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## **CBI Submission to the Assembly Finance Committee: SME's and access to Public procurement, February 2009**

### **Introduction**

- 1 CBI Northern Ireland welcomes the scrutiny of public procurement policy and practice being undertaken by the Committee for Finance and Personnel. This is a matter that has been of interest to CBI Northern Ireland for some time.
- 2 During 2008, CBI Northern Ireland undertook a major survey of private sector attitudes and experiences of public procurement in Northern Ireland. Since then CBI NI has been engaging with the Central Procurement Directorate (CPD) and other agencies to assist in the continuing development of public procurement policies and practices with the objective of developing structures and processes that are 'world class' and deliver value for money to the taxpayer in an efficient and effective manner.
- 3 In analysing the CBI Northern Ireland survey results, a comparison was made of responses from SME's (identified as employing less than 50 people) and larger companies. Given the importance of the SME's to the economy of Northern Ireland and the emphasis given to the establishment and growth of SME's by a number of government agencies, further consideration of the matters concerning SME's is given here.
- 4 It will also be of interest to the Committee that the contribution of SME's to public procurement in Great Britain has also been the focus of a recent study. The Scorecard Working Party is a joint initiative between the British Private Equity and Venture Capital Association [BVCA], Federation of Small Businesses [FSB] and the CBI, with a report '*Evaluating SME experiences of government procurement*' published in October 2008.
- 5 This submission draws largely on the results of the CBI Northern Ireland survey, published in July 2008, but is also supplemented by evidence from the report of the Scorecard Working Party – there are many similarities in the issues identified.

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## Key Points emerging from CBI Northern Ireland public procurement survey 2008

- 6 One hundred and fifty-seven suppliers completed the CBI Northern Ireland public procurement questionnaire in mid 2008. The key findings are highlighted below:
  - **61% of respondents do not think public procurement is resulting in value for money, compared with 16% who do. Some 64% of respondents feel that further fundamental changes are required**
  - **Over 66% of respondents have experienced slight or significant increases in bidding costs over the last five years – with 57% believing high bid costs are preventing greater competition**
  - **49% of respondents describe the commercial skills of public procurement professionals as poor or very poor, while only 12% describe them as good or very good**
  - **76% of respondents have experienced delays in the procurement process**
  - **46% of respondents find it difficult or very difficult to obtain information on forthcoming tenders – 92% of companies support the development of a web portal for all NI procurement**
  - **While only a third of respondents have experience of public procurement in Great Britain, very few felt the process was easier in NI while around a half felt it was more difficult**
- 7 The recommendations arising from these results, developed following discussions with CBI members, are designed to improve value for money, and cover three broad areas:
  - **A reduction in bidding costs** – with two thirds of respondents experiencing slight or significant increases in bidding costs over the last five years, there is a need to reduce information demands, ensure greater standardisation in approach across government departments and agencies, and a need to improve project specifications (identified as a key cause of high bid costs). High bidding costs deter competition and add to the overall costs of procurement.
  - **Government becoming a world class client** - most survey respondents believe procurement processes in Northern Ireland are average or good but experiences vary considerably, and typically 25-30% of suppliers describe their experiences as poor or very poor. Many suppliers remain concerned that there remains too great a focus on lowest cost rather than on value. A major issue identified for improvement is the need to improve the commercial skills of public procurement professionals ie those skills necessary to be able to make and complete deals - almost half of suppliers describing these skills as poor or very poor. Other recommendations include the need to consider some longer timescales for tendering and a reduction in procurement delays (experienced by 76% of respondents).

Suppliers in general have welcomed the move to more electronic procurement methods. However they also are seeking better feedback mechanisms, though many do not appear to be aware of the mechanisms which currently exist.

- **Improvements in information provision** – with just under half of respondents finding it difficult or very difficult to obtain information on forthcoming Northern Ireland tenders more effort needs to be put in to addressing this issue. Over 90% of respondents believe a web portal for all Northern Ireland procurement should be established as soon as possible.

With a UK public procurement market of over £120 billion and a multi-billion market in the Republic of Ireland and mainland Europe many companies would welcome assistance in addressing key barriers including the provision of information on public procurement opportunities, processes and market intelligence. In this respect we believe Invest Northern Ireland should develop a strategic approach to helping this 'sector' access external markets, building on their existing successful activities eg in highlighting opportunities relating to the 2012 Olympics. Some 72% of respondents would like to see the Northern Ireland web portal with links to other external public procurement markets

Addressing all three areas is likely to have a disproportionately positive impact on SMEs.

- 8 The CBI is keen to highlight that progress on a number of these issues is being made. CBI members have engaged with the CPD, and Centres of Procurement Expertise to discuss the findings and a series of actions have been agreed. Other initiatives have been under development are in the process of being run out:
- CPD are currently reviewing the scale and format of information required on company profiles and generic information, with the aim of standardising the requirements to reduce bureaucracy and bidding costs
  - CPD and Centres of Procurement Expertise are continuing to develop and rollout e-Sourcing to improve the visibility and accessibility of public procurement opportunities
  - CBI is assisting the procuring bodies in defining the attributes of a 'world class' client to enhance procurement standards and focus on 'value for money'
  - CPD, Centres of Procurement Expertise and the CBI have agreed to meet again in the near future to review progress and maintain the open and constructive dialogue for mutual benefit

## **General Remarks on SMEs and public procurement**

- 9 The CBI supports an open, fair, transparent and competitive market for public procurement for firms of all sizes. The CBI believes the best way to increase SME involvement in public procurement is to continue to remove barriers to access, particularly looking at the disproportionate burden of bureaucracy and bid administration procedures (and costs) which weigh heavily on the SME community, as well as increasing awareness of opportunities of public contracts. With regards to SMEs involvement in public procurement we would make the following comments:

- The setting of a mandatory target for the level of SME involvement in public procurement risks distorting a competitive market and may not result in the desired outcome.
- The key criteria for awarding contracts must always be best value, but public sector procurement practices should do more to increase competition and innovation, and seek to promote more sustainable development
- More thought needs to be given at the outset, both in terms of the tender specifications and the criteria to be used to evaluate tenders, to ensure that these are not unduly onerous and acting as a barrier to SME participation in the tender process
- Government should consider the impact on SME's of late payment by public purchasers and encourage all public purchasers to ensure they are paying on time, particularly in the current economic and financial climate. There has been a commitment to pay invoices within 10 days – what we need is evidence from across the public sector that this is being delivered
- An assessment of the availability of finance to those SME's seeking to provide public contracts ought to be made. The current financial environment has reduced the borrowing capability of many SME's, with increasing concerns about access to working capital. While the UK government, and the Northern Ireland Executive, has been encouraging banks to lend to SME's, it is not clear what impact the current 'credit rationing' is having on SMEs involved in public procurement contracts.
- For large projects we need to recognise that many SMES will become involved in public procurement through acting as sub-contractors

10 There is also an onus on SMEs themselves to ensure they are taking the necessary practical steps to improve their prospects of winning public sector contracts including:

- Investing time in identifying useful appropriate opportunities – they need to be selective
- Being prepared, and ensuring the company is 'clued-up' on the requirements expected from tenderers
- Engagement with target clients – developing relationships and knowledge of clients needs will help position the company for upcoming tenders
- Make use of existing support schemes
- Be diligent at meeting procurement specifications, ensuring they meet all the criteria and accurately reflect this in their proposal
- Promote themselves as innovative, but also expert in their field, to ensure they are not perceived as too risky
- Be prepared to act as subcontractor, or indeed develop partnerships with other organisations in the bidding process (good preparation and intelligence of market opportunities will assist here)
- Deliver high quality services on existing contracts.

11 For large scale public sector infrastructure schemes (as exist under the Investment Strategy for Northern Ireland) it is essential that the taxpayer achieves maximum value for money. This is likely to be achieved by larger firms who have recruited, trained and invested in the necessary resources, though clearly SMEs must be given opportunities to develop their capabilities over time. Larger schemes should be awarded on the basis of selection of the contractor team that has demonstrated that it can add most value to the project. Frameworks (whereby a cluster of schemes of a similar nature/value are bid for by a small number of framework contractors) will maximise the benefits to the client, keep bid costs to a minimum and reward good performance by the contractor and his supply chain.

## **Responding to the specific issues raised in the Terms of Reference**

12 The rest of our response is formatted to address the issues identified by the Committee in the terms of reference to their inquiry. Our comments, drawing from our evidence base, are restricted to SME's, as we have little knowledge of the issues facing social enterprises, though we expect many of these organisations will face similar challenges.

### **Examine the experience of SME's and SEE's in tendering for and delivering public contracts.**

13 The results of the CBI NI survey may be distilled down to three core areas for improvement:

- a. Reducing bidding costs (excessive documentation and simplifying the process)
- b. Enhancing skills of those involved in the procurement process
- c. Improving information provision regarding tender opportunities

14 It is important that those engaged in spending public monies are seen to be doing so in an appropriate and fair manner. This requires that the supplier provide a level and detail of information to the procuring body to enable informed and accurate decisions to be taken. However, the level of information required should be proportionate to the scale of the procurement. With limited resources, SME's in particular face difficulties in completing lengthy, complex and duplicated procurement responses.

15 The limited resources of SME's also make it difficult to compile comprehensive tenders within a short period. A longer timeframe in which to compile tenders would be beneficial in enabling more SME's to make submissions and complete submissions to a higher standard. The CBI Northern Ireland survey revealed the top reasons (prioritised in order of importance) for high bidding costs as being:

- Too much information requested / duplicated (over half of respondents identify this issue as a cause of high bid costs)
- Short timescales to submit tenders
- Absence of a standardised approach

- Inadequate specifications (30% of respondents identify this issue a cause of high bid costs)
- 16 Setting targets, whether aspirational or mandatory, for small firms to win a set percentage of the total value of public spending has been suggested in some quarters. It is the CBI opinion that this risks distorting a competitive market and in some instances would contravene EU public procurement rules. However the first step may be an analysis of the size of companies completing tender applications as well as an assessment of the success of SMEs in winning tenders. The CBI believes the best way to increase SME involvement in public procurement is to increase awareness of opportunities and to continue to remove barriers to access. A reduction in procurement 'bureaucracy' leading to reduced bidding costs is a fairer and more deliverable way of increasing SME involvement than setting targets – indeed CBI evidence suggests that in Northern Ireland the 'bureaucracy' is higher than in GB. Targets are also difficult and costly to administer and monitor by already overstretched procurement staff.
- 17 Most respondents to our survey rated the procurement processes as average / good but there is a wide range of experience across all procuring agencies from very poor to very good. However, while the processes were generally rated average / good, the survey highlighted concerns with the procurement and commercial skills of some of those in the public sector engaged in the procurement process. Just under half of respondents (42% of small companies) described the commercial skills of public procurement professionals as poor or very poor, while only 12% describe them as good or very good. This is a key issue for the business sector as it often results in delays, changes and additional cost in the process. It does raise the issue about whether procurement expertise is being spread too thinly across a wide range of procuring bodies and if a more integrated and co-ordinated approach is needed. The CBI would also be keen to see more exchanges and secondments between the private and public sectors as means of improving procurement capabilities, and developing greater commercial awareness within public procurement agencies.
- 18 A core strength of many SME's is the ability to bring innovation solutions and flexibility to the market, yet many feel that this is not adequately recognised in the assessment of tenders. 49% of SME respondents felt that government is not doing anything to encourage innovation through the procurement process, with 40% perceiving only a little improvement, with many feeling that 'lowest cost' rather than 'best value' remains the baseline on which tenders are assessed. 64% of SME's feel public procurement does not result in good value for money for the taxpayer, against 55% of large companies
- 19 Despite a number of recent welcome improvements, 46% of SME's report it as difficult or very difficult to obtain information about procurement opportunities. Only 10% report it as easy or very easy. We acknowledge that Invest NI and others are providing education and support in this area but would recommend that further coordinated efforts be made to inform and encourage SME's in relation to procurement opportunities. Many companies appear to be unaware of what help and guidance is available to them. As stated elsewhere the development of a webportal for all Northern Ireland procurement would be welcomed by almost three-quarters of suppliers.

20 This is not an issue specific to Northern Ireland. The UK research completed for the Scorecard Working Party revealed the following responses from SMEs to the question *“What are the main barriers preventing your organisation being fully aware of government procurement opportunities?”*:

- 77% identified lack of knowledge of information sources
- 66% stated lack of time to search for opportunities
- 61% stated they were not sure which source of information to use and
- 59% stated that documentation is confusing when they do get access to it

**Consider the nature, extent and application of social clauses within public contracts.**

21 The CBI supports the use of public procurement to meet wider environmental and social policy goals, but only where such criteria are directly relevant to the contract.

22 It is appropriate that the Northern Ireland Executive would wish to apply social and environmental policies through the procurement process, within EU legislation. The public sector needs to have processes that enable them accurately and fairly to discern, for example, whether those bidding for contracts are complying with equality, health and safety and environmental legislation. That said, a proportionate approach is needed, particularly in relation to SME's. The public procurement body needs assurance that the potential supplier is in compliance, but should avoid overburdening firms with requests for unnecessary information and irrelevant compliance standards.

23 The requirements attaching to large scale procurements might be expected to be different from those applied to small scale short term contracts. It is therefore important that procuring bodies set the procurement proposal at the correct level, for example, will a single large scale contract be more appropriate to achieving the policy and procurement objectives or would several small scale contracts provide better 'value for money'. Large projects may bring greater scope to introduce specific social related policy objectives.

24 We consider that there should never be a competitive advantage for a bid that kept costs unduly low by cutting corners through non-compliance with basic legislation but, on the other hand the standard set by the procuring body should be realistic and appropriate to the scale of the contract.

25 It is therefore of important that the process be transparent. Transparency is important, not just to ensure the fairness of the process and adherence to the principal of 'value for money', but to restrain attempts to achieve too many policy goals through the procurement process which could undermine value for money. Such an inclination can only unbalance the process with the danger that policy goals take over from procurement needs. Not every public policy can, or should, be taken into account in procurement.

26 As noted above, where social and environmental policies are taken into account, they must be appropriate to the scale of the contract and be clearly identified and understood at the outset of the contract. The CBI has welcomed the publication in 2008 by the Equality Commission and the Central Procurement Directorate of the

*'Equality of Opportunity and Sustainable Development in Public Sector Procurement'*, setting out key principles and policies for integrating sustainable development issues into procurement policies across Northern Ireland departments and agencies – effective implementation of this guidance is essential.

### **Identify issues to be addressed and which are within the remit of the DFP.**

27 The CBI Northern Ireland survey highlighted a number of issues which will help SMEs compete more effectively for public procurement contracts. These are briefly itemised here:

- Reduce information demands. These have been described as excessive, too detailed and requiring duplication.
- Ensure greater standardisation. Businesses applying for public work across a number of procurement bodies are faced with different requirements and formats, even for submitting the most basic company information, all of which adds to bidding costs.
- Allow additional time for submission of tenders. Additional time would allow greater scope for SME's with limited recourses to submit tenders. Companies report that often the minimum possible response time becomes the norm for procurements. In practice this might mean providing an additional week for suppliers to respond to tenders
- Improve specifications. Inadequate, poorly defined and changing specifications are identified as a key cause of high bid costs and difficult relationships through the term of the contract.
- Improve skills of public procurement professionals. There is a need for enhanced commercial skills within the procurement bodies. Senior staff should be pro-active in monitoring staff performance in this area and providing professional development opportunities for staff. Procurement staff also need to develop their understanding of the market to enable a more efficient specification of procurement requirements.
- Improve access to information. Work is underway in this area, but there should be continuous engagement with business to ensure companies are aware of the changing electronic information environment and how to access it. However, the importance of personal contact should not be overlooked. The need for business in general and SME's in particular to come together to discuss issues with procuring bodies cannot be overstated.

The Minister of Finance and Personnel chairs the Procurement Board. Ensuring consistent policies and practices across all eight Centres of Procurement Expertise is essential.

### **Assess progress of DFP in achieving associated objectives and targets, including those contained in the Programme for Government and related PSAs**

28 CBI Northern Ireland has not had an opportunity to assess the progress of DFP, nor indeed other government departments and agencies in improving public procurement processes against their PSA targets.



## **Key recommendations for improvements to public procurement policies and processes, aimed at increasing access to opportunities for SME's and SEE's**

- 29 A number of recommendations have already been set out, drawing on the detailed survey, analysis, and discussions with CBI member companies in the course of last year. We believe it is important for the Committee to note that following the publication of the results of the survey, CBI Northern Ireland, CPD and others have been actively engaged in a process to bring further improvements to the public procurement processes, including discussions to address many of the issues raised here.
- 30 Discussions, begun in September 2008, resulted in agreement on a series of Action Points. Progress on these Action Points will be reviewed at the end of April 2009. Indeed as part of the need to raise awareness of the changing policies and opportunities for SMEs in the public procurement market in Northern Ireland and in external markets, the CBI is organising a major Procurement Conference on 5<sup>th</sup> March. This conference is designed to assist large and small companies understanding the procurement processes including recent changes in policies and practices in Northern Ireland, as well as provide extensive networking opportunities with representatives from the Centres of Procurement Expertise.
- 31 More widely the CBI believes there is a significant economic development opportunity in encouraging Northern Ireland based suppliers to access public procurement markets outside of Northern Ireland. Much progress has already been achieved - local companies can - and are - winning very worthwhile business particularly in Great Britain and the Republic of Ireland. In 2007, for instance, 55 Northern Ireland companies secured tenders for significant projects worth more than £264 million, assisted by Invest NI. We believe a more concerted and strategic approach to helping local companies win in these external markets will be worthwhile. The opportunities offered in external public procurement markets will also feature in one of the sessions at CBI's Public Procurement Conference on 5 March.
- 32 In conclusion, CBI Northern Ireland welcomes the focus being given to the issues of SME access to public procurement by the Finance Committee. Public procurement has a vital part to play in developing a sustainable economy while it is important that it provides value for money within an efficient, fair, standardised and robust framework.

### References:

1. Public Procurement – delivering value for money. Findings from a CBI Northern Ireland Survey, July 2008.
2. Evaluating SME experiences of Government procurement. A report of the Scorecard Working Party, October 2008.

CBI Northern Ireland  
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