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Examining the consequences of Public Procurement Practices in the North East

March 2012

Final Report: Version 4.0

Teesside University Business School and Durham University Business School

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The information and recommendations in this report are provided within the context of academic research, on an unwarranted basis, and are not intended to define a particular course of action but to inform an ongoing debate regarding public procurement in the North East. The universities therefore accept no liability for any actions taken based on the information contained therein.

EXECUTIVE SUMMARY

The North East Chamber of Commerce (NECC) has estimated that the North East public sector spends £3.5 billion annually, £1.6 billion of which goes to businesses that are based in the region. This report aims to investigate the impact of current public procurement practices on the North East economy in four key areas:

1. the economic impact on the North East region of public procurement spending decisions;
2. the extent to which national and regional frameworks impact on public procurement, regional suppliers and the local economy;
3. the differences of procurement practices in three sectors: Construction; Social Care and Professional Services; and,
4. the identification of examples of best practice in procurement practice: e.g. supplier engagement; framework agreements; and collaborative working.

The methodology for this research consisted of four key phases:

- a. a literature review;
- b. a statistical analysis using a combined dataset;
- c. nineteen semi - structured interviews with suppliers, procurement agencies; and intermediary bodies; and,
- d. three sector-specific workshops covering members from the Construction, Social Care, and Professional Services sectors.

In relation to the economic impact, our results indicate that larger organisations (in terms of turnover) often headquartered outside of the North East are more likely to win larger and longer contracts. As also explained by several of our interviewees and workshop participants this increases the risk of adverse impact of local suppliers in terms of employment and business growth. However, our results also indicate that smaller and more bespoke contracts are more likely to be won by smaller local suppliers.

Furthermore, there has been an increase in the number of suppliers that use e-procurement portals, such as NEPO, to bid for new public contracts. This trend can, in the long term, support the local supply by identifying innovative processes and products to meet its emerging needs. This view is also supported by previous procurement studies reviewed for this report. Over time this trend can help increase the competitiveness of the local supply chain.

Perceptions of framework agreements were gleaned through the qualitative interviews and workshops. Failure to gain entry on to a framework has a significant long-term impact in suppliers. As framework agreements are often on multiple-year cycles, a decision for a supplier to be or not be on the framework will have an impact on the local supply chain. This demonstrates the consequences that a making simple error may have on the survival of a company and the supply chain that depends on it deriving from their exclusion from participation in the framework. There may therefore be a need to explore the state of the economy and the local supply chain at the end of each framework cycle.

Frameworks were generally perceived by suppliers as being too complex and unfairly weighted towards larger national firms. The details of framework agreements, including scoring systems, were thought to emphasise experience over current expertise/skills and consequently favouring larger organisations. Time and financial costs are significant barriers to entry for smaller North East firms wishing to gain access to a framework agreement.

In terms of sector specific issues in the North East, **Construction** is the most vulnerable to the impacts of procurement decisions as many Construction organisations are highly dependent on public sector projects. Failure by one organisation to win a contract often results in a reduction of a big part of its business activity. Procurement decisions can therefore have a significant impact on the viability of the businesses in the North East.

In contrast the **Social Care** sector is relatively protected, despite procurement decisions favouring national companies, due to the fact that these larger companies are far more likely to employ local people, even if they are based outside of the region. Levels of training had, therefore, remained relatively high backed by a consistent transfer of skills across the sector in the North East.

There was a view that there is capacity in the North East to source all relevant **Professional Services** from within the region, although procurement decisions do not necessarily reflect this capability. It was however noted that often there is a difference between what a supplier thinks can be offered and what can actually be delivered. Furthermore the potential loss of high-end skills usually associated with Professional Services was also seen as a threat. There was therefore a call for a change in culture and a focus on up-skilling the local supply chain. This up-skilling process could be expanded to cover whole sectors, such as the community sector, to make them more competitive.

There were a number of differences between procurement practices by North East procurement agencies, including communication strategies, approaches to category management, and procurement thresholds. Suppliers perceived these differences to

be unhelpful and only adding to the already complex nature of procurement. There was particular concern over the inconsistency of feedback given to procurement decisions, which gave an impression of a lack of transparency in those decisions.

Our main recommendation relates to the early collaboration between purchasers and those small companies that have demonstrated capabilities relevant to the contract needs. This collaboration could start early in the procurement cycle, thereby ensuring that any strengths of the local supply chain are identified and integrated with the project needs. To achieve this, public sector procurement authorities could make contract demand more transparent by announcing early their needs, even if in conceptual stage, so that suppliers who can demonstrate the relevant capabilities are appropriately prepared. This could be achieved through the use of portals such as NEPO, where information for upcoming contracts is made available as early as the need is identified.

Table of Recommendations

1. Support early collaboration between purchasers and those SMEs that have demonstrated capabilities relevant to contract needs:
 - a. Ensure that any strengths of the local supply chain are identified and integrated with the project needs.
 - b. Make contract demand more transparent by announcing needs early.
 - c. Make use of NEPO, to make information for upcoming contracts available when need is identified.
2. Build on current success of NEPO:
 - a. Continue to support the increase in popularity of the use of e-procurement.
 - b. Consider increasing participation by inviting additional contracts from other public bodies to be advertised on the NEPO portal.
 - c. The increasing number of suppliers registered on the NEPO Portal provides evidence of very good practice and this should be encouraged further.
 - d. Small organisations are the ones which are more likely to benefit from participation.
3. Harmonize feedback:
 - a. Suppliers argued that feedback was *weak* and *inconsistent*.
 - b. Develop templates and scoring mechanisms that also value expertise.
4. Reconfigure training events:
 - a. Workshops and meet the buyer events also used but perceived negatively.
 - b. more focus on specific contract opportunities.
 - c. include suppliers early in the contract design process.
5. Manage perceptions more efficiently:
 - a. Steps should be taken by purchasing authorities, suppliers and suppliers' representatives to ensure common understanding of the different procurement objectives.
6. Further harmonisation of processes, documentation and criteria:
 - a. Scoring of the questions.
 - b. Use of credit rating agencies.
7. Consideration should be given to harmonising thresholds and requirements for low value contracts below the EU thresholds:
 - a. Different procedures below OJEU threshold seen as confusing.
8. Specifications and criteria should relate to meeting project objectives through the application of demonstrable skills:
 - a. Emphasis on the experience of the organization at the expense of experience of individuals or relative skill sets in the organisation.
 - b. Consider moderating the requirements for experience to ensure smaller businesses stay competitive.
9. Where possible, contracts should be divided into lots to make them accessible to micro, small and medium enterprises:
10. Early collaboration with key suppliers that have specific strengths:
 - a. Careful collaboration with key suppliers for identification of local needs and capabilities can provide a better more focused approach.
11. Suppliers should continue to build capacity for taking part in public procurement:
 - a. Establish training event to up skill the local supply chain.
12. Ensure that evaluation of procurement practices takes place:
 - a. Very little attention is being paid to the impact on the economy in the North East by local authorities and other buying organisations.

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2 Overview and background

UK public bodies spent £220 billion on the procurement of goods and services in 2008-2009 [1]: the NHS procurement budget is approximately £12 billion, whereas the local government's annual budget is about £80 billion [1]. The North East Chamber of Commerce (NECC) has estimated that the North East public sector spends £3.5 billion annually, £1.6 billion of which goes to businesses based in the region [2].

Given the high expenditure of public bodies in the UK in general and the North East of England in particular, comparatively little is known about the consequences of procurement decisions and policies in the local economy. There is little knowledge, for instance, of the consequences of joining regional framework agreements, and indeed little knowledge about any sector specific differences on the impact of such decisions.

This report aims to investigate the impact of current public procurement practices on the North East economy, to identify the strengths and weaknesses of current practice, and to provide recommendations for improvement.

More specifically, the report explores the following key areas:

- the economic impact on the North East region of public procurement spending decisions,
- the extent to which national and regional frameworks impact on public procurement, regional suppliers and the local economy,
- the differences of procurement practices in three sectors: Construction; Social Care and Professional Services ,
- the identification of examples of best practice in procurement practice: e.g. supplier engagement; framework agreements; and collaborative working.

The report builds on existing knowledge of North East procurement. The research methodology consisted of a mixture of literature based research, statistical analysis of procurement data, and qualitative research. A detailed explanation of the methodology is included in Appendix 1. Out of respect for confidentiality, no quotes or other details have been attributed to any specific respondent.

2.1 Structure of the report

The structure of the report is aligned with the aims of the project. The following sections explain how each of the project aims was addressed. As the final aim relates to the identification of best practice, the final section explains some of the procurement best practice identified during the study and discusses this along with relevant recommendations.

3 The economic impact on the North East region of public procurement spending decisions

To meet the first and main aim of this report this section starts by reviewing the relevant academic literature on public procurement. It then presents some of the main findings from the quantitative and qualitative analyses.

3.1 Previous work on public procurement

Although no major study of the impact of procurement decisions in the North East has previously been undertaken, other general public procurement research suggests that aspects of such impact have been examined in other geographical regions [3, 4]. One area that has been examined in some detail relates to the impact on the local supply chain of *discriminatory purchasing*¹, i.e. the impact of favouring suppliers of products and services due to their location in the region. The argument for positively discriminating in favour of local suppliers is that the additional business will boost the local and often smaller suppliers' profits [5]. Furthermore, local suppliers and particularly local small and medium enterprises are more likely to purchase locally themselves, which subsequently will increase the potential of local investments resulting in a boost to the local economy. Despite the intuitive appeal of this argument, however, empirical results supporting it are mixed.

One reason for the mixed results is simply that local suppliers cannot offer all the products and services [6]. Furthermore, smaller organisations are unlikely to be able to supply some goods (such as office supplies) as these are usually provided by large and often multinational organisations [7]. As is also explained later, these realities were also identified in this study.

Another reason for the lack of clarity on the results of previous such studies has been the apparent oversimplification of the argument. Economics based studies have examined the impact of discriminatory purchasing and have in general found that such purchasing may only benefit the local supply chain when certain conditions are met [5]. These conditions are complex and depend on the industrial sector and the uniqueness of the products and services that are being procured. Buying local therefore does not necessarily result in the boost of the local economy that is often advocated and these conditions would need to be carefully examined within the

¹ Current European legislation restricts local authorities from *positively discriminating* towards local suppliers.

context of the products, services, industrial sectors and the potential and desired impact before such policy decisions are made.

Additional factors that lead large public sector organisations to not source locally include purchasing officers' complacency; difficulties of communication; and local suppliers' inertia or defeatism, with the first being the most important [6]. Factors such as these are therefore likely to complicate the decision to source locally, which in turn may make the potential impact of discriminatory purchasing unclear, and sometimes even negative to the local economy.

Smaller and more bespoke needs can, however, be met with local and smaller suppliers as they may be able to identify the needs early [8, 9]. One recent study has argued that when small organisations are involved early in the procurement process they align their competences with the needs of the project and subsequently increase their chances of success [7]. Consistent use of such practices may have a positive impact for local economies [7] and offer good value for money for procurers. The positive impact stems from the premise that smaller organisations that develop bespoke products and services are more able to a) identify needs early [10] and b) create innovative processes and products to meet those needs and to increase their chances of success [11]. This is due to the reduced perceived market risk of development, as there is a potential market for any new innovations that they may introduce. Over time this development helps increase their competitiveness, which in turn helps strengthen the local supply chain [12]. In the final section of this report there is a recommendation on how to make use of the arguments above.

3.2 The North East supply chain

This section presents some of the findings of the qualitative and quantitative analyses. The former consisted of 19 interviews with public procurers, suppliers and intermediaries (the questions asked are included in Appendix 2). Data for the latter was compiled by combining procurement transaction data provided by the North East Procurement Organisation's (NEPO) Portal and supplier financial data provided by FAME. The NEPO's Portal included detailed information about contracts managed by the 12 local authorities of the North East and NEPO.

Two important clarifications need to be made here. One relates to the contracts managed by NEPO directly and those simply advertised through the NEPO Portal on behalf of the local authorities. The NEPO Portal provides the e-procurement platform for both NEPO and the 12 North East local authorities. In the analysis that follows both types of contracts were used to explore different aspects of the impact of procurement decisions. These are explained in each section accordingly. The second clarification relates to the difference between purchasing authorities such as NEPO and other public sector buying organisations such as the Police, Fire Service,

and NHS. In this report we have aimed to focus on the former. Inevitably, however, many of the respondents' answers referred to any type of public sector procurement exercise/practice, thus not making this distinction.

The spending on bought-in goods and services from the purchasing authorities interviewed ranged from £45m-450m. Only five organisations were able to report the proportion that was spent in the North East region (61% of £423m; 29% of £170m; 55%; 59%; and 65%).

From the interviews conducted it was clear that purchasing authorities collect little data to evaluate the impact on the North East economy. Seven of the nine purchasing authorities interviewed explained that they do not measure impact and one explained that they have used the LM3 (Local Multiplier 3) tool. This latter organisation calculated that every £1 spent generated £1.38 in the North East.

Furthermore, few organisations could identify the impact of their procurement practices other than in broad terms: as savings; meeting KPIs; or even simply "benefits", e.g.:

"...there is a positive impact by providing co-ordination of regional procurement activity, for the benefit of the public and private sector..."

It has to be noted, however, that this reflects the view of procurement professionals responsible for making procurement decisions and may not reflect other aspects of their organisations, such as economic development, where such measures may be frequently employed.

In relation to the size and locality of the suppliers, the analysis of the result indicates three trends²:

1. Larger contracts are awarded to firms outside the North East.
2. Larger companies (in terms of turnover) are more likely to win larger and longer projects.
3. Local companies are more likely to win some of the shorter (in terms of duration) procurement projects.

As illustrated in Figure 1 the number of projects awarded to companies with turnover less than £100,000 is considerably less (0.6%) than the national average (17.2%). Interestingly, smaller companies have been less likely to bid for projects procured

² The statistical analysis conducted is explained in Appendix 4

through NEPO (both the NEPO managed ones and the ones advertised through NEPO) when compared to the national average. Given the increasing popularity of the portal with smaller suppliers (see later graphs and analysis) we would expect this trend to be reversed. At the other end of the spectrum larger organisations seem to have received proportionally larger amounts from projects procured by NEPO.

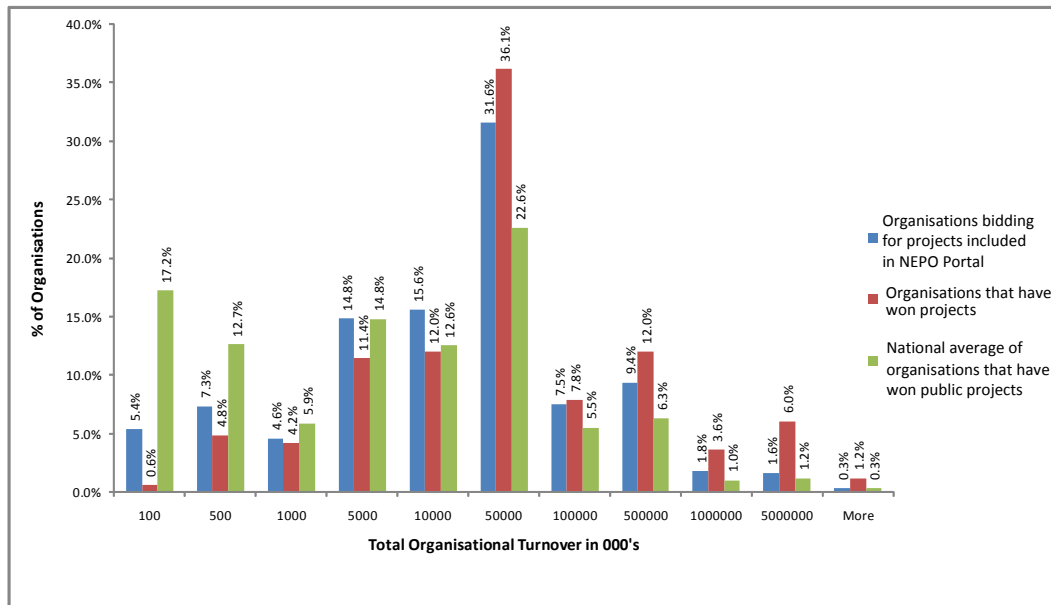


Figure 1 Distribution of suppliers' turnover³

These findings are in line with concerns that were expressed during the interviews and workshops, that the impact of procurement decisions on the North East was negative. Two indicative quotes are:

“public procurement is destroying this business [the Construction sector]”.

“changes in public procurement go down the supply chain when companies lose contracts”.

Furthermore, the intermediary organisations interviewed reported concerns over current public procurement, citing less work available for both SMEs and major contractors, leading to redundancies and financial difficulties. It must be noted, however, that these difficulties were primarily linked to the overall economic downturn rather than any specific issues with public procurement in the North East.

³ Data sources: NEPO Portal, and Fame. The analysis is based on data from 2009.

As a consequence there is now increasing reliance on work from the private sector. Paradoxically, it was reported that the processes followed to win projects in the private sector are not as rigorous as the ones promoted by publicly funded organisations.

Several significant trends identified during the analysis of the data complement some of the main findings of the qualitative analysis. These relate to the popularity of the portal, and the length and value of the contracts and are explained in the following sections.

The first trend relates to the increasing popularity of the NEPO Portal. As shown in Figure 2, there is a significant increase of the number of contracts advertised. Although there has also been an increase of the number of suppliers contacted via the portal, the rate of this increase has not matched that of the number of contracts. Put differently, the number of suppliers registered to receive information on new contracts is not increasing as fast as the number of available contracts.

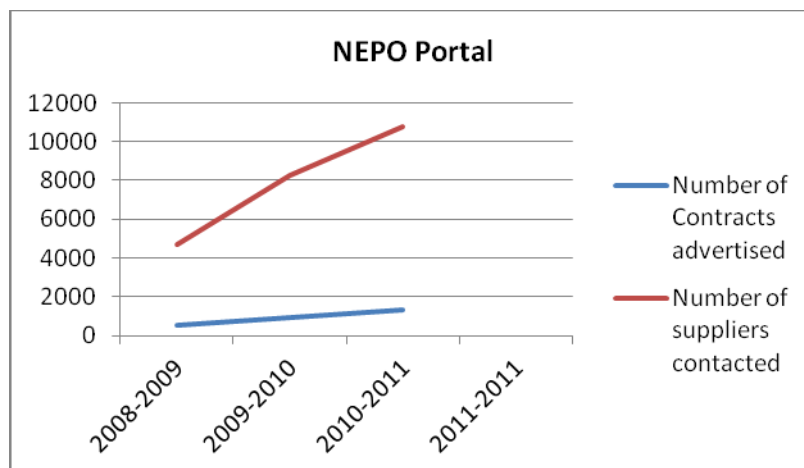


Figure 2 NEPO Portal Use

There is, therefore, a definite positive trend on the number of individual suppliers that register to receive information about the number of opportunities available through the NEPO Portal. This provides clear evidence that e-procurement is increasingly seen as the accepted mechanism for public procurement in the North East. This finding is also supported by the workshop and interview data. The above includes both NEPO and local authority managed contracts.

A second trend identified during the analysis of the data relates to the length and value of the NEPO managed contracts. As shown in Figure 3 the average length of the contracts managed by NEPO has been higher than the average length of the contracts advertised in the region (and included in the NEPO Portal). These results

are of course skewed by some of the larger contracts, e.g. those for energy, but a closer examination confirms the fact that larger and longer contracts are more likely to be managed by NEPO.

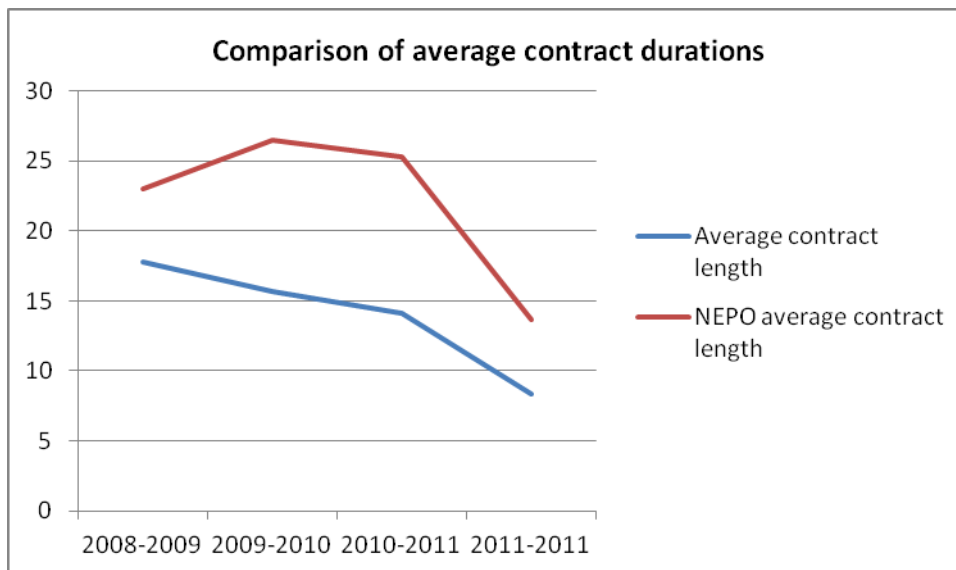


Figure 3 Contract Length

Given the type of contracts that have been traditionally managed by NEPO (relatively more commoditised products and services); the above observation indicates a potential longer-term trend for the aggregation of these types of contracts. Although it would be difficult to read too much into this, it provides an indication of two opposing trends. Increasing aggregation increases the buying power of the procurer. This implies that the cost of the procured products and services decreases whereas its quality improves. From this perspective, aggregation provides good value for money for the taxpayer. On the other hand, and given the national and often international profile of the companies that win these larger types of contracts (see also next section of the statistical analysis), such aggregation could, in the short term, weaken the local supply chain. As is explained in the recommendations section, certain controls can be put in place to ensure that the impact of such aggregation to the local economy can be reduced whilst ensuring good value for money.

Finally, the value of contracts managed by NEPO is increasing, as shown in Figure 4. Despite the drop in 2010-11 the value of the contracts managed by NEPO is increasing. This was also confirmed by discussions with NEPO staff who argued that this is largely due to aggregation of contracts that negotiate more commodity based products and services such as energy.

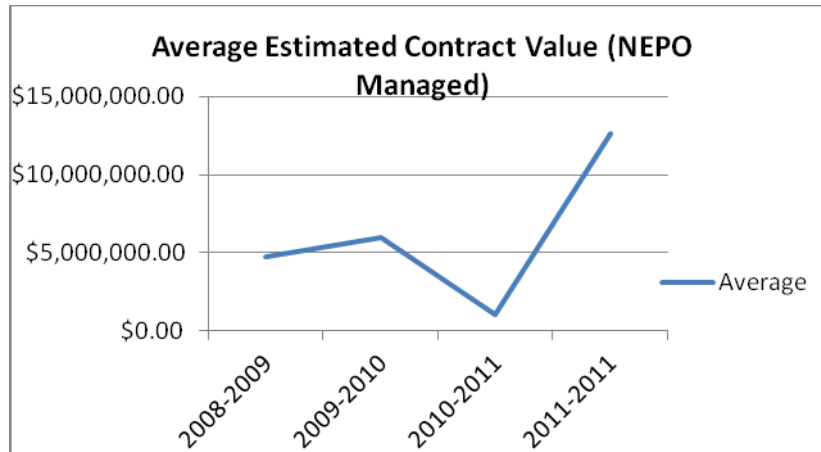


Figure 4 Contract Value

3.3 Key Conclusions

1. Larger contracts are awarded to firms outside of the North East.
2. Larger companies (in terms of turnover) are more likely to win larger and longer projects.
3. Local companies are more likely to win some of the shorter (in terms of duration) procurement projects.
4. The use of the NEPO Portal is increasing rapidly.
5. NEPO managed contracts tend to be bigger in terms of value and length.

4 The use of framework agreements

The second aim of this report related to the impact of regional frameworks on public procurement, regional suppliers, and the local economy. This was mainly explored through the interviews and workshops. There were several areas that were identified during this process, which are described below.

The first relates to criteria used to join a framework. This was of particular concern in the Construction sector where it was explained that some framework agreements are too heavily weighted towards past experience, which SMEs cannot match despite their expertise in the area. Larger companies are also much better resourced to compete to be put onto frameworks. Once on a framework, there is further complexity and concern from suppliers with regard to the additional work needed to partake in mini competitions.

A second area relates to the disproportional impact on local business of exclusion from a framework, particularly in the Construction sector. As framework agreements are often on multiple-year cycles, a decision for a supplier to be or not be on the framework will have an impact on the local supply chain, and demonstrates the consequences that a simple error may have on the survival of a company and the supply chain that depends on it deriving from their exclusion from participation in the framework. There may therefore be a need to explore the state of the economy and the local supply chain at the end of each framework cycle.

Another issue associated with the frameworks, and procurement more generally, is the perceived effectiveness of the skill sets of individuals designing procurement documentation and responding to procurement queries. There was a perception that they were not always knowledgeable about the technical details of the projects they were asked to procure.

Finally, the following more technical details were reported as having a great impact on the perceived process of selection of suppliers:

- Emphasis is placed more on past experience over current skills and expertise. This may favour larger and established suppliers over smaller and newer.
- Emphasis is placed on the experience of the organisation overall as opposed to the experience of the individuals within organisations. Often new staff may have the experience needed, but this may not be reflected through the overall experience of the supplier.
- The scoring of the questions is such that it may favour larger organisations. To illustrate this, an example was given during the

Construction workshop of the selection process clearly favouring larger organisations. According to this example, suppliers that could demonstrate that they had worked on one past project which required the implementation of all the capabilities needed for the procured contract would achieve the highest scores. It was argued that only larger organisations would have been able to respond positively to this requirement.

- Credit rating agencies' assessments are inconsistent, affecting the ability of suppliers to qualify for new contracts (several examples of this were presented during the workshop).

4.1 Barriers to entry

Perceptions on barriers to entry were different between purchasing authorities on one hand, and suppliers and intermediary organisations on the other. Again the findings here strongly emphasised the disparity of opinions between purchasing authorities and suppliers/intermediary bodies.

Purchasing organisations cited a lack of knowledge among suppliers as the biggest barrier to entry: over the procurement process generally and over the ability to complete relevant documentation specifically. There was a consistent view that suppliers were also under a misperception that the procurement process was onerous, bureaucratic and time consuming.

This view contrasted with those of suppliers, who argued that they all had a good understanding of the process and its various stages. The most significant barriers to entry identified by suppliers were: the complexity of procedures; the amount of time and resources needed to complete the procedures; proportionality of documentation required (in one case a 40 page PQQ for a contract worth £7,000); prohibitive insurance level costs.

General costs were discussed by suppliers in relation to time. Examples include the following:

- One supplier estimated that between £1,000 and £2,000 was spent in time costs for each tender exercise undertaken.
- One supplier highlighted a particular contract was so complicated it would have taken an entire month to complete, and thus the bid was abandoned.
- One supplier estimated that bidding procedures accounted for approximately 15% of turnover per year.

Intermediary organisations in general agreed with this assessment. For instance, one described time costs for its members as “*phenomenal*”, whereas another estimated that it cost members around £500 million (in total) annually to bid. There is a suggestion, therefore, that the sheer size of a firm may provide an in-built ability to bid for a greater number of contracts, which may in turn be regarded as unintended discrimination against smaller firms.

Such barriers were recognised as national rather than unique to the North East. Other, more specific problems, however, were also identified that were pertinent to regional suppliers. One supplier argued that one problem affecting small businesses was the aggregation of low-value public procurement contracts into a larger contract, thus putting them beyond the reach of some suppliers. A second identified a problem of “*obsession with experience over skills*” in PQQs, which naturally advantaged larger firms at the expense of smaller specialised firms and resulted in issues such as the framework agreement identified previously.

In terms of knowledge, the intermediary organisations that were interviewed were united in their belief that while larger firms have a very good working knowledge of procurement procedures, smaller firms frequently do not. Each organisation identified SMEs as having an issue with knowledge, which reinforces the views of purchasing authorities. In addition, however, intermediary organisations also identified a further set of barriers to entry that affect North East suppliers: misleading documentation that can waste resources; the language used, which can be procurement-specific rather than sector-specific. On the other hand, one intermediary suggested dividing a contract into appropriate lots could help bring local companies into bidding.

4.2 Risks to North East businesses

The loss of time and money was the most commonly identified risk for suppliers in taking part in public procurement, with the attendant risk that rules and procedures might change to suppliers’, especially small suppliers’, detriment. Suppliers attempted to manage risk by choosing carefully when to take part and avoiding over-reliance on a prospective contract. Public procurement had a significant impact on all the suppliers interviewed.

For suppliers, risks were rooted in the resources they had to commit to quoting and tendering, which increased with process changes and increased documentary demands from purchasers, with the possibility of not securing the contract to recoup the costs. Specifically, insurance level requirements could be excessive. Costs could have implications for the survival of a business. Yet, suppliers and their intermediaries recognised that if they did not tender, the risk of not getting the contract was greater.

Managing risk systematically is therefore difficult for suppliers, but they tried by selecting carefully the contracts to compete for and by avoiding reliance on large contracts or single purchasers.

One intermediary organisation's observations supported suppliers' perceptions of risk and identified a number of tools from the North East Improvement and Efficiency Partnership that purchasing authorities could use to develop suppliers and enhance their capacity to manage risk.

Procurement or project failure was also clearly identified as a risk for purchasing authorities. This relates to the implications of failing to meet the project requirements. There were several factors that were identified by local authorities as reasons for project failure:

- Poor specifications that did not reflect the organisation's needs, or that were uncompetitive.
- Suppliers not understanding procurement processes.
- Suppliers not clearly responding to the specific questions being asked.
- The effects of reducing budgets.

Others spoke of a greater risk of challenge introduced to the process by suppliers since the introduction of the EU Remedies Directive (2010). Purchasers were better able to assess risk than suppliers and most had risk management strategies. One purchaser used frameworks to manage the risks to business continuity should a contract fail. Most referred to the importance of effective contract management. Although the risks above were complementary, none of the purchasers referred to any specific work aimed at developing their suppliers' capacity for managing risk.

4.3 Key conclusions

1. Exclusion from a framework has long-term impacts on suppliers and these frameworks are generally perceived by suppliers as being too complex and unfairly weighted towards larger national firms.
2. The details of framework agreements, including scoring systems, are perceived as emphasising experience over current expertise/skills and consequently favouring larger organisations.
3. Time and financial costs are significant barriers to entry for smaller North East firms wishing to gain access to a framework agreement.

5 Differences in procurement practices: Construction, Social Care, and Professional Services.

This section presents the main differences of the procurement practices identified in this study along with the impact that these may have on the relevant businesses. As per the 3rd aim of the report the main focus is on the differences between the three sectors of Construction, Social Care, and Professional Services. However, during the interviews and workshops we identified some additional inconsistencies in procurement practices, particularly in relation to the implementation of the OJEU thresholds. This is discussed in the last part of this section.

The sector-related differences along with the corresponding impact were identified through three half-day workshops and interviews with the relevant procurement representatives. Representatives from each sector were invited to attend the workshops and express their views and a range of sector-specific impacts were identified. Here we summarise the main findings of these three workshops.

5.1 Construction

It is in the Construction sector that procurement decisions have the most direct and visible effect. As was explained during the workshops, many Construction organisations are highly dependent on public sector projects. Failure by one organisation to win a contract often results in a reduction of a big part of its business activity. As a consequence of the recent reduction in spending, the number of people employed in this sector has been reduced in the last few years. As an example, one organisation reported a 30-40% decline in work over the last year. This organisation experienced a drop in its North East business from 75% in 2009-10 to only 10% in 2010/11. Procurement decisions can therefore have a significant impact on the viability of the businesses in the North East.

Similar to the findings reported earlier, the procurement practices currently employed seem to favour larger organisations. Smaller Construction organisations reported that they felt less able to cope with the increasing complexity of modern procurement practices. Larger organisations, on the other hand, often have dedicated resources, which could lead to better and more complete responses. Whilst it has to be noted that there were no representatives of larger organisations present during these workshops, this perception was also supported by the statistical analysis reported earlier in the report and in Appendix 4.

A final and potentially longer-term impact that was identified was the loss of skills from the North East Construction sector. A perceived reduction of the number of

apprenticeships in the last few years provides support to this view. A smaller number of Construction apprenticeships will lead to a reduction in the number of skilled individuals. Furthermore, already skilled individuals are reported to be moving south because contracts and income are perceived to be better.

5.2 Professional Services

In *Professional Services* there was a view that the North East has the capacity to conduct all relevant services from within the region, although procurement decisions do not necessarily reflect this capability. It was however noted that often there is a difference between what a supplier thinks can be offered and what can actually be delivered. There was therefore a call for a change in culture and a focus on up-skilling the local supply chain. This up-skilling process could be expanded to cover whole sectors, such as the community sector, to make them more competitive. An approach needs to be developed to identify capabilities within local firms which are then put together in consortia to help them bid for larger projects.

An additional point was made relating to the potentially positive effect of failing to win a contract. It was argued that failure to win might make some suppliers more diverse and likely to win from other sectors. On this point it was explained that when suppliers win consecutively very similar projects they might not be motivated to innovate and build on their capabilities. Failing to win a contract may encourage suppliers to diversify their services and rethink their capabilities.

It was also argued that the tools of procurement used today would shape future markets. This point was also made during the first workshop (Construction) when it was argued that the impact of frameworks on future markets should be explored further. A negative impact is the potential of loss of high-end skills usually associated with Professional Services.

5.3 Social Care

Here it was suggested, during the relevant workshop, that the specialised nature of many Social Care services “*inevitably favours national companies*”. It was explained that the delivery of these services requires the combination of expertise from diverse sources. Such expertise is not always available within small companies and thus larger companies provide better fit. However, this was not perceived as negative for the local economy. The Social Care sector was described as “*completely different*” in that such larger companies are far more likely to employ local people, even if they are based outside of the region. Furthermore, it was argued that the levels of training had remained consistently high and that the transfer of skills across the sector has added to this consistency.

The ability of public procurers to select suppliers based on their location and size (in addition to their ability to deliver the agreed products and services on time, within budget, and on specification) was therefore a much debated concept.

5.4 Relations between suppliers and purchasing authorities

One overarching theme that arose repeatedly throughout the research (particularly the interviews and workshops) is a divergence of opinion between suppliers and purchasing authorities. Typical responses from suppliers and intermediary bodies included:

“For example, one council is inviting companies to apply and the 6 best PQQs will be invited to tender, whether in the region or not. No priority is given to companies in the region. Because large companies have dedicated tendering teams and more experience, the reality is that the larger you are the more chance you have to be successful”.

And:

“There is a treadmill of procurement authorities outsourcing to principal contractors under long term framework agreements who then invariably sub-contract work packages to SME companies. These companies feel that they are losing out compared with the previous arrangement when they were contracted directly.”

Perhaps unsurprisingly, such arguments were not shared by purchasers:

“Unfortunately some local suppliers appear to think that they have a right as a local supplier to be given contracts even when they are really not competitive prices”.

Although the research team was not tasked with looking into this broader area in the original research specifications, it nevertheless seems to have major significance to the overall project and can be seen in each of the following sections.

5.5 Differences in procurement practices across the North East

The research team investigated a number of specific differences in procurement practices in the North East: 1) communication strategies; 2) category management; 3) procurement thresholds.

Differences in procurement practice below the OJEU thresholds were clearly identified as a major problem:

“The biggest barrier [to entry] is different procurement authorities, not just local authorities, having different rules of engagement, because of the lack of a mandated single process from central government”.

Procurement thresholds below the OJEU thresholds were different and are summarised in Table 5.

Table 5: Procurement thresholds used by Interviewed purchasing authorities

	Procurement thresholds used by Interviewed purchasing authorities
Org 1	<ul style="list-style-type: none"> • >£5k business units' discretion: quotations encouraged • £5k <£15k 2 quotations required • £15k <£50k 3 formal quotations required • £50k < OJEU Formal tender required, • > OJEU threshold
Org 2	<ul style="list-style-type: none"> • <£2.5k value for money test • £2.5k <£20k buyer must seek 3 quotations (min 5 days to respond) • £20k < OJEU competitive tender (min 10 working days to respond) • >OJEU threshold
Org 3	<ul style="list-style-type: none"> • no thresholds below the OJEU levels • lower thresholds at institutional level.
Org 4	<ul style="list-style-type: none"> • <£5k value for money test. The Central Procurement Team is not involved • £5k-50k Written quotations. Everything over £5k is advertised on the NEPO and the Central Procurement Team must be involved. • £50K OJEU Competitive tenders • Over OJEU EU tenders advertised in OJEU
Org 5	<ul style="list-style-type: none"> • request three quotes for any procurement below £2,500 • open tender process above this level we adopt an open tender process • comply with OJEU custom and practice.
Org 6	<ul style="list-style-type: none"> • £0 to £5,000 1 quotation • £5,001 to £75,000 at least three written quotations • £75,001 to £156,442, the council issue a tender to which at least five organisations have to respond to the invitation to tender

	<ul style="list-style-type: none"> • above that full compliance with OJEU regulations.
Org 7	<ul style="list-style-type: none"> • >£5k 1 quotation • £5,000-£50,000 – 3 quotations • >£50,000 – competitive tendering exercise

In terms of **communication strategies**, the purchasing authorities overwhelmingly used e-procurement through the web along with workshops and meet the buyer events. Such events are extremely widespread as a means of engagement in procurement and this was found to be the case in our interview research: seven out of nine purchasing authorities facilitated such events. These events seem to be less popular with suppliers, however, and 75% of the suppliers we interviewed had not visited any in the past year; the one supplier that had visited had found them unhelpful, although the respondent failed to identify any specific reason why this was the case. It may be wise, therefore, to reconsider the nature and efficacy of such events as a means of engaging with North East supplier organisations. Workshop participants in all sectors also suggested that meet the buyer events were often not very helpful and need to be reconsidered as providing more than basic guidance.

Feedback was held up as having been weak and inconsistent. Delays in decisions sometimes may take months, with little information being provided throughout the process; therefore better communication of progress / delays is needed. As a result a lack of transparency was identified as a concern in all three sector-specific workshops. Suppliers said that they learned of opportunities through NEPO's and other purchasers' portals and websites, tender notice alert services, and by networking. Some mentioned that they had secured places on frameworks.

Suppliers found these differing arrangements confusing and therefore a possible disincentive to participation. In particular, it was said, obtaining quotations was not transparent, leading to suspicions of favouritism. Low value contracts below the EU thresholds, one supplier argued, provided an important way for new companies to enter public procurement and for the public sector to get value for money; and a common system would enhance these opportunities and enable quality assurance and feedback.

It may be useful for potential suppliers, therefore, to have more systematic and co-ordinated approaches in the way purchasers advertise and communicate their tenders.

Although the thresholds identified by respondents often bear many similarities, and are within existing legislation and guidelines, it is notable that there are myriad small differences between them. Section 5.6 (below) identifies the concerns that suppliers express in terms of barriers to entry and they focus overwhelmingly on the

complexity of the procurement process. To encourage North East business further it would appear that simplicity, and consistency, is key – and as identified above these factors could currently be developed further.

There were significant differences among the purchasing authorities in regard to their approach to **category management**. Five out of nine purchasers engage in category management for procurement processes: these ranged from four categories to nineteen categories at one organisation. Out of the four that did not utilise category management, three were either considering it or about to implement it within the organisation. The fourth used a proxy version of business units.

5.6 Key conclusions

1. There is a clear concern from suppliers that procurement decisions are impacting negatively upon their businesses in terms of contracts awarded, loss of jobs and loss of skills, particularly in the Construction sector.
2. Very few purchasing authorities measure the overall economic impact of their procurement decisions.
3. Larger companies (in terms of turnover) are more likely to win larger and longer projects.
4. Local companies are more likely to win some of the shorter (in terms of duration) procurement projects.
5. The Social Care sector is relatively more protected in that employees are likely to be local even if their employers are not. Hence procurement decisions are less likely to have an adverse economic impact.
6. The Construction sector carries relatively more risk.
7. There are significant differences in procurement practices in terms of communication strategies, approaches to category management, and procurement thresholds.
8. Suppliers perceived these differences to be unhelpful and only adding to the already complex nature of procurement.
9. There was particular concern over the inconsistency of feedback given to procurement decisions, which gave an impression of a lack of transparency in those decisions.

10. Meet the buyer events are not well generally received and are considered to be of limited value.

6 Summary of Conclusions

1. There is a clear concern from suppliers that procurement decisions are impacting negatively upon their businesses in terms of contracts awarded, loss of jobs and loss of skills.
2. Only a few purchasing authorities measure the economic impact of their procurement decisions.
3. Larger companies (in terms of turnover) are more likely to win larger and longer projects.
4. Local companies are more likely to win some of the shorter (in terms of duration) procurement projects.
5. The Social Care sector is relatively more protected in that employees are likely to be local even if their employers are not. Hence procurement decisions are less likely to have an adverse economic impact.
6. The Construction sector carries relatively more risk. Exclusion from a framework has long-term impacts on suppliers and these frameworks are generally perceived by suppliers as being too complex and unfairly weighted towards larger national firms.
7. The details of framework agreements, including scoring systems, are perceived as emphasising experience over expertise.
8. Time and financial costs are significant barriers to entry for smaller North East firms wishing to gain access to a framework agreement.
9. There are significant differences in procurement practices in terms of communication strategies, approaches to category management, and procurement thresholds.
10. Suppliers perceived these differences to be unhelpful and only adding to the already complex nature of procurement.
11. There was particular concern over the inconsistency of feedback given to procurement decisions, which gave an impression of a lack of transparency in those decisions.
12. Meet the buyer events are generally not well received and are considered to be of limited value.
13. The use of the NEPO Portal is increasing rapidly.
14. NEPO managed contracts tend to be bigger in terms of value and length.
15. Careful collaboration with key suppliers for identification of local needs and capabilities can provide a better, more focused approach.

7 Identification of Best Practice and Recommendations

This section outlines the best practice identified during the project and provides relevant recommendations. The recommendations are based on a combination of previous research (conducted by the members of the research team and others), best practice identified during the study, and suggestions of the interviewees and workshop participants.

Our main recommendation relates to the early collaboration between purchasers and those small companies that have demonstrated capabilities relevant to the contract needs. This collaboration could start early in the procurement cycle, thereby ensuring that any strengths of the local supply chain are identified and integrated with the project needs. To achieve this, public sector procurement authorities could make contract demand more transparent by announcing early their needs, even if in conceptual stage, so that suppliers who can demonstrate the relevant capabilities are appropriately prepared. This could be achieved through the use of portals such as NEPO, where information for upcoming contracts is made available as early as the need is identified. Furthermore, they can provide a more in depth analysis of the requirements of suppliers by collecting more information on them. This could encourage both local authorities and local suppliers to align the needs of the former with the abilities of the latter, which could in the longer run increase the capabilities of the local supply chain. Further recommendations are that:

1. Support early collaboration between purchasers and those SMEs that have demonstrated capabilities relevant to contract needs:
 - a. Ensure that any strengths of the local supply chain are identified and integrated with the project needs.
 - b. Make contract demand more transparent by announcing needs early.
 - c. Make use of NEPO, to make information for upcoming contracts available when need is identified.
2. Build on current success of NEPO:
 - a. Continue to support the increase in popularity of the use of e-procurement.
 - b. The increasing number of suppliers registered on the NEPO Portal provides evidence of very good practice and this should be encouraged further.
 - c. Consider increasing participation by inviting additional contracts from other public bodies to be advertised on the NEPO portal.
 - d. Small organisations are the ones which are more likely to benefit from participation.
3. Harmonize feedback:
 - a. Suppliers argued that feedback was *weak* and *inconsistent*.
 - b. Develop templates and scoring mechanisms that also value expertise.

4. Reconfigure training events:
 - a. Workshops and meet the buyer events also used but perceived negatively.
 - b. more focus on specific contract opportunities.
 - c. include suppliers early in the contract design process.

5. Manage perceptions more efficiently:
 - a. Steps should be taken by purchasing authorities, suppliers and suppliers' representatives to ensure common understanding of the different procurement objectives.

6. Further harmonisation of processes, documentation and criteria:
 - a. Scoring of the questions.
 - b. Use of credit rating agencies.

7. Consideration should be given to harmonising thresholds and requirements for low value contracts below the EU thresholds:
 - a. Different procedures below OJEU threshold seen as confusing.

8. Specifications and criteria should relate to meeting project objectives through the application of demonstrable skills:
 - a. Emphasis on the experience of the organization at the expense of experience of individuals or relative skill sets in the organisation.
 - b. Consider moderating the requirements for experience to ensure smaller businesses stay competitive.

9. Where possible, contracts should be divided into lots to make them accessible to micro, small and medium enterprises:

10. Early collaboration with key suppliers that have specific strengths:
 - a. Careful collaboration with key suppliers for identification of local needs and capabilities can provide a better more focused approach.

11. Suppliers should continue to build capacity for taking part in public procurement:
 - a. Establish training event to up skill the local supply chain.

12. Ensure that evaluation of procurement practices takes place:
 - a. Very little attention is being paid to the impact on the economy in the North East by local authorities and other buying organisations.

8 Appendices

Appendix 1: Methodology

The research was conducted during four distinct phases. Phases 1–3 were carried out between April and July 2011. After an intermediary report it was decided that further research would be conducted, which took place in November 2011.

Phase 1 – literature based research was conducted to identify the range of different procurement practices currently utilised in the North East public sector. A literature review of the academic public procurement methods explored the impact of such methods in other contexts, e.g. other parts of the UK, other industrial sectors, and other countries.

Phase 2 – qualitative research was conducted through 18 key respondent interviews with purchasers, suppliers, and trade organisations that provide support for procurement purposes in the Construction, Social Care and Professional Services sectors. A list of respondents and our interview questions can be found in appendix 2.

Phase 3 – statistical analysis was conducted on a range of economic and other metrics of impact, including: turnover figures, organisation performance indicators, and contract characteristics metrics (tables can be found in Appendix 3)

Phase 4 – three sector-specific workshops were held in Gateshead Civic Centre in November 2011. The workshops were designed to discuss our preliminary findings and assess which results were applicable to each sector.

Inevitably there are limitations to every applied research project. In this case there were restrictions on time and access, in terms of interviewees and also statistical data sets. Larger and more detailed data sets could have provided more depth but given the timeframe of the project, we were able to use measures that accurately reflect the North East economy. The number of interviewees was double the number that was originally planned and they were selected to develop a representative sample of views.

Appendix 2: List of interviewees and interview questions.

Four of the interview organisations were suppliers: three micro enterprises (turnovers ranging from £50-500k in 2010-11) and a fourth larger enterprise with turnover of £17m in 2010-11 (75% was based upon public contracts, all in the North East). Nine interview organisations were purchasers, including three local authorities and two NHS trusts. The remaining respondents were intermediary organisations, including trade associations and organisations established to provide support for businesses.

Two trade associations were concerned with Construction: one with 70 members (23% of the national membership) in the region; and the other with about 150 members. A third trade association represented 4,500 small businesses in the region supplying all categories. One of the support organisations was a Department of Business Innovation and Skills owned company, enabling companies to register their pre-qualification information for access by purchasers, which is used by over 1,000 north eastern companies. The other provided a range of help and training directly and through contracted business advisers to help companies in Northumberland tap public procurement opportunities.

	Construction	Social Care	Professional services
Supplier		Helen McCardle Care	Petandr Ribble Consultants Equipment supplier in the Tees Valley
Purchaser	NEPO Newcastle City Council Northumbria NHS Trust North East University PC ONE North East	NEPO Newcastle City Council Darlington Council Durham County Council Northumbria NHS Trust South Tees NHS Trust	NEPO Newcastle City Council Darlington Council Durham County Council Northumbria NHS Trust South Tees NHS Trust BENE
Intermediary	NCC Procurement Centre CECA CENE Constructionline	NCC Procurement Centre	NCC Procurement Centre FSB

Suppliers

1. Describe your business, its core and other activities, its size in turnover and units produced, numbers employed and their age profile, its locations and its head quarters and main centre. When was your last completed financial year?

2. Who are your customers? By product/service who are your main customers in the private sector and in the public sector by value and volume? What is the value and volume of product/service provided to the public and private sectors by your locations in the North East of England?
3. In your last completed financial year, for how many public sector contracts did your tender? What was their value to your whole business and to your business locations in the North East? In how many and for what value were you successful? What feedback did you receive when successful? What feedback did you receive when unsuccessful?
4. Illustrating what you say with examples (that we can follow up) from your experience, what advice would you give to a firm in the North East on tendering successfully to the public sector? If asked to guide a firm in the North East, with or without public sector tendering experience, what three things would you ensure were done? What difference would these three things make? How would you see that they were making a difference?
5. What changes has winning and not winning public contracts had on your business? How do you measure these changes?
6. Is there anything else you want to tell us about your experiences of public sector procurement?

Intermediary bodies

1. Describe your organisation, its objectives and membership: what activities do you undertake for your members? What services do you provide? How many and what proportion of your members are in the North East of England? Compared with five years ago is your membership in your latest completed financial year larger, the same, or smaller; by how much?
2. What services does your organisation provide for its members in the North East in relation to public procurement – for example, training, awareness seminars, research, contract opportunity notifications, or other information services?
3. How significant in value and volume is public procurement to your members in the North East? In your latest completed financial year, for how many public sector contracts, for what value and volume did your members tender? What were these figures five years ago?
4. Illustrating what you say with examples (that we can follow up) from the experiences of your members, what advice would you give to a firm in the North East

on tendering successfully to the public sector? If asked to guide a firm in the North East, with or without public sector tendering experience, what three things would you ensure were done? What difference would these three things make? How would you see that they were making a difference?

5. What have been the benefits of public sector tendering to your members in the North East? How are these measured? What are the disadvantages? How are these measured?

6. Is there anything else you want to tell us about your members' experiences of public sector procurement?

Purchasing organisations

1. Describe your organisation and its objectives: what is its membership? What activities do you undertake for your members? What sort of goods or services did you procure, by volume and value in your latest completed financial year? Compared with five years ago is this more, the same, or less; by how much?

2. In your latest completed financial year, how much, by volume and value, of your procurement was for users in the North East? What were these figures five years ago?

3. In your latest completed financial year, how much in value and volume of public procurement carried out by your organisation was from organisations based in the North East or from locations in the North East from which they provide the procured products or services? What were these figures five years ago?

4. Illustrating what you say with examples (that we can follow up) from your organisation's experiences, what advice would you give to a firm in the North East on tendering successfully to the public sector? If asked to guide a firm in the North East, with or without public sector tendering experience, what three things would you ensure were done? What difference would these three things make? How would you see that they were making a difference?

5. What encouragement is given to firms in the North East to take part in your organisation's tendering exercises? What steps do you take to ensure there are no disincentives to firms in the region taking part in tendering?

6. Is there anything else you want to tell us about your organisation's experiences of public sector procurement?

Appendix 3: Details of statistical analysis

Here we explain in more detail the process we followed to conduct the statistical analysis. To examine the various variables we discuss in this report we used the following measures:

- *Contract's estimated value* relates to the estimated value of the contract, which was advertised early in the project to invite potential suppliers to bid for it. The values here varied significantly as is shown **Table 1**.
- *Contract Period* relates to the length of the project as advertised to suppliers. As with the contract value, this figure varied significantly and it depended on the nature of the project or service that was being procured.
- *Company turnover* relates to the average turnover over two years of the companies that won a contract from NEPO in the years 2008 and 2009. We used these two dates to ensure consistency and reliability of the data. This figure is used as an indicator of organisational size.
- *Invitation to tender (ITT)* relates to the processes followed to invite competing offers from different suppliers. As these are often used when the specifications of the service are more "open", we included this in our analysis as a potential indicator of innovation based procurement. This took the value of 1 when ITT was used and 0 when it was not.
- *Local* relates to the location of the winning suppliers. This took the value of one when the supplier's postcode was within the North East and 0 when outside.

Table 1 Correlations and Descriptive Statistics

	Mean	Standard Deviation	Project's estimated value	Contract Period	Company Turnover	Invitation to Tender	Local
Contract's estimated value	56,1355.28	1,571,755.6	1	0.109*	0.224*	0.011	-0.144
Contract Period	16.80	14.479	0.109*	1	0.129*	0.209**	-0.221**
Company Turnover	490,090.3	2,498,474.8	0.224**	0.129	1	-0.041	-0.193
Invitation to Tender	0.6	0.491	0.011	0.209**	-0.041	1	-0.094*
Local	0.58	0.494	-0.144**	-0.221**	-0.193**	-0.094*	1

Correlation is significant at the **p<0.01, *p<0.05, levels

Table 2 includes the statistical analysis we conducted (binary logistic regression with location of the winning firm as the dependent variable). The results indicate at a statistically significant level that larger companies outside the North East of England are more likely to win larger and longer projects. The Invitation to Tender method of inviting bids does not play a role in this regression although it does in the correlations reported in the previous table. During our analysis we also used the other methods (PQQ and RFQ) and the results did not change.

Table 2 Binary Logistic Regression Analysis. Dependent Variable: the Location of the winning firm

Variables	Standard Coefficients	Standard Errors
Contract's estimated value	0.000	0.000
Contract Period	-0.029**	0.011
Company Turnover	-0.151**	0.056
Invitation to Tender	0.264	0.277
R ² (Cox and Snell)	11.2%	
R ² (Nagelkerke)	12.5%	
Percentage correct	61.7%	
N	256	

**p<0.05

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