

# SEC *briefing*

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Voice of the Specialist Engineering Contractor

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Plumbing and Heating  
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SELECT

## GIVING SMALL BUSINESSES GREATER ACCESS TO PUBLIC SECTOR CONTRACTS

Review by the Better Regulation Task Force and Small  
Business Council

For your information a major review of the opportunities available to small and medium-sized enterprises (SMEs) seeking public sector contracts has been carried out by the Better Regulation Task Force and the Small Business Council. These are independent bodies. The Review was titled, **Government: Supporter and Customer?** available on [www.brtf.gov.uk/taskforce/reports/smeprocurement.pdf](http://www.brtf.gov.uk/taskforce/reports/smeprocurement.pdf) and was submitted to the Chancellor of the Exchequer in May 2003.

### The Review is hard-hitting.

*"Small businesses are often described as the engine of the economy. So we were surprised at the extent to which they are overlooked in public sector procurement. To exclude them or to make it difficult for them to compete in public sector markets makes no sense at all, particularly when the Government spends £2.5 billion annually on small business support services. Including tax relief and grants the Government spends around £8 billion in total on supporting small firms. What it gives with one hand it effectively takes away with the other by denying small firms opportunities to sell to the public sector."*

(from the foreword to the Review by the Chairmen of the Task Force and Small Business Council)

The key message is that there must be a push from the highest level in Government to ensure that good practice – in relation to the treatment of SMEs – becomes common practice across the public sector. The public sector must take SMEs as seriously as it does larger suppliers.

## **Bigger is *not* Better**

The Review expresses great concern over the trend towards reducing the supplier base:

*"There is .....a growing tendency for the public sector to rationalise its supplier base, dealing with one prime contractor who then may or may not subcontract to others."*

### **RECOMMENDATION**

Where public sector procurers opt for prime contractors they should ensure that there is a business case for concluding that this will bring value for money. Prime contractors should demonstrate their track record in engaging with SMEs during the procurement process and as part of the on-going contract management.

Reliance on prime contractors and exclusionary arrangements such as framework agreements do not necessarily achieve best value says the Review since SMEs have much to offer such as:

- **Innovative solutions and products.**
- **Better customer care.**
- **More flexibility and responsiveness to changing needs.**

SMEs should not be excluded from public sector contracts because of "disproportionate costly processes". Furthermore, the preference for the "big safe name" is often misplaced since the big company may well sub-contract the entire package to smaller firm(s).

There should be more "transparency" says the Review about the business case for contract aggregation and the subsequent sub-contracting opportunities that may result.

### **RECOMMENDATION**

The Office of Fair Trading should carry out research by end 2003 to identify the characteristics of those markets where it is important to ensure that SMEs are able to compete to provide value for money. The impact of framework agreements and contract aggregation on SMEs should also be assessed.

**THIS RECOMMENDATION HAS BEEN ACCEPTED BY THE TREASURY**

## Getting Information about Contract Opportunities

Getting information about contract opportunities within the public sector is difficult. The European Union (EU) requires that contracts for construction works valued at more than £3.8m must be published in the Official Journal of the European Union. But if the public sector wants its contracts to be awarded on value for money it must ensure that information about contracts, especially those beneath the EU threshold, is available to SMEs.

### RECOMMENDATIONS

- The Department of Trade and Industry to adequately resource the “Supplying Government” web portal project. The portal should advertise lower value contracts from across central government with a named contact. The portal should be set up and piloted by spring 2005.
- Government Departments and local authorities should list details of prime contractors and contracts on their websites to make sub-contracting opportunities more transparent to SMEs.
- The Office of the Deputy Prime Minister and Local Government Association to encourage local authorities to develop “selling to the council” websites by 2005 to include information on contracts with a named contact for each advertised contract.

## Taking Advantage of Supply Chain Opportunities

The regional development agencies (RDAs) – funded by the Government – should be encouraging and supporting local businesses. They should search the contract award notices to alert local businesses to relevant “sub-contracting opportunities”. RDAs should be promoting the formation of supply chains to respond to opportunities offered by major procurement programmes.

### RECOMMENDATIONS

- The Small Business Service (responsible for keeping the Government informed of small business issues) should provide advice and training for SMEs to compete in the public sector market. Business Link Operators should deliver this by 2004

### THIS RECOMMENDATION HAS BEEN ACCEPTED BY THE TREASURY

- By Spring 2004 RDAs should be working with prime public sector contractors to develop opportunities for SMEs.

## Pre-Qualification

The Review condemns the volume of information required by public sector bodies for pre-qualification purposes and the numerous ways in which information is asked for. Pre-qualification questionnaires represent a huge overhead for SMEs.

Concern is also expressed in the Review over requests to firms to provide bonds which, again, could hinder them in competing for public sector contracts.

### RECOMMENDATION

The public sector should develop a common core pre-qualification information document for lower value contracts so that SMEs do not have to put together different information in different formats to get past the expression of interest stage. The Office of Government Commerce and the Office of the Deputy Prime Minister (working with the Local Government Association) should develop and pilot this by Spring 2004.

**THIS RECOMMENDATION HAS BEEN ACCEPTED BY THE TREASURY**

## Late Payment

Local authorities have a performance indicator to pay within 30 days from the date of receipt of invoices. The target for 2001 – 2002 was 97.5%. The Review disclosed that none of the London Boroughs had achieved this target – payment rates varied between 60.2% and 88.14%.

### RECOMMENDATION

A wider use of the Government Procurement Card (a charge card issued by the main banks) to improve prompt payment by 2003.

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But, these figures do not reveal the whole story. Often invoices and applications for payment are left on desks for weeks before the payee is informed that they are invalid or that there is a query with them. Suppliers should be informed within 5 days of receipt of an invoice or application that it is being disputed. The Review expresses a major concern over poor payment practices operated by prime contractors. Reference is made to the abuses associated with the practice of retentions and the report of the Trade and Industry Committee suggesting that retentions should be phased out. Public sector procurers should insist in their contracts with large suppliers that interest is paid to sub-contractors in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 (Treasury has issued guidance to Departments to this effect).

### RECOMMENDATION

Public sector procurers should ensure that prime contractors pay sub-contractors on time and that when paying progress payments they should ensure that the payments flow down through the supply chain.