

Improving procurement



The opportunity

The public sector spends approximately £268 billion per year, equivalent to 14 per cent of GDP. Taking a strategic approach to government procurement presents the opportunity to support investment in innovation and skills; strengthen UK supply chains; and increase competition – in particular by creating more opportunities for SMEs.

This means creating the right conditions to put UK supply chains in the strongest possible position to compete for contracts on the basis of best value for the taxpayer. The public sector can use its demand – particularly when its needs are novel or complex – to drive innovation from industry, stimulating and accelerating the development of new and transformational products and services. We have committed to raise SMEs' share of central procurement to one-third and to ensure all major government suppliers sign up to the Prompt Payment Code, promising to pay suppliers, including small businesses, promptly and fairly.

Other countries, such as the United States, have engaged with procurement in this way to help drive innovation in both the public and private sectors, through programmes like the Small Business Innovation Research programme⁸⁸. The US Small Business Administration has helped ensure that new businesses and SMEs are able to compete for government work. These policies have helped nurture small businesses and grow new innovative businesses in the US.

The challenge

Procurement policy is currently heavily shaped by European Union law, with many procurements required to go through the EU's standardised process (OJEU) if they are above certain size thresholds.

There are also domestic barriers which can hold back procurement of innovative products and services in the public sector.

Historically central government has had limited visibility of the supply chains of the key companies it contracts with, so it has lacked a full view of the impact of its procurement decisions on UK supply chains. We are taking action to improve this, but there is more to do.

Our approach

To address this challenge, we will focus on the following areas:

- stimulating innovation through government procurement;
- supporting economic growth through better procurement practices through a “balanced scorecard” approach;
- procurement in key industries like health and defence where Government's role as customer provides unique opportunities to achieve wider benefits through procurement; and
- transforming digital procurement.

1. Stimulating innovation through procurement

The Small Business Research Initiative (SBRI) is an existing programme which has enjoyed some limited success⁸⁹ in addressing the barriers to innovative public procurement. It provides competition-based opportunities for companies to develop innovative products for the public sector. Companies retain the intellectual property rights of products developed and can commercialise them more widely.

However, the US equivalent of this programme, which inspired the creation of the SBRI, has supported a wider range of innovations that have gone on to be commercialised, and has aided the growth of major US technology corporations such as Symantec and Qualcomm by providing funding at an early stage of their development.

David Connell is currently leading a review to consider how to improve the UK SBRI in light of the US scheme, considering how we can increase its impact and give more innovators their first break.

One option may be to extend the scheme to new parts of the public sector. In Wales, local government dedicated innovation budgets have been used to deliver specific outcomes.

The Government will publish new guidance for public buyers on how to drive innovation including:

- effective pre-procurement market engagement to ensure there are optimal opportunities for dialogue with potential innovative suppliers on how best to deliver government's requirements or address a policy challenge;

- designing procurement in a way that stimulates innovation through outcome based specifications – allowing for the broadest range of ideas to be proposed and optimises the scope for innovative or alternative solutions;
- including regular “innovation review points” within contracts so that contractors are continually incentivised, through a benefits-sharing mechanism, and the use of contract extensions for positive innovation results, to identify innovative solutions to add value or make cost savings; and
- ensuring intellectual property is held by the party best placed to exploit it (which may often be the supplier).

2. Supporting economic growth through better procurement – the balanced scorecard

The Government is building on good practice adopted in major infrastructure programmes such as Crossrail by encouraging those buying goods and services to take account of social and economic factors when designing their procurements. This should help UK-based suppliers compete effectively for government contracts throughout the supply chain, encourage innovative solutions, and maximise the positive impact of public procurement on strengthening the economy.



We are going further by ensuring that all major government procurement projects are structured in a way that supports productivity improvements, so that UK-based suppliers are in the best position to compete for contracts throughout the supply chain. To do this, we are extending the “balanced scorecard” approach recently developed by the Cabinet Office across all major construction, infrastructure and capital investment projects over £10 million, including those in the National Infrastructure and Construction Pipeline, which was published in December 2016. We will introduce a reporting mechanism to provide assurance that the scorecard approach is being adopted effectively, and to hold departments to account. We will also ensure there is a lead Minister in each department responsible for driving the growth agenda.

The Government has already committed to a challenging target to ensure a third of its total procurement spend is with small businesses by 2020 (directly and indirectly through supply chains). All departments now have small business plans, including reporting

commitments through their Single Departmental Plans. A Small Business Crown Representative has been appointed to help more small businesses supply to government. And we have established a new Small Business Panel to work with senior procurement officials to identify and tackle the remaining barriers to SMEs.

To support this, we will continue to take action to cut out unnecessary bureaucracy in central government’s procurement process. For example, the Government’s central purchasing body, the Crown Commercial Service, is simplifying its tender documents, contractual terms and conditions, and removing the requirement for suppliers to submit the same information every time they apply for a tender. Initiatives like Defra’s 2014 Plan for Public Procurement of Food and Catering Services are opening up the market to more SMEs and local producers.

The Government has also acted to assist small business in public sector contracting by:

- banning burdensome pre-qualification questionnaires in lower value contracts and introducing a standardised approach in higher value procurements;
- creating greater transparency by ensuring that public sector contracts are advertised on the Contracts Finder website; and
- ensuring payment of undisputed invoices in no more than 30 days.

We will also trial the gathering of supplier and product feedback in public sector procurement. This ratings and feedback information would be available to purchasers and users across the public sector, helping them to make better procurement decisions. There is evidence from consumer markets that such mechanisms encourage greater consideration of less well known businesses and SMEs.

3. Procurement in key industries

In a number of sectors, such as health and defence, the Government is often the main customer, as well as the regulator. This presents a unique opportunity for it to drive improved outcomes, particularly around innovation and technology adoption.

Defence

The 2015 Strategic Defence and Security Review introduced a new National Security Objective of “promoting our prosperity”. It also committed the Ministry of Defence (MoD) to: refresh the Defence Industrial Policy; publish a new National Ship Building Strategy; support innovation; take action to enable SMEs and non-traditional suppliers to bid for defence and security contracts more easily; enhance support for exports and train at least 50,000 apprentices in Defence by 2020. We are making progress on all these commitments.

- **Defence Industrial Policy Refresh:** We are currently consulting with industry and will publish this strategy shortly. It will aim to improve the support to growth and competitiveness within the UK industrial base as well as help SME and non-traditional suppliers to bid for defence and security contracts more easily.
- **National Ship Building Strategy:** Sir John Parker has delivered his independent report to the Government. This will inform the UK National Shipbuilding Strategy, which will be published in Spring 2017. The report makes a number of recommendations including a procurement model for the General Purpose Light Frigate where individual ‘blocks’ of ships are manufactured in a number of shipyards around the UK, before assembly in a single yard; and building exportability into Royal Navy ship design.
- **Innovation:** the Defence Secretary launched the Defence Innovation Initiative in September, including the creation of an £800 million, 10 year innovative procurement fund. A new Innovation and Research InSight (IRIS) Unit is being established to look at the implications of emerging technology and innovation to Defence and Homeland Security, and will inform the future MoD Science and Technology programme. A Defence and Security Accelerator is also being set up to match defence and security customers with potential suppliers through marketplaces, bringing together a broad network of research institutions, innovation centres, SMEs, industry partners and allies. It will launch the first call for bids shortly.

- Exports: supporting major export campaigns is now a core task of the MoD and it is leading across Whitehall on strategic export campaigns where the defence relationship is critical, supporting the Department for International Trade on others, and ensuring exportability is considered when taking decisions on future equipment. Through the Defence Growth Partnership – which has seen the creation of a Defence Solutions Centre to encourage collaborative responses to export opportunities at the pre-competitive phase – the MoD is working jointly with industry to develop an exportability training programme, and we will make further announcements on this shortly.
- Apprenticeships and skills: The MoD remains confident of training 50,000 apprenticeships by 2020. The programme has a particular focus on STEM subjects (science, technology, engineering and maths), as well as entrepreneurial skills. A team has been established in MoD to develop a joint apprenticeship scheme with the Department for Business, Energy and Industrial Strategy (BEIS) by April 2017. The Government is also working with industry on a new approach to nuclear skills, with a view to taking a holistic approach to the needs of the Government and industry.
- the creation by NHS England of a strategic commercial unit that works with industry to explore commercial models that help innovators benefit from earlier market access and deliver a better value proposition for the NHS;
- greater capacity and capability within Academic Health Science Networks and major research-led tertiary trusts to support local health economies with adoption of new technologies, and;
- proposals for the NHS to strengthen its capability to take up digital technologies.

The NHS is one of the biggest publicly-funded healthcare systems in the world. It spends approximately £22 billion a year on goods and services, of which £6 billion is on procurement of goods. At present, around 40 per cent of this latter spend is through the central NHS Supply Chain contract. Our current procurement reform programme is seeking to increase this proportion significantly through a new Supply Chain contract (to be introduced in 2018). This will allow the NHS to:

Health

In health, the Accelerated Access Review was published in October 2016 and has recommended a number of proposals to speed the uptake of innovative new diagnostic tools, treatments, and medical technologies by the NHS. These include:

- an ‘Accelerated Access Partnership’ between key organisations to prioritise and streamline the pathway for key innovations;
- be better aware of the market, improving value by taking advantage of long-term volume deals and horizon scanning for innovative products that the NHS should adopt rapidly;
- improve the management of our supplier relationships, creating mutually beneficial objectives for suppliers with a substantial stake in both the UK economy and NHS;
- ensure that there is a strong, UK-based medical supply chain; and
- create an organisation with potential to be a world player in health procurement and logistics.

The Government can also use its purchasing power to bulk buy innovative products, which in turn can improve patient care and deliver savings. Purchasing at scale can secure price discounts and other commercial terms, such as royalties on overseas sales. This will allow patients to get the benefits of innovation more quickly, as well as providing a route to market for early stage companies.

4. Transforming Digital Procurement

Historically, the Government's spending on IT was higher than that of many other governments, but far less efficient. We procured through long-term, exclusive contracts with a limited number of large suppliers. This led to IT projects that were lengthy, expensive, risky and complex.

To address this, we changed how the Government procures goods and services. Through the GCloud – an agreement between the Government and suppliers who provide cloud-based services – we removed the

restrictive practices around bidding for frameworks and contracts. We transformed the procurement process to make contracts easy to read, tenders easy to understand, language clear and explicit. New frameworks helped us to avoid vendor lock-in.

The GCloud enabled companies to join a framework – a preferred supplier list – based on capability, not size. This meant a level playing field for SMEs to compete through fair and open competition.

Over 3,300 suppliers have registered to offer services to the public sector since the Digital Marketplace launched in November 2014. SMEs now make up 91 per cent of all suppliers on the Digital Marketplace.

The Digital Marketplace has so far supported UK public sector organisations to spend over £1.7 billion with digital and technology suppliers. 56 per cent (almost £1 billion) has been with small and medium-sized enterprises.



Improving procurement

Actions under way:

- **The Government has committed to a challenging target to ensure a third of its total procurement spend is with small businesses by 2020** (directly and indirectly through supply chains). All departments now have small business plans.
- **A review led by David Connell is examining how to improve the Small Business Research Initiative (SBRI)** which harnesses innovative ideas and solutions from SMEs to address public policy challenges.
- We have created a £800m **Defence Innovation Fund** and reforms to enable SMEs and non-traditional suppliers to bid for defence and security contracts more easily, as part of the defence industrial strategy.
- We are responding to the **Accelerated Access Review**, which will accelerate the uptake of innovative new treatments in the NHS.

New commitments:

- We will roll out the “**balanced scorecard**” approach recently developed by the Cabinet Office across all major central government construction, infrastructure and capital investment procurement projects over £10 million, including those in the National Infrastructure and Construction Pipeline, which was published in December 2016.
- We will trial different aspects of designing and gathering **supplier feedback** in public sector procurement.

Questions for consultation

23. Are there further steps that the Government can take to support innovation through public procurement?
24. What further steps can be taken to use public procurement to drive the industrial strategy in areas where government is the main client, such as healthcare and defence? Do we have the right institutions and policies in place in these sectors to exploit government’s purchasing power to drive economic growth?