppliers do not need to register at all just to browse opportunities.

In addition to opportunities, Contracts Finder provides suppliers with details of government contracts. So, for the first time ever, suppliers are able to see exactly what departments are buying and from whom. Of the 5,768 contracts posted since February 2011, 2,025 (c. 35%) have been flagged as awarded directly to SMEs.

To increase the benefits of Contracts Finder further, and in response to user feedback and learning from best practice elsewhere, including the Olympic Delivery Authority (ODA), we have upgraded the search functionality and added a tool that allows prime contractors to publish their subcontractor opportunities. A number of Government's larger suppliers have committed to using Contracts Finder and we are already seeing some sub-contracting notices on the site. We are currently piloting different approaches to encourage more prime contractors to post theirs.

3.4 Simplifying and speeding up procurement practices

One of the most significant barriers faced by smaller suppliers is the continued use of overly and unnecessarily bureaucratic processes. We have addressed this in central government by abolishing the use of Pre-Qualification Questionnaires (PQQ) for tenders below £100,000 (except where security is an issue). For higher value contracts, we have mandated a single, simplified PQQ, stripping out the previous institutional barriers - such as inappropriate insurance levels, turnover thresholds that exclude smaller businesses, and the need to always provide three years worth of audited accounts - and ensuring that the requirements do not inhibit growing businesses from competing.

In January 2012, we mandated Lean sourcing principles across central Government that strip out bureaucracy and eliminate wasteful practices to speed up the procurement process and reduce costs for all involved. The results will be that for all but the most complex procurements, the turnaround time from issue of the OJEU Notice to award of the contract will be 120 days – making it up to 40% faster to do business with Government.

Lean sourcing puts a much stronger emphasis on pre-procurement market engagement, simpler processes with clearer and more certain timelines, and all relevant information

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requested will be made available at the right time and on time. Before starting the formal procurement process, a diverse range of prospective suppliers, including SMEs, who could potentially meet the requirements, will be invited to engage in two-way conversations to test our thinking and generate ideas for innovation. This is essential both for the economy and in securing the best value for money outcomes for Government and the taxpayer.

We also introduced the new Dynamic Marketplace on which SMEs are able to provide quick quotes for low value contracts (below £100,000), enabling them to bid and compete at minimal cost alongside larger suppliers, with low entry requirements and no PQQ.

3.5 Providing direct feedback and working with the programme

February 2011 also saw the launch of the Mystery Shopper Service. It gives suppliers a direct and anonymous route to challenge poor practice and lack of transparency. Significantly the Mystery Shopper Service covers all UK organisations subject to the Public Procurement Regulations – central and local government; emergency services; health and education sectors. It gives us a unique opportunity to influence procurement practice right across the public sector. Closed cases are published on a quarterly basis, including naming the contracting authority against whom the case has been made and publishing their response. It is this level of transparency that gives us the powerful lever to drive change on the ground.

By mid-February 2012 there had been 151 cases received, of which 111 had been closed with 75% of them resulting in a positive outcome – for example a live procurement or future procurement was adjusted, or increased the supplier's understanding of the procurement process.

The majority of cases received so far relate to wider public sector procurement and the general trend (across all sectors) is that it is the procurement process, specifically the use of financial requirements within PQQ that is still the biggest barrier for suppliers to compete successfully for public sector business.

In June 2011 we held the first SME Panel with representatives from the small business community and industry bodies. As a result, three working groups were set up to look

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specifically at Consortia formation, the on-going development of Contracts Finder and the issues faced by new suppliers to the public sector.

The SME Panel gives SMEs the opportunity to engage directly with the Minister for the Cabinet Office (MCO) and senior officials and tell us where the SME Programme is succeeding and where we need to do more. This is an important step change in our relationship with the SME community – involving a range of suppliers in our thinking and using their expertise and enthusiasm to shape the future direction of the work programme. Specifically;

- The Consortia Working Group has started developing models for groups of SMEs to use when bidding for contracts. It has also been raising the profile of the barriers to SMEs when they bid as consortia and challenging groups of procurers to take positive action to increase the potential for consortia supplying to government;
- The Contracts Finder Working Group is feeding directly into each enhancement of Contracts Finder; and
- The New Suppliers Working Group has developed a rating system to measure how SME friendly government departments are. The Cabinet Office will pilot this.

4. Conclusion and Next Steps

One year on from the announcements made on 11 February 2011 good progress has been made in delivering Government's aspiration to do more business with SMEs. Over the past year central government procurement has become simpler, faster, more transparent and more accountable.

In particular the positive actions of the Government Procurement Service have seen SMEs, for example travel provider Redfern, win contracts to supply right across government and innovative procurements like the newly launched G-Cloud service where of 260 suppliers across 1700 services, 50% are SMEs.

However, this progress is only the start of the journey and we know that the current economic circumstances and need for growth makes it imperative that we deliver change at

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a faster pace and with wider reach. It is the responsibility of anyone who spends public money – right across the public sector – to ensure that they are doing all that they can to get full value from the products and services SMEs can offer.

Over the coming months we will continue to work with central government departments and other public bodies to change procurer behaviours and increase the trajectory of spend going to SMEs. Details of our future plans are being announced today.

For more information please contact:

Buyers: Sally Collier, Executive Director Cabinet Office – sally.collier@cabinet-office.gsi.gov.uk

Suppliers: The Office of the Crown Representative, Stephen Allott – c/o david.gigg@cabinet-office.gsi.gov.uk

Direct and Indirect Spend with SMEs

- The table below shows full year baseline data for 2009/10 and full year data for 2010/11 and 2011/12.
- Total spend and Direct spend with SMEs (£m) is reported by departments. 2009/10 data was previously published in the Cabinet Office report 'Making Government Business more accessible to SMEs – One Year on'
- In monthly returns to ERG, departments are asked to include core departments and their ALBs.
- Indirect indicative spend (2011/12) figures are taken from the quarterly Supplier Survey returns only. It does not take account of indirect spend captured by departments.

Department	2009/10 Full Year		2010/11 Full Year		2011/12 Full Year	
	Total Spend (£m)	Direct Spend with SMEs (£m) 2009/10 %	Total Spend (£m)	Direct Spend with SMEs (£m) 2010/11 %	Total Spend (£m)	Direct Spend with SMEs (£m) 2011/12 %
BIS	£1,316	£294 22%	£793	£197 25%	£1,108	£295 27%
DCLG	£313	£43 14%	£417	£50 12%	£253	£53 21%
CO	£149	£12 8%	£85	£6 7%	£93	£11 12%
DCMS	£26	£7 27%	£292	£77 26%	£336	£59 18%
DECC	£3,006	£17 1%	£2,965	£18 1%	£3,081	£13 0%
DEFRA	£1,514	£159 11%	£1,355	£263 19%	£1,266	£208 16%
DfE	£509	£129 25%	£533	£127 24%	£267	£48 18%
DfID	-	-	£560	£218 39%	£652	£202 31%
DfT	£3,851	£117 3%	£3,240	£68 2%	£2,696	£77 3%
DH	£618	£112 18%	£1,149	£84 7%	£1,061	£91 9%
DWP*	£4,329	£509 12%	£4,153	£622 15%	£3,407	£378 11%
FCO**	-	-	£749	£48 6%	£712	£35 5%
HMRC	£1,783	£193 11%	£1,613	£1 0%	£1,475	£6 0%
HMT	£118	£16 14%	£108	£14 13%	£93	£5 6%
HO	£2,531	£56 2%	£2,915	£218 7%	£2,876	£185 6%
MOD***	£22,100	£920 4%	£19,976	£686 3%	£20,071	£1,044 5%
MOJ	£5,626	£506 9%	£5,899	£506 9%	£5,090	£1,728 34%
Total	£47,789	£3,096 6.5%	£46,802	£3,200 6.8%	£44,536	£4,440 10.0%

*Due to DWP's Work Programme strategy to use prime suppliers, their direct SME spend has reduced since 2011 but their indirect spend has consequently increased. They have prepared their market/supply chains for this change, specifically to protect SME/VCSSE suppliers, and engaged with prime suppliers about reporting indirect spend"

**The data has been calculated as spend with UK based SMEs, compared with global total spend on third party goods and services, thereby understating the total SME proportion.

***These figures are for the core department, therefore exclude ALBs

2011/12 Full Year Indicative Indirect spend
across Central Government

Spend: **£2,946m**

Indirect as a percentage of Total
Procurement Spend: **6%**

Parliamentary questions

JUSTICE

Legal Aid Scheme

Michael Dugher: To ask the Secretary of State for Justice what proportion of his Department's total procurement expenditure on small and medium-sized enterprises was spent on legal aid providers in (a) the fourth quarter of 2010-11, (b) the first quarter of 2011-12 and (c) the second quarter of 2011-12. [116533]

Mr Djanogly: The information is as follows:

<i>Period</i>	<i>Percentage of legal aid spend with SMEs as a proportion of total procurement expenditure on SME</i>
Q1 2011-12	92
Q2 2011-12	97

Legal aid providers have been included in the Ministry of Justice figures for procurement expenditure with small and medium-sized enterprises since April 2011. Hence it is not possible to provide the proportion in quarter 4 of 2010-11 financial year.

Procurement

Michael Dugher: To ask the Secretary of State for Justice when his Department began including contracts to legal aid providers in its figures for procurement expenditure with small and medium-sized enterprises. [107822]

Mr Kenneth Clarke: Legal aid providers have been included in the Ministry of Justice figures for procurement expenditure with small and medium-sized enterprises since April 2011.

