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Committee/Meeting: Scrutiny Working Group: Empowering SMEs	Date of Report: 15 March 2011	Classification: Unrestricted	Report No:
Report of: Richard Parsons, Service Head Procurement and Corporate Programmes Resources Ext 4608		Title: Procurement Support for SMEs Wards Affected: All	

1. **SUMMARY**

2. **RECOMMENDATION:**

The Scrutiny Working Group is asked to:-

- Consider and comment on the contents of this report.

3. **BACKGROUND**

- 3.1 The London Borough of Tower Hamlets spends almost £400million each year on a wide range of goods and services, currently using about 4,000 different suppliers. We see procurement as a key driver not only in achieving value for money and making important financial savings, but also in pursuing the Council's broader social aims.
- 3.2 A new Procurement team was formed in 2008, and a Procurement Strategy was agreed by Cabinet in 2009, encapsulating a programme of improvement initiatives, designed to get the best out of our external expenditure.
- 3.3 The Procurement Strategy explicitly recognises our obligation to local businesses and SMEs, as expressed by the following statements:
- "We will work with our major suppliers to encourage recruitment from the local community, and to use local businesses in their supply chains."
 - "Where appropriate, we will make contracting opportunities accessible to local small and medium-sized businesses, ethnic minority-owned businesses and the voluntary sector, and we will work with these organisations to help them to be fit to compete to do business with Tower Hamlets and other similar organisations."
 - "We will operate a mixed economy of high quality providers, and will provide positive support for local Small and Medium-Sized Enterprises (SMEs) and Black & Minority Ethnic (BME) businesses."

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- “[We] need to ensure that in the drive for savings and improved value for money, the Council’s social objectives – including support for local businesses - are nevertheless promoted through its procurement.”
- “We will seek to work closely with suppliers based in Tower Hamlets, and will develop targets for increasing the proportion of our business with local firms.”
- “The Council will maximise its options for purchasing from a diverse and competitive range of suppliers including minority businesses, voluntary and community sector groups, small firms and social enterprises.”

3.4 The accompanying Action Plan contains the following action:

- “Investigate and implement ways of boosting business with suppliers – particularly SMEs and BMEs – based in the Tower Hamlets area, including working with East London Business Place.”

3.5 It can be seen from the above that support for small businesses has been a recognised aim in the recent development of procurement strategies, with the clear emphasis on local suppliers. However, translating the good intentions into practice is sometimes more difficult than it would appear.

4. **PROCUREMENT PROCEDURES**

4.1 The Council’s Procurement Procedures were revised in 2009, in order to make them more simple and effective. The Procedures are based on the principle of obtaining best value for money from procurement expenditure. They lay down a framework for obtaining quotations and tenders, and complying with UK and EU law.

4.2 Procurement activity is largely devolved to the Directorates, with the Procurement Service having responsibility for policy and strategy, and overseeing the corporate contract programme. A Competition Board, comprising key Corporate Directors and Service Heads sets and monitors developments.

4.3 The mechanism for obtaining and demonstrating value for money is through competition. The Procurement Procedures lay down a series of financial thresholds, against which quotations and tenders must be obtained, starting at contracts less than £5,000 – for which just one written quotation is required – up to high value contracts for which formal processes laid down by the EU must be followed. It should be understood that the EU rules apply to the entirety of the Council’s expenditure, and any policy for supporting local or small businesses must recognise the rights inherent in the EU treaty: we cannot show preference on the basis of geographical location; decisions based on the size of an organisation must be demonstrably fair. We are unable therefore to implement a policy which overtly favours local or small businesses. There is, however, much we can do – and have already done - in working with such businesses to open up opportunities.

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5. **SUPPORT FOR SMEs**

5.1 Support for SMEs and local businesses to date has included the following.

- An alliance with East London Business Place (ELBP), a publicly-funded support service for local small businesses, which matches possible suppliers with contracting opportunities. Our work with ELBP involves joint workshops for suppliers on how to do business with the Council, attendance and presentations at various supplier forums, and posting of all contract opportunities with ELBP.
- An annual “Buy Local” event, with an open invitation to Tower Hamlets, giving the opportunity for local business people to hear about developments in the Council’s procurement, and the chance to meet Category Managers and others involved in the procurement process.
- Use of our internal “tollgate” process for all contracts over £250K, which requires contract owners to demonstrate that they have fully considered how to attract SMEs when planning contracts. This includes issues such as packaging contracts into suitably sized “Lots”, so that they are not out of the reach of small businesses, to ensuring that the supplier selection does not set unreasonable barriers to entry for small businesses, and the use of sub-contracting opportunities in the supply chain for smaller firms. This is backed up by scrutiny at the Competition Board, which challenges contract owners over various issues, including support for SMEs.
- A requirement for all low-value opportunities (below £25,000) to be sourced exclusively locally, using the CompeteFor site. This is an electronic business-to-business site, originally produced for opportunities linked to the 2012 Olympics, but subsequently rolled out to other public sector bodies. The Council uses CompeteFor as its standard medium for obtaining competitive quotations.
- All advertised contract opportunities appear both in East End Life and on the Council’s web site.
- New streamlined procurement procedures and a review of tender documentation, which will have reduced red tape, simplified tendering procedures and generally made it easier to do business with the Council.
- Our e-procurement solution, known as R2P, has achieved significant process efficiencies for the Council and our suppliers, and improved our payment performance. It also gives us the opportunity to identify SMEs and local suppliers moving forward, so that we can target them for attention.

6. **CONSTRAINTS**

6.1 A significant constraint to developing policies for working with smaller and local suppliers is the EU Procurement Directive. This requires public advertisement of all higher value contracts, and requires contracting decisions to be taken on the basis of “Most Economically Advantageous Tender”. It is therefore not normally possible, for example, to exclude larger suppliers, or to restrict business to local businesses. Although the legislation relates specifically to contracts over specified financial thresholds, case law has established that the principles of the EU treaty apply across the whole of the

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expenditure, and place restrictions upon our ability to favour SMEs in procurement.

- 6.2 However, we have worked hard to provide support for SMEs and local businesses, as detailed in paragraph 5.1 above. Our approach has largely been based upon providing access to opportunities, rather than seeking to provide preferential treatment. The exception to this is the requirement for all low value opportunities to be ring-fenced to local firms.
- 6.3 A further difficulty over the last year has been pressure upon the Procurement Service. We have suffered from absences in the two key senior posts responsible for development of procurement policy in respect of SMEs: I personally have suffered a lengthy absence since May 2010, due to surgery and treatment for throat cancer, and have still not resumed full duties; the post of Senior Procurement Manager (Development) has been vacant since last summer. These absences have meant that further policy development has been limited, and the focus has been on maintaining existing initiatives: building the links with ELBP, attendance at workshops etc.
- 6.4 The devolved nature of the Council's procurement means the measures we have put in place are implemented by practitioners across the Council. Although consultation takes place on all of the policies before they are agreed, the practical execution does sometimes present difficulties, which require resolution as a joint effort between the Procurement Service and the practitioners in the Directorates. The problems with resources in Procurement have meant that it has not been possible to follow up on some of the newer initiatives. For example, whilst Competition Board has agreed a policy that all quotations under £25,000 should be restricted to local suppliers, we have not yet been able to gauge the success of this measure.

7. **SPECIFIC QUESTIONS**

- 7.1 A number of specific questions were raised at a public meeting of the Scrutiny Working Group, and these are addressed below.

7.1.1 Can small businesses form alliances to win procurement contracts collectively, in competition with large corporations?

There is normally no objection to small businesses forming alliances to compete for work; indeed, in some cases, such as commissioning for Children's Care contracts, this has been positively encouraged.

7.1.2 Is there a possibility for the Council to improve its payment terms for small businesses?

The Council introduced R2P during 2010, which has improved our payment performance, with well over 90% of invoices now settled in less than 30 days. At the present time, there is no facility for segregating invoices from SMEs and paying them more promptly.

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However, R2P has now settled in, and this matter will be reviewed, to assess whether it is feasible to provide improved payment to SMEs.

- 7.1.3 Small businesses have difficulties funding from banks and insurance. Is there a possibility that the Council could support small businesses, for example, through providing references?

There would be no objection to providing such support as is reasonable and possible. For example, the Council would be willing to confirm to banks and insurers that a small business has been awarded a contract with the Council, and its estimated value.

8. OUTCOMES

- 8.1 We keep records of the value of business placed with local businesses. Unfortunately, at present, it is not possible to keep accurate records of the amount of business conducted specifically with SMEs and BMEs, although we are currently looking at how we can use R2P to record this information.
- 8.2 Expenditure figures for local businesses for the last two years are shown below. Note that the 2010/11 figures relate to a part year only, from April 2010 to end of February 2011. In this context “local” means businesses based in Tower Hamlets.

2008/09	£165m
2009/10	£171m
2010/11	£176m*

*Anticipated full year spend, based on part-year (10-month) figures.

- 8.4 This indicates that the expenditure with local suppliers has increased by approximately £11m, or 7% over the last three years. The current figure represents approximately 34% of total procurement spend. Whilst this is a substantial and valuable part of the total expenditure portfolio, it is intended that there will be a renewed focus on how we can support local small businesses moving forward.

9. RECOMMENDATION:

- 9.1 The Scrutiny Working Group is asked to:-
- Consider and comment on the contents of this report.

REPORT ENDS