

By: Mark Dance, Cabinet Member for Economic Development
Barbara Cooper, Director, Economic Development

To: Economic Development Cabinet Committee – 3 December 2013

Subject: Supporting Kent Businesses through Procurement

Classification: Unrestricted

Electoral Division: All

Summary:

This report highlights the progress made by the County Council to date in supporting Kent businesses through procurement, and provides an update on proposed future developments.

Recommendation:

The Cabinet Committee is asked to NOTE and COMMENT on the actions set out in this report for supporting Kent businesses through procurement.

1. Introduction

1.1 With an annual spend of £230 billion; public sector procurement has the potential to create significant business and growth opportunities through increased participation by small and medium sized businesses (SMEs), as well as improving the public sector's access to SMEs' creativity and innovation.

1.2 SMEs are an important engine for growth, both nationally and for the Kent economy. Over 99% of the UK's 4.8 million businesses are SMEs (less than 250 employees), and are responsible for over 14 million jobs and for almost half of the net growth in jobs since 2011. In Kent, the proportion of SMEs is similar to the national figure: however, the really telling statistics are that 98% of the county's 50,600 businesses have less than 50 employees, and 89% have less than 10 employees. Kent is predominantly a small-business economy.

1.3 There are also many examples of small suppliers delivering significant benefits to the public sector through greater innovation and at comparatively a lower cost base than larger businesses. Recent data from the Office of National Statistics Annual Business Survey 2012 shows that, on average, SMEs create around £34 of gross value added to the UK economy for every £100 of turnover, while the comparative figure for large businesses is £27.

1.4 Despite this, historically small and medium sized businesses have found that bidding for public sector contracts can be over bureaucratic, time-consuming and expensive. This has been recognised most recently by Lord Young's report, *Growing Your Business*, published in May 2013, and by Lord Heseltine's report *No Stone Unturned* which was published in March 2013.

2. KCC's approach to procuring goods, services and works

- 2.1** The County Council's procurement processes have been transformed over the past couple of years. This has a key focus on supporting Kent businesses, and recognises the need to be open, transparent and proportionate in order to reduce barriers to entry for small and medium sized businesses and social enterprises. This approach has been developed in consultation not only with KCC directorates but also with Kent businesses and with organisations such as the Federation of Small Businesses (FSB).
- 2.2** Following its recent report, *Local procurement: making the most of small businesses*, the FSB has produced a charter designed to promote positive procurement between small businesses and local authorities. The charter sets out 15 best practice recommendations to encourage a better procurement process for local small firms (see Appendix 1). The approach to procurement now taken by the County Council is consistent with the charter's recommendations.
- 2.3** The benefits of procuring from local suppliers and contractors, in particular small businesses, are also consistent with *Delivering Bold Steps* in terms of increasing value through procurement and managing risk as well as supporting Kent's business.
- 2.4** For all procurements over £50,000 in value, it is a County Council requirement that a procurement plan must be prepared (see Appendix 2). The plan has a wide ranging check list of requirements that include Social Value and how the procurement will support Kent businesses. Procurement plans that are in excess of £1 million must be approved by Procurement Board, which comprises Members and Senior Officers.

3. Spend analysis

- 3.1** The County Council now has a target of 60% for contract expenditure with first and second tier Kent businesses (where second tier comprises sub-contractors or suppliers to the main contractor that KCC is paying directly). Performance against the target is measured annually using spend data that is analysed by an external data specialist (Atamis) and matched to supplier information. In 2012-13 for example, KCC's expenditure with Kent suppliers (first tier) was £571million, which represents about 58% of contract expenditure. Using an assumption that that a further 10% of contract spend is going to sub-contractors or local suppliers in the second tier, then it is likely that the target of 60% will have been exceeded.
- 3.2** It should be noted that the increased use of Kent suppliers and contractors is due partly to the consideration of contract size and breaking down procurements into packages that not only deliver value for KCC but also enable small and medium sized businesses to compete. Indeed, the analysis by Atamis of 2012-13 spend by KCC, as shown in the table below, indicates that about 77% of the value of KCC contracts were secured by SME's. This is to be welcomed.

Size of business	Spend (£m)	%
Large (over 250 employees)	129.3	22.8
Medium (51-250)	186.1	32.8
Small (21-50)	124.8	22.0
Micro (less than 20)	96.3	17.0
Individual (1)	31.5	5.6
	568.0	100.0

4. Engagement with Kent businesses

- 4.1** Engagement with potential suppliers is carried out on a project by project basis. Supplier engagement events are undertaken for all major procurement activity, and SMEs and social enterprises are invited to attend so that where appropriate businesses can be encouraged to work together in consortia.
- 4.2** The County Council has also developed the Kent Business Portal (www.kentbusinessportal.org.uk) which is intended to advertise tender opportunities with not only KCC but also several of Kent district councils, Medway Council and the Kent Fire and Rescue Service.
- 4.3** The Portal will also allow its main contractors to advertise sub-contract opportunities, and this will allow SMEs to see sub-contract opportunities on larger projects that might otherwise be out of their reach. In early November, KCC Economic Development sponsored the Kent Construction Expo in association with the Kent Invicta Chamber of Commerce. One of the main highlights of the Expo event was the showcasing of the developing Business Portal and an opportunity for small businesses to have face to face meetings with most of the major companies that have recently secured large contracts with the County Council.
- 4.4** It should be noted that KCC now has a growing supplier base of local small and medium sized businesses that are increasingly successful in winning a good proportion of County Council and other public sector contract opportunities. This is shown in the diagram above. The County Council will also continue to engage with local businesses through trade bodies, FSB and other local business groups.
- 4.5** KCC also provides feedback to all suppliers, as required under the Remedies Directive, but will spend additional time where requested with small businesses and social enterprises to help ensure that their tendering capability might be improved for future procurement calls. We are also considering providing training for small businesses during the next 12 months.
- 4.6** Payment practices have traditionally been a controversial area for local authorities. The County Council will usually contract on 30 days net payment, but now has a target of paying contractors in 14 days which has been delivered in 90% of contracts. KCC also has clauses in its contracts to require contractors to pay their subcontractors/suppliers in a timely manner. However, there is

always room for improvement and the need to improve monitoring and ensure that compliance is recognised.

5. Financial and legal implications of supporting local businesses

- 5.1** In following a policy of supporting smaller Kent businesses in its approach to procurement it might be argued that KCC is missing out on economies of scale. However, in considering our procurement plans we look at the benefits of aggregation against letting contracts in smaller packages. This is because aggregation does not always result in better value, and each procurement needs to be assessed in its own right.
- 5.2** The Federation of Small Businesses, in its document *Making the most of small businesses, one year on*, states that every pound spent with a local small or medium sized business will generate an additional sixty three pence of benefit for the local economy. If this is the case then there is a good argument from a wider strategic view to spend both locally with Kent based smaller businesses. Furthermore, evidence provided by FSB also suggests that smaller local businesses are often more agile and have lower overheads than much larger businesses.
- 5.3** In supporting local businesses in its approach to procurement, the County Council needs to comply with EU and Council regulations.

6. Conclusions

- 6.1** KCC has been working to support Kent business and is performing fairly well achieving 58% of expenditure with Kent business, but this work needs to continue and further effort will be put into sub-contractors and training in the future.

7. Recommendations

- 7.1** The Cabinet Committee is asked to NOTE and COMMENT on the actions set out in this report for supporting Kent businesses through procurement.

Author Contact Details:

Name: Henry Swan, Head of Procurement
Directorate: Business Strategy and Support
Telephone: 01622 696637
Email: henry.swan@kent.gov.uk

Background Documents:

None