
Enterprise and
Business
Committee
Discussion on
Welsh
Government
Procurement

FSB Wales
Response

1st June 2015





Enterprise and Business Committee Discussion on Welsh Government Procurement FSB Wales

FSB Wales welcomes the opportunity to present its views to the National Assembly for Wales Enterprise and Business Committee discussion on Welsh Government procurement. FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

Introduction

In general, FSB Wales welcomes policy measures that are designed to improve the public sector procurement of goods and services, and to make the process of procurement more accessible to small and local businesses. We fully appreciate that not all procurement can be local or be solely commissioned from small businesses. Our priority is to create greater opportunities and a more level playing field as a precursor to growing local economies in Wales. We welcomed the publication of the McClelland Review in 2012, and particularly its recommendations that procurement needed to make connections with enterprise development services to encourage and support new and smaller providers to bid for Welsh public sector contracts¹. Welsh public sector organisations currently spend £4.5bn per year on external goods and services, this represents a significant potential that could be harnessed for the growth of distributed local economies across Wales².

Our response considers a number of issues related to procurement set out below.

Measuring Progress in Welsh Public Sector Procurement Since 2012

Our own on-going dialogue with members indicates that bidding for and securing public sector contracts in Wales often continues to be a complex and time consuming process. Small businesses continue to be frustrated by their success rates in winning contracts from the public sector, as well as the time required to meet procurement demands. This is particularly true of micro businesses.

In order to properly consider the overall success of Welsh Government's procurement policy however, there needs to be a much more thorough consideration of the evidence. The current statistical measurements of success by Value Wales depend on invoice postcodes, but this presents little useful data. An invoice postcode tells us nothing about whether the firm has a Welsh head quarters or indeed substantial activity in Wales, nor whether a substantial proportion of the sales invoices represent Welsh value added. This highlights the problems with statistical data and evaluation practices more generally, and we must be cautious about claims of success. We therefore require a more robust and accurate measure of local procurement in Wales, which fully considers Welsh value added rather than crude invoice postcode data.

¹ McClelland Review (2012). *Maximising the Impact of Welsh Procurement Policy*.

² Welsh Government (2014). *Value Wales Drives Best Practice Procurement Across Welsh Public Sector*.



Procurement Policy Implementation

Welsh Government procurement policy requires a much broader understanding of outcomes. Currently procurement is an under resourced and largely unglamorous process in the public sector in Wales. Although there has been an increasingly high level interest in strategies around procurement, notably by Welsh Government, the actual implementation of these strategies and policies depends on comparatively few and fairly low-level procurement professionals across a diverse range of public sector organisations. Often decisions are heavily influenced as much by lowest cost as local benefits. As McClelland observed, the reality is that whilst many procurement officers are supportive of local businesses, they are judged by their success in saving costs.³

This has led to an inconsistent implementation of strategy across Wales and across public sector institutions. As well as the points made above regarding the need to improve statistical measures of procurement impact, we also believe that the weakest part of the Welsh Government's procurement is the point of its implementation. Welsh Government therefore needs to foster a more professional approach to procurement across the public sector in Wales, and to ensure that the basis on which procurement professionals are measured is consistent with its own policy. It should also be noted that feedback from FSB Wales members indicates that not all Welsh local authorities use the Supplier Qualification Information Database (SQuID), which was developed by Value Wales to standardise the selection process. As a result there can be inconsistency and multiple entry points for small businesses wishing to supply goods and services to the public sector across Wales.

In 2009, the 'Barriers to Procurement Opportunity Research' report recommended the establishment of an Ombudsman to 'bring about the speedy extra-legal resolution of complaints arising from the PQQ [Pre-Qualification Questionnaire] process which cannot be satisfactorily resolved between the parties'.⁴ FSB Wales would like to see a figure in place to resolve disputes such as these but for any such role to be widened to include a more general responsibility for ensuring best practice procurement policy is further researched, developed, disseminated and implemented.

Barriers to Small Businesses

Through our on-going discussions with small businesses in Wales, there is much reluctance to bid for public contracts. This tends to be a result of the real or imagined time commitment necessary to enter into the process. Often this is a perception rather than an actual experience, and Welsh Government needs to undertake work to actively promote small business engagement with public sector procurement. This is not to say that problems do not exist with Welsh public sector procurement. We believe that procurement processes should not be constructed in such a way that they deter small businesses from competing on a fair basis for public sector contracts.

In a paper to our Round Table Seminar Series in 2014, Dr Pedro Telles argued that where contracts fall below EU threshold values for advertisement, they tend to be commissioned privately⁵. This

³ McClelland, *op. cit.*

⁴ Ringwald, Cahill *et al* (2009), *Barriers to Procurement Opportunity Research*.

⁵ Telles, P. (2014). *Simplifying Procurement for Low Value Contracts*. FSB Wales Round Table Seminar Series.



means that it can be very difficult for new small businesses to effectively and fairly compete in the market. It is important to have a fair and open process for below EU threshold procurement as only about 24-25% of total procurement spends is above the threshold level. Since 2011 the UK Government has required contracts above £10k to be publically advertised, and although Welsh Government has followed suit it only requires advertising for contracts above £25k.

A further complication for small businesses in particular, is the multiplicity of procurement portals across the UK. Often these are also very poorly designed and unclear, particularly for small businesses that do not have dedicated employees to seek new contracts.

Strategic Outsourcing and the Economics of Place

Procurement continues to lack a strategic consideration of broader issues, and tends only to support specific functions. This is particularly noticeable in respect of strategic outsourcing of large projects or services. We are not aware of any examples where decisions over such outsourcing have supported community benefits approaches. Large non-Welsh companies continue, for example, to dominate externally procured social service and waste disposal contracts⁶. Welsh SMEs or Welsh businesses more generally tend not to feature at all in these contracts. Yet it is critical, with growing numbers of outsourced services, that community benefit and local small business contract awards are secured in order for Wales' dispersed communities to continue to be viable, as Adamson and Lang showed in their Deep Place Study of Tredegar⁷. It is clear we need a full and proper consideration of strategic outsourcing that has yet to take place. More evidence is needed around the economies of place. If the Welsh public sector does not improve its record of awarding large scale contracts to Welsh businesses, Welsh public money will continue to leave Wales.

Small Businesses are Critical for Local Economies

Although the underlying principles that focus on jobs for local workers and contracts for local businesses are clearly welcome, the Welsh community benefit policy tends in practice to focus much more on local job creation and not enough on locally procured contracts from small businesses. This is an important issue to rebalance, as small firms are consistently more locally grounded and tend to employ people more locally.

Previous work undertaken by the FSB with CLES (the Centre for Local Economic Strategies) showed that small local firms re-spend 63p locally out of every £1 they receive, whereas larger firms tend to spend 40p out of every £1 they receive. The FSB-CLES research found that across the UK small local firms generate 58% more economic benefit for local economies over two rounds of re-spend than large firms did. It also found that if local authorities alone increased their procurement spend in the local economy by 5%, it would increase the collective spend in local economies by £1.4bn per year.⁸ As we stated above, Value Wales and other public bodies are very poor at capturing this data, and reliance on postcode data is insufficient.

⁶ Adamson D. and Lang M. (2014). *Toward a New Settlement: A Deep Place Approach to Equitable and Sustainable Places*. (CREW: Merthyr Tydfil).

⁷ *Ibid.*

⁸ FSB and CLES (2013). *Local Procurement: Making the Most of Small Businesses, One Year On*.



It is important to state that we do not believe that in a small country like Wales everything can, or even should, be procured locally. A better balance needs to be struck, however, to support the ultimate aim of creating stronger distributed economies across Wales and support sustainable communities now and in the future. For this to happen we need a more thought out procurement approach, which creates local linkages between public sector organisations, local businesses and wider more strategic goals – we need whole place systems thinking. Small businesses can help deliver this public good, but Welsh Government needs to create a fairer market within which they can operate and compete for public sector contracts.



Federation of Small Businesses Wales

1 Cleeve House
Lambourne Crescent
Llanishen
CARDIFF CF14 5GP

Telephone: 029 2074 7406

Email: policy.wales@fsb.org.uk

Web: www.fsb.org.uk/wales

The Federation of Small Businesses Wales

The FSB Wales is non-profit making and non-party political. The Federation of Small Businesses is the UK's largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has 200,000 members across 33 regions and 194 branches. FSB Wales currently has around 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees meaning FSB Wales is in constant contact with small businesses at a grassroots level in Wales.

Lobbying

From the Press and Parliamentary Affairs Office in Cardiff, FSB Wales campaigns with AMs, MPs and MEPs in Cardiff Bay, Westminster and Brussels in order to promote our members' interests. FSB Wales also works closely with local, regional and national media outlets to highlight our members' concerns. Development Managers work alongside members in our regions to further FSB Wales influence at a regional level. More widely, the FSB has Press and Parliamentary Offices in Westminster, Glasgow, Belfast and Brussels to lobby the respective Governments.

Member Benefits

In addition, Member Services is committed to delivering a wide range of high quality, good value business services to members of the FSB. These services will be subject to continuing review and will represent a positive enhancement to the benefit of membership of the Leading Business organisation in the UK.

Vision

A community that recognises, values and adequately rewards the endeavours of those who are self employed and small business owners within the UK.

The Federation of Small Businesses is the trading name of the National Federation of Self Employed and Small Businesses Limited. Our registered office is Sir Frank Whittle Way, Blackpool Business Park, Blackpool, Lancashire, FY4 2FE. Our company number is 1263540 and our Data Protection Act registration number is Z7356876. We are a non-profit making organisation and we have registered with the Information Commissioner on a voluntary basis.