



## **Making public sector procurement more accessible to SMEs:**

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## **Consultation response:**

### **Making public sector procurement more accessible to SMEs**

#### **About NCVO**

NCVO champions and strengthens the voluntary sector, with over 10,000 members, from the largest charities to the smallest community organisations. Alongside our sister councils in Wales, Scotland and Northern Ireland, we make sure the voluntary sector can do what it does best [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk).

NCVO convenes the Public Service Delivery Network, a group of 2500 organisations that have an interest in public service delivery. NCVO also convenes a special interest group of sub-contractor organisations involved in the Work Programme, and a Payment-by-Results working group that will be making recommendations in late 2013.

#### **Summary of NCVO recommendations**

- NCVO welcomes the Government's aim to make procurement more accessible for SMEs and less bureaucratic. However, the Government should be more ambitious and take steps to address wider barriers confronting voluntary, community and social enterprise organisations ('VCSEs') in public procurement.
- On the basis of current proposals, PQQs should not be abolished below current EU procurement thresholds, but instead standardised as is proposed for contracts of a higher value.
- A modified version of the 'core' or standardised PQQ incorporating social value should be adopted for all procurement activities
- An online portal for submitting and managing PQQs should be developed, with the cost shouldered by government
- All contracts and award notices should be advertised through Contracts Finder
- All public bodies should publish data on their procurement spend with SMEs, including specific reporting of grants and contracts to VCSEs.

## **SECTION ONE**

### **Introduction**

NCVO welcomes government efforts to make procurement more accessible and less bureaucratic for SMEs. In Section Two of this paper, we respond to the specific consultation proposals and welcome several of the measures, such as standardising PQQs. The proposals are, however, narrow in scope.

We believe the government should seize this opportunity to significantly improve public procurement, to ensure that it delivers against their objectives for Open Public Services and promoting economic growth. We urge government to take further steps to address the many other barriers confronting the VCSE sector in public procurement. We set these wider barriers and recommendation out in Section One of this paper.

These barriers often stem from a lack of engagement with supplier markets and the voluntary sector specifically. As such, concentrating on process, rather than culture, could have a limited impact. Many of the problems associated with commissioning and procurement relate to decision-making. Put simply, the information gathered during the procurement process is only as good as the people interpreting that information or making decisions. This applies to decisions about: procurement approach and timescale, scope and design of a service, assessing the quality and value for money of different bids.

Supporting commissioners and procurement professionals through change will be vital if real progress towards the Government's Open Public Services objectives is to be achieved.

Our key recommendations are:

**Training offer for procurement professionals:** To overcome many of the barriers described in this paper, there must be a cultural change among public bodies. We recommend extending the Commissioning Academy (and/or another high quality training offer) to all public sector procurement teams.

**Require social value:** All procurement activity should take account of the Public Services (Social Value) Act 2012. This will help to deliver better value for the public pound – by taking into account economic, social and environmental benefits. Firmer requirements to take account of social value (including a question on the core PQQ) should go hand in hand with training for procurement teams.

**Embrace open data:** Better data is essential for effective policy formation, driving improvements in procurement and securing better value for public money. We recommend below that all public bodies should report on grant and contract spending with VCSE organisations specifically, as well as with SMEs.

NCVO would also recommend that targets, incentives and accountability measures are considered to improve procurement practice across the public sector.

## Background

### **The voluntary sector's role in public service delivery**

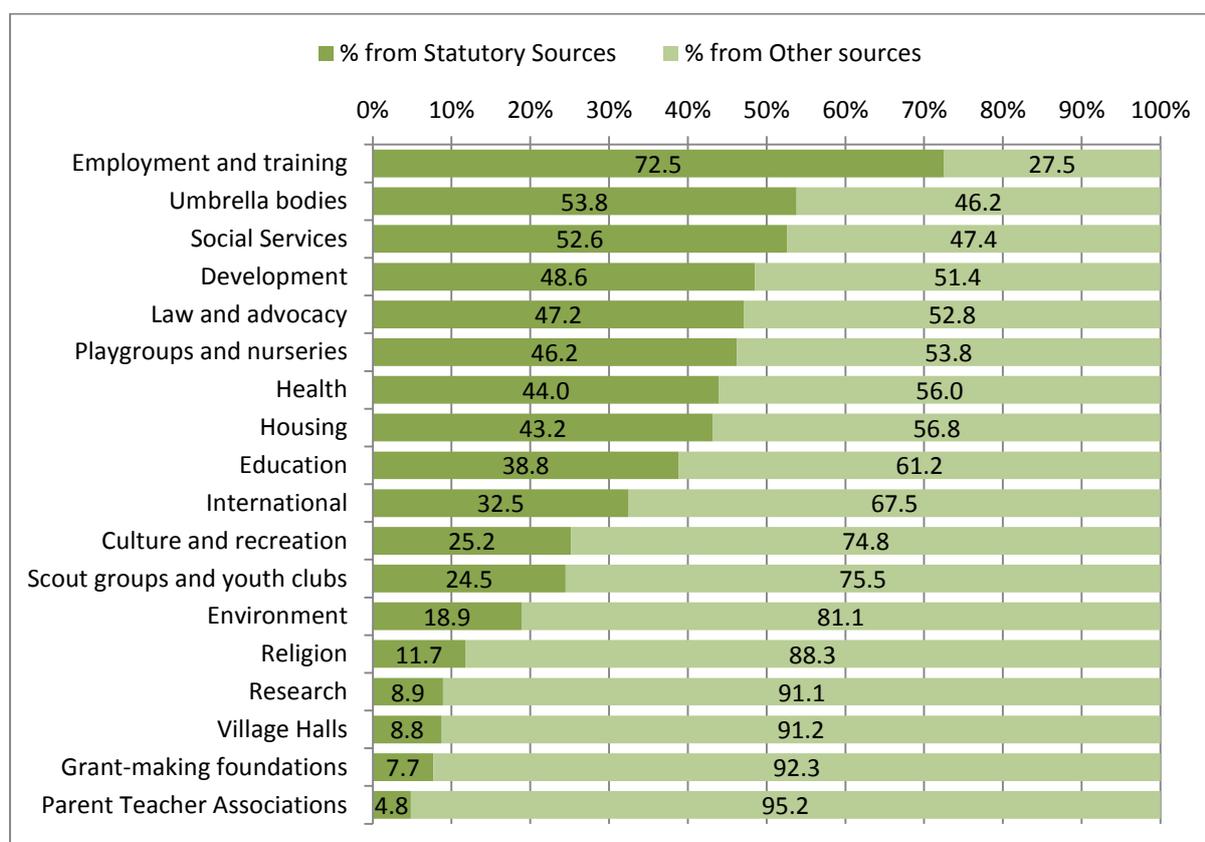
The voluntary sector has been involved in public service delivery for many years. As such, voluntary organisations have extensive experience of local government procurement policies and practice.

Charity accounts data, compiled in NCVO's Civil Society Almanac, shows that around a quarter of voluntary sector organisations receive income from government. In 2010/11 the voluntary sector received £14.2 billion (37 percent) of its income in the form of contracts and grants from statutory bodies. 50% (£7.0 billion) of this came from local authorities, highlighting the important relationship that exists between the voluntary sector and local government.

Since 2000, the voluntary sector's statutory income has grown faster than total public spending, suggesting that the voluntary sector has become an increasingly important contributor to economic growth – particularly at the local level - and a significant actor in the provision of public services.

In 2010/11 (the latest year for which data is available), the voluntary sector provided services across a broad range of areas:

### **Income from statutory sources, by sub-sector, 2010/11 (% of each sub-sector's income)**



Source: [NCVO/TSRC](#), [Charity Commission](#)

Further information on the voluntary sector can be found in NCVO's UK Civil Society Almanac:  
<http://data.ncvo-vol.org.uk>,

Our report Open Public Services: Experiences of the Voluntary Sector provides recent case studies on: commissioning, supply-chain management, sharing information, managing scale, new forms of finance, managing risk and ensuring quality.

[http://www.ncvo.vol.org.uk/sites/default/files/open\\_public\\_services\\_experiences\\_from\\_the\\_voluntary\\_sector.pdf](http://www.ncvo.vol.org.uk/sites/default/files/open_public_services_experiences_from_the_voluntary_sector.pdf)

### Voluntary sector organisation size

The table below shows the size of charities in the UK. The vast majority of charities fall within the EU definition of an SME<sup>1</sup>. Only 550 out of 162,177 charities across the UK are not classed as SMEs under the EU definition.

However, note that this data relates specifically to charities. The term VCSE (voluntary, community and social enterprise) will be used throughout this response to better reflect the range of organisations that NCVO represents.

### Number of UK voluntary organisations, 2010/11

| How big?  | Micro<br>Less than<br>£10,000 | Small<br>£10,000 to<br>£100,000 | Medium<br>£100,000 to<br>£1 million | Large<br>£1 million to<br>£10 million | Major<br>More than<br>£10 million | Total   |
|-----------|-------------------------------|---------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|---------|
| How many? | 83,917                        | 52,454                          | 21,081                              | 4,218                                 | 507                               | 162,177 |

Source: [NCVO/TSRC](#), [Charity Commission](#)

### Procurement barriers affecting VCSEs (not covered by the consultation proposals)

#### a) Limited pre-procurement dialogue

Before commencing any procurement activity, public authorities should be engaging with their supplier market to assess the population's needs; consider service design; and understand and develop the supplier base. Voluntary organisations are often well placed to contribute at this stage, advocating on behalf of service users and advising on how to improve services.

In practice though, public authorities often fail to engage with suppliers appropriately at this pre-procurement stage. Charities report a widespread but mistaken assumption on the part of commissioners that EU rules prohibit such dialogue. The Cabinet Office has published a 'myth-busting guide'<sup>2</sup> to clarify that dialogue is not only permissible, but essential, for public authorities to engage with the market before commissioning services. Meanwhile, the EU has just introduced two new procurement procedures, both of which have dialogue 'baked in'.

<sup>1</sup> <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition>

<sup>2</sup> <http://mutuals.cabinetoffice.gov.uk/sites/default/files/documents/SEC%20-%20Busting%20the%20Myths%202011.pdf>

Proper engagement with voluntary organisations at an early stage can deliver significantly improved outcomes and efficiency. For example, the charity Turning Point<sup>3</sup> has delivered its Connected Care model of community-led commissioning across 14 areas in England. This model enables communities to be involved in the design and delivery of services and has resulted in services that are more effective and which deliver significant net benefit to the public purse.<sup>4</sup> Another example is West Mercia Probation Trust which works with the charity YSS, to identify local needs and explore innovative new service ideas.<sup>5</sup>

**Recommendation:** Pre-procurement dialogue with communities and the market should be the norm, to ensure that services will be effective and represent good value for money. This should be part of the training curriculum for all procurement staff. It should also be communicated as part of a firmer requirement to take account of social value when commissioning public services.

#### **b) Inappropriate decisions about procurement approach**

*“...the difficulty we have is that commissioning staff within Local Authorities are not clear as to what is and isn’t a contract. So for us more training for Local Authority staff would be a priority.”*

*“Specialist officers who work in our ‘field’ are often very cautious about procurement. They will negotiate, then announce that all of this has to go to procurement, and there are significant delays.”*

*“Procurement seems to be very personal to an area and depend on how one or two (or few) personalities interpret legislation. More work needs to be done in educating procurement officers in the use of grants – i.e. it’s not just about the £££ size of specification that means it should be a contract – there are other factors – we suffer from the ‘it’s over ££££ therefore contract, PQQ, tender’ without any further thought”*

– Charity respondents to NCVO public services survey, Oct 2013

For a healthy market of service provision to exist procurement approaches need to be varied to suit the individual circumstances.<sup>6</sup> A grant may be most appropriate way of funding a voluntary organisation to deliver services at a local level – particularly if the service is niche, small scale and/or innovative. A service contract may be more appropriate where the commissioner wants the provider to fulfil a detailed specification – appropriate for most services, where effective practice is well-understood and the commissioner wants to get best value by comparing a range of bids. Within a service contract, the commissioner should also be specifying additional social value that they want to achieve. Payment-by-results contracts should be reserved for only specific and limited circumstances.

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<sup>3</sup> <http://www.turning-point.co.uk/about-us/who-we-are.aspx>

<sup>4</sup> A cost benefit analysis of one area found that with every £1 invested a return of £4.44 was achieved. When the benefits of improving quality of life are included, a return of £14.07 is gained for every £1 invested.

<sup>5</sup> NCVO’s *Open Public Services: experiences from the voluntary sector* provides more examples of pre-procurement dialogue: [http://www.ncvo-vol.org.uk/sites/default/files/open\\_public\\_services\\_experiences\\_from\\_the\\_voluntary\\_sector.pdf](http://www.ncvo-vol.org.uk/sites/default/files/open_public_services_experiences_from_the_voluntary_sector.pdf)

<sup>6</sup> NCVO provides guidance for voluntary organisations on different procurement approaches [http://www.ncvo-vol.org.uk/commissioning/procurement\\_approaches](http://www.ncvo-vol.org.uk/commissioning/procurement_approaches)

There is widespread anecdotal evidence to suggest that silos between commissioning and procurement teams lie behind many cases of ineffective decision-making about procurement approaches. In some cases, commissioners will have gone to lengths to engage with local suppliers, but once they handover to procurement colleagues, the procurement proceeds in a way that does not reflect these prior discussions. Commissioners may want to offer scope for innovation or VCSE participation, but are overruled by risk-averse procurement teams with rigid specifications. Where commissioners and procurement teams do work well together, more innovative and cost effective public services can result.

**Recommendation:** Appropriate selection of procurement approaches should be part of the training curriculum for all procurement staff. The Commissioning Academy should be extended for commissioners and procurement teams to attend together, to overcome potential silos.

### **c) Contract sizes are increasing**

In recent years we have seen an increase in larger scale contracts, driven in part by the Government's enthusiasm for the prime contract model of service delivery. There are potential advantages to this model, such as achieving greater scale and coordination of services – either thematically or geographically – and managing risk exposure. However, many charities are unable to access the capital needed for these larger scale contracts, resulting in a diminution of local or specialist expertise. Furthermore, large contracts can also create unnecessary layers of management and increased costs, as primes take a significant cut of contract value.

A 2013 VCSE survey by Locality found that nearly 42% of respondents believe contracts have become larger in the last five years and a further 52% expect them to become larger still over the next five years. 80% said this would provide them with less opportunities and a lower range and quality of services in their area.<sup>7</sup> These concerns are mirrored by an on-going NCVO survey where 23 out of 46 respondents said the scale of contracts has prevented their organisation bidding for work. One respondent noted how Lancashire County council have moved to seek more county wide contracts rather than more local and how this has opened up the market to larger, sometimes national, providers to the detriment of local organisations.

Large contracts excluding the VCS have been most visible in the Government's Work Programme. Organisations wishing to deliver one of 40 prime contracts had to display an annual turnover of at least £20 million and the financial capacity to deliver large contracts that require significant cash-flow. Consequently only three charities now act as a prime contractor. More recently each of the 21 prime contracts for the MoJ's 'Transforming Rehabilitation' – which plans introduce a competitive market to probation services on a payment-by-results (PBR) – expects organisations to have an annual turnover of between £6-36 million. Although it is yet to be decided which organisations will deliver these prime contracts, it is anticipated that few, if any, charities will be able to do so.

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<sup>7</sup> The survey is yet to be published online. However, its findings can be provided on request.

The barrier of large scale contracts can be tackled in part with the development of consortia. Initiatives such as the National Consortium of Social Enterprises<sup>8</sup> (funded by the National Offender Management Service (NOMS) and the European Social Fund) support the development of consortia to help increase employment opportunities for offenders, and build the capacity of Social Enterprises to deliver public services. However, despite the advantages of working in consortia, many respondents to an on-going NCVO survey said the lack of opportunity or prohibitive timeframe has prevented their organisation from bidding in a consortium.

**Recommendation:** Government should explore alternative ways to allow greater participation of charities in a prime contractor capacity in future programmes, by making contracts smaller and by providing more support and longer commissioning timescales to allow consortia building.

#### **d) Payment by results**

While payment-by-results is a compelling idea, in practice, we do not yet have developed examples of PbR working to improve outcomes. NCVO is also particularly concerned about the experience of service providers in these contracts, where risk is passed down supply chains. Voluntary organisations involved in the Work Programme have had mixed experiences, with few able to bid in the first place (see above), some being used as ‘bid candy’ but then receiving no referrals, and others experiencing ‘back door’ unfunded referrals.<sup>9</sup>

VCSEs involved in subsequent schemes, such as DCLG’s Troubled Families programme, while organised locally, still suffer from some of the same problems as the Work Programme, such as low referral volumes. The MOJ’s ‘Rehabilitation Revolution’ is attempting to tackle some of the problems associated with the PbR model by incorporating an element of grant funding, but it remains to be seen how much of this will be passed down the supply chain to VCS providers. Social Impact Bonds may appear to be a potential solution to outcomes based service delivery, but they can work out very costly compared to using simpler payment mechanisms such as grants or block contracts.

Supply chain management is another issue in relation to PBR contracts. NCVO has worked with Serco to develop good practice for supply chain management, as it is important to ensure clarity and visibility throughout the supply chain about referral volumes, outcomes, and payment terms.

A forthcoming NCVO report will make further recommendations around payment-by-results.

#### **e) Short procurement timescales**

Short procurement timescales can act as a significant barrier to charities wanting to compete for contracts. Producing high quality responses to what are sometimes complex and onerous PQQs and ITTs can take a considerable amount of time and resources, but a particular challenge is forming the partnerships or consortia needed to achieve the capacity and scale required to deliver some large contracts.

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<sup>8</sup> <http://www.3sc.org/news/national-consortium-social-enterprises-launch>

<sup>9</sup> The Work Programme – Perceptions and Experiences of the Voluntary Sector. June 2012 [http://www.ncvo-vol.org.uk/sites/default/files/sig\\_survey\\_june\\_2012\\_report\\_17.9.12.pdf](http://www.ncvo-vol.org.uk/sites/default/files/sig_survey_june_2012_report_17.9.12.pdf)

37 out of 46 respondents to an on-going NCVO survey said short procurement timescales have prevented their organisation from bidding for work. One respondent noted how their local authority gave only 4 weeks to put a consortium together and complete the PQQ back-to-back with the ITT.

**Recommendation:** Training for commissioners and procurement professionals should include procurement timescales that reflect the complexity and scale of the contract being tendered. Where short timescales are necessary, commissioners should provide business support for charities.

**f) Disproportionate requirements at PQQ and ITT stages**

PQQs help public bodies determine whether providers have the capacity and suitability to deliver a particular service. However, as the current Government consultation notes, their use can be burdensome for some organisations. 13 out of 45 respondents to an on-going NCVO survey said they spend more than four weeks per year completing PQQs and tenders and 31 out of 46 said the bureaucracy of procurement procedures and paperwork has prevented their organisation from bidding for work.

Certain questions or requirements can also cause VCSE organisations to be unnecessarily screened out at an early stage of the procurement process. Invitation to Tender (ITTs) documents similarly create a barrier for some charities wanting delivering public service contracts. For example, one youth association successfully applied to be added to a Framework of suppliers linked to Troubled Families Initiative had to complete a 49 page PQQ and 99 page full tender – but has yet to receive any referrals. Another applying for a £10k grant for arts activity was asked to produce their AGM board minutes and explain what is already allocated within their committed reserves of almost £4m. Another NCVO member reported tender documentation 102 pages long.

**Recommendation:** In addition to proposals brought forward in the current government consultation, requirements at ITT stage should be more proportionate and relevant. This can be as much about the quality of questions asked as the number.

**g) Contracts awarded on price, not value**

*“Cheapness” has won out, despite the commissioners’ stated desire for quality.’ – Charity<sup>10</sup>*

*“In bidding processes, companies are making offers to supply adult social care at a rate that should be mathematically impossible if they are paying the minimum wage, making National Insurance contributions, putting in to a pension scheme and providing training. No local authority should make that deal: even just on the pragmatic basis that it will be their own residents who are on the receiving end of that low wage, their own housing benefit department making up the carer’s rent shortfall, their own health and children’s services that come under strain when poverty is rife. And these care workers are storing up poverty for their own retirement.” – Social Enterprise UK<sup>11</sup>*

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<sup>10</sup> Quote from a charity respondent to survey. When the going gets tough, New Philanthropy Capital 2012 <http://www.thinknpc.org/publications/when-the-going-gets-tough-2/>

<sup>11</sup> The Shadow State, Social Enterprise UK, 2012 [http://www.socialenterprise.org.uk/uploads/files/2012/12/the\\_shadow\\_state\\_3\\_dec1.pdf](http://www.socialenterprise.org.uk/uploads/files/2012/12/the_shadow_state_3_dec1.pdf)

Public sector procurement is increasingly driven by price, rather than delivering value for money.

As the quote from SE UK above suggests, in many cases, this can be a complete diseconomy. With social care visits reduced to 15 minute slots, and care workers on zero hour contracts, many care workers find themselves working long hours for little pay.

By contrast, many charities and social enterprises go out of their way to create added value. Motivated by mission, rather than profit, they want to deliver a high quality service. Many also create employment opportunities for disadvantaged groups, build communities through active engagement and user voice, and attract additional resources to complement public spending e.g. volunteering opportunities and grant funds.

The Social Value Act 2012 has placed a legal requirement on local authority commissioners to account for the social, environmental and economic well-being of an area when designing a service (i.e. pre-procurement) and deciding to award a bid. However, feedback from NCVO members, Compact Voice, the Public Services Delivery Network and voluntary sector partners suggests this is not happening nearly enough. In some cases, this appears to be because commissioners seeking to achieve broader social value or trial new methodologies – such as social value – have their business cases blocked by risk-averse procurement or finance teams.

**Recommendation:** Training for commissioners and procurement professionals should include developing a better understanding of risk, value for money, and social value.

#### **h) Excessive monitoring and evaluation requirements**

Appropriate and feasible monitoring and evaluation requirements can be beneficial to charities where they help staff develop an effective service and provide managers extra intelligence for improving the way the charity functions. However, excessive and inappropriate monitoring and evaluation requirements waste resources and reduce the effectiveness and efficiency of service delivery. This ultimately leads to poor value for funders. Onerous reporting requirements are a particular problem for smaller charities that receive small amounts of funding, and have less capacity to deal with monitoring requirements. A NAVCA report, 'For Good Measure'<sup>12</sup> found that one VCS service provider in Sussex was audited eight times in six weeks by local statutory partners.

The National Audit Office provides a practical toolkit, 'Intelligent Monitoring: an element of financial relationships with third sector organisations'<sup>13</sup> to help funders consider effective and proportional monitoring.

**Recommendation:** Training for commissioners and procurement professionals should include the importance of proportionate monitoring and reporting requirements and incorporate reporting costs into funding agreements.

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<sup>12</sup> <http://www.navca.org.uk/publications/forgoodmeasure>

<sup>13</sup> [http://www.nao.org.uk/intelmonitoring/wp-content/uploads/sites/9/2013/02/intelligent\\_monitoring.pdf](http://www.nao.org.uk/intelmonitoring/wp-content/uploads/sites/9/2013/02/intelligent_monitoring.pdf)

### **Poor decommissioning**

Decommissioning is stopping provision of a service or a significant part of a service in order to bring about an improvement to existing service provision. Improvement may refer to either or both outcomes or value for money, and also incorporates situations where decommissioning is driven by productivity and efficiency where there is a reduced budget. Decommissioning doesn't mean the service no longer exists – but that a process of review and change, and then fresh competition to win the contract – is conducted.

However, what might be considered by the commissioner as 'decommissioning' may be felt by the provider as a 'cut'. As such the key challenge is how commissioners and providers can work productively and closely through the decommissioning process. In such cases, good negotiation skills and trust-based relationships are essential.

An example of good decommissioning is the way Thurrock Council designed its current adult and social care services. Working with service users, commissioners built a coalition of support for decommissioning old day centres and replaced them with a more effective, community-based solution that gave people more choice, control and independence.<sup>14, 15</sup>

**Recommendation:** Train commissioners to consult and work closely with users and service providers when a service is decommissioned. As with commissioning more generally, commissioners must better utilise the skills, knowledge and expertise of charities to identify community needs and co-design more effective and efficient solutions.

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<sup>14</sup> More examples of good decommissioning can be found here

<http://www.nesta.org.uk/library/documents/ArtofExit.pdf>

<sup>15</sup> NCVO guidance on decommissioning <http://www.ncvo-vol.org.uk/commissioning/decommissioning>

## **SECTION TWO**

### **Consultation questions**

#### **Abolishing PQQs below EU thresholds**

The pre-amble to Question 1 states that the Government proposes to eliminate the use of PQQs for almost all goods, services and works procurements under £173,934 (the current EU threshold for goods and services in the wider public sector). The consultation does not seek views on whether abolishing PQQs will improve the procurement process for SMEs.

On the basis of current proposals, NCVO does not believe PQQs should be dispensed with for contracts below the current EU threshold. Instead they should be simplified and standardised, as is proposed for higher value contracts. A PQQ tests whether an organisation is both capable and suitable to deliver a particular contract. If these questions are not asked at the beginning of the tendering process, we expect public bodies will simply incorporate them into more onerous Invitation to Tender requirements (ITT).

NCVO, in partnership with SEUK, NAVCA, CFG and Acevo conducted a survey (herein referred to as the 'SME survey') to address the questions posed by this consultation. Of the 192 respondents to this PQQ question, 56 percent (141) did not think PQQs should be automatically scrapped. These comments are representative of charities' concerns:

*'Without knowing what alternatives are available it is difficult to vote 'yes'. PQQ at least allows for a certain level of transparency but is extremely onerous so would in principle like it to be abolished for below a certain threshold only if alternatives are identified and consulted on.'*

*'If used correctly PQQs can result in only 'suitable' providers going on to bid for work as others are screened out. The problem is PQQs are often onerous and over complex and this may deter smaller providers. However, from experience if a PQQ is not asked for it is simply absorbed later in the full ITT.'*

*'In my opinion commissioners/public bodies WILL still require the information usually provided in PQQs and WILL simply add it to the ITT. This information will then be scored first and the rest of the ITT, which someone will have spent a considerable amount of time and money on, will only be looked at if the provider reaches the required benchmarks. They will simply change the format/name keeping the requirements the same.'*

– Charity respondents to NCVO SME survey, Oct 2013

We are concerned that abolishing PQQs could have the opposite effect of what the Government is seeking to achieve; by increasing the administrative burden on both contracting authorities and SMEs of dealing with more ITTs, or deterring smaller organisations from bidding at all. Further steps would need to be taken (see below) to mitigate this risk.

On the basis of the current limited proposals, NCVO recommends an alternative solution: for the standardised or 'core' PQQ to also be available for use below the EU procurement threshold.

Finally, the consultation fails to address how the planned increase to EU procurement thresholds from £173,934 to circa £600k<sup>16</sup> could impact on the proposed abolishment of PQQs. If the proposals are to follow the new threshold, a far greater number of contracts than is currently envisaged would not have a PQQ before tender. It is unclear what the Government's position is on this – greater clarity is required.

***Q1. What mechanisms and incentives would prevent contracting authorities from asking unnecessary and burdensome questions during the procurement process?***

As described above, NCVO does not support elimination of PQQs under the current proposals, as there is a high risk that the information will simply be shifted to ITTs.

To mitigate this risk, the Government would need to:

- Mandate full and early disclosure from public bodies about their requirements  
Charities often say that it is only after the PQQ stage that they find out essential information. Should the government decide to proceed with these plans, it is essential that all pertinent information about the contract – i.e. TUPE requirements, partnership requirements, quality standards and insurance cover needed, financial requirements - be disclosed upfront when the contracts is first advertised. This will give potential bidders a better chance of evaluating whether they are suitable and capable of delivering the contract before they spend time writing a tender.
- Provide clear statutory guidance to public bodies about proportionality of ITT requirements  
Charities often encounter disproportionate requirements (e.g. certain quality standards and high levels of insurance cover) or misunderstandings (e.g. about their financial structure) at PQQ stage, which screen them out unnecessarily. There is a high chance that this will continue under current proposals, but at ITT stage. Clear statutory guidance would be needed to give procurement teams confidence to set more proportionate requirements.
- Invest in training for procurement teams, as set out in Section One of this paper.

***Q2. Should the 'core' PQQ currently used in central government be adopted as standard across the public sector?***

*'We felt the standard PQQ suggested was a step forward from the models currently used at a local level.'* – Charity respondent to NCVO SME survey, Oct 2013

NCVO largely welcomes the adoption of a standardised or 'core' PQQ for all public sector procurement - a position supported by the majority of respondents to our survey. However, while the 'core' PQQ currently used by central government is widely viewed as a significant step in the right direction (in that it is far less complicated than the majority of PQQs currently used by contracting authorities) it risks omitting questions that will simply be moved to a more onerous ITT stage.

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<sup>16</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225398/PPN\\_-\\_outcome\\_of\\_negotiations.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225398/PPN_-_outcome_of_negotiations.pdf)

To prevent this happening, contracting authorities should be given the option to add a limited number (e.g. 3-5) of supplementary questions to the 'core' PQQ that relate to particular service or procurement. For example, a construction contract might reasonably demand certain health and safety standards. If the core questions on the PQQ do not change and need only be submitted once via the online portal suggested below, answering a few supplementary contract-specific questions should not prove too onerous. Contracting authorities should also ensure that as much information as possible about contract requirements is disclosed upfront when the contracts are advertised to avoid surprises at the ITT stage.

It is important to note that any PQQ, regardless of detail, is only as good as the person interpreting the information. In short, if a procurement officer lacks understanding of the service users in question and the supplier market from which to choose a provider, then even a simpler PQQ may be misused. VCSEs report that in many cases, service specifications are prohibitively restrictive. In other cases, they are screened out prior to tender due to misunderstanding about their organisation or consortia. This not only leads to suitable VCSE providers missing out on contracts, but importantly, public services that may be less effective. This knowledge deficit can be overcome with greater pre-procurement dialogue with service users and the organisations that advocate on their behalf. As stated in Section One of this response, effective pre-procurement dialogue should be an integral part of the learning curriculum for all commissioners and procurement staff.

The government should ensure that any 'core' PQQ adopted is based on a thorough and widespread consultation with the VCSE sector and other relevant stakeholders; this needs to be longer than the current four-week consultation period. There needs to be an agreed process to "road test" the proposed standard, so the impact of any changes is fully understood before final decisions are reached. This could be achieved through reference group meetings and roundtable discussions with sector bodies and 'frontline' providers following the official consultation deadline.

***Q3. Which, if any, questions could be removed from the 'core' PQQ? Are there any additional questions or relevant standards that should be included because they are essential to a specific sector (and please explain why they are essential)?***

The Government has placed social value at the centre of its Open Public Services agenda because of its importance for achieving value for money for the taxpayer, and improving the social, economic and environmental well-being of an area. It is therefore vital that any standardised PQQ provides an opportunity for an organisation to showcase its social value credentials. Some contracts rightly afford more weighting to such factors as employing local people, building social cohesion or encouraging local economic growth, so organisations that bring this added value should be given the opportunity to highlight these strengths. As many public bodies are considering how to adopt the Public Services (Social Value) Act 2012, incorporating a core PQQ question would be a helpful first step for them to begin implementing the Act.

Any 'core' PQQ should also provide an opportunity for VCSEs to explain their financial structure. Often there is an over reliance on balance sheet metrics which can discriminate against SMEs and VCSEs. For example, a charity says:

*'PQQs need to be adjusted to improve VCS accessibility to contracts. The VCS may fail in areas such as credit ratings which don't even appear on the PQQs - which would seem unfair for some small contracts...'* – Charity respondent to NCVO SME survey, Oct 2013

Therefore an opportunity to elaborate on the data provided would help the contracting authority better understand the operational and governance characteristics of the bidding organisation. This is particularly the case where a consortia or partnership is bidding and wishes for its collective capacity and track record to be considered. A section to this effect could be added to 'Form D – Economic and Financial Standing Regulation 24'. Ideally, commissioners and procurement teams would have a strong understanding of their local supplier market to start with – but it would be useful to reflect this in the core PQQ.

Furthermore, as micro businesses (a category that the majority of VCSEs fall within) are not required to submit audited accounts, the 'core' PQQ should include guidelines about what financial information might be acceptable in lieu of this data. One way this could be achieved is by stating that financial documents only need to be provided by shortlisted or successful organisations. Another option is for the public sector to draw more on any data it already holds, as one charity says:

*'Financial information for charities is freely available via charity commission so process should just ask for more recent information. [On] experience and contracts - often small VCSEs only contract with their local authority who will therefore have this information - why do they need it given back to them!'* – Charity respondent to NCVO SME survey, Oct 2013

Form E – 'Technical and Professional Ability Regulation' asks the bidder to provide details of up to three contacts from the public or private sector which are relevant to the contracting authority's requirement. However, it is unclear whether experience obtained from delivering grants is permissible. Many VCSEs have experience in delivering grant funded programmes, and as such, would like to be able to highlight this experience in the PQQ process. If the intention of the standard PQQ is to allow the use of grant experience under the term 'contract' this should be explicitly stated in the table's introduction. If it is not, then a separate section should be added to accommodate this information. Applicants should also be permitted to provide details of contracts from the VCSE sector, rather than just the public and private sectors. Without these modifications some VCSE organisations applying to deliver a public contract for the first time could be put off bidding.

NCVO welcomes the absence of questions surrounding quality standards and insurance requirements in the proposed 'core' PQQ. Unnecessary insistence of expensive accredited quality standards which are either disproportionate or inappropriate for the contract is a recurring barrier for VCSE organisations bidding for contracts. Often this is seen as a box-ticking exercise with even some local bodies themselves unaware of why they are being sought for a particular service. In the same way, excessive and inappropriate insurance cover requirements are often a major barrier for some organisations seeking to get through the PQQ stage. One respondent to the survey cited the requirement for £5m Professional Indemnity and £10m Public Liability and Employment Liability for low value contracts. Often commissioners stick to these requirements because these monetary values are 'enshrined in their rules'. Instead, quality standards and insurance indemnity requirements should be clearly stated when the contract is first advertised with proof of ownership only sought prior to contract award, rather than tender.

*'Some PQQs have totally inappropriate requirements in relation to the size of the bid... We are being told it will be an automatic fail if we do not have this level of [Professional Indemnity cover].'* – Charity respondent to NCVO SME survey, Oct 2013

The 'core' PQQ tackles a problem often posed by many PQQs in that distinguishes between consortia and sub-contractual relationships. However, while it asks where sub-contractors will play a significant role in the delivery of the services the composition of the supply chain be indicated in a separate annex, it fails to define what is deemed a 'significant role'. Some clarification in this respect will be needed to prevent confusion or either too much, or too little, information being provided.

***Q4. How would a single online platform for managing, submitting and verifying PQQ responses provide advantages to bidders and contracting authorities over and above the PQQ reforms already described? Would suppliers be prepared to pay a small fee for using this system (assuming the option of manually submitting a PQQ without any charge is also still available)?***

*'This would definitely save a lot of time in the procurement process - crucial for businesses with small business development/ bidding teams'*

*'This would save SMEs a great deal of time if this were to happen. The system would need to be straightforward and easy to use, not like some of the portals available at the moment.'*

*'There are so many different platforms and portals, all complex in their own way. It is time consuming trying to keep up with them all.'*

– Charity respondents to NCVO SME survey, Oct 2013

NCVO supports the adoption of a single online portal for submitting and managing PQQ responses - a position supported by the vast majority of the 175 respondents to our survey. Most cited simplicity and saving time as the main advantages, with one respondent noting how they are currently registered with over 30 different portals, some of which are complicated. A single system could also help organisations creating joint bids. Such a process has been evident in recent years with VCSE training providers collaborating to get on the ACTOR register to be eligible for SFA training contracts<sup>17</sup>.

The effectiveness of the proposed system will be largely dependent on how easy it is to use and how up-to-date the information held on the system is. This will be essential to maintain confidence of contracting authorities.

As the system appears to be envisaged, it would allow a contracting authority to scan the database for suitable organisations. For this to work, information held by all providers would need to be constantly updated. This approach could cause difficulty for organisations that would look to bid in different consortia for different opportunities.

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<sup>17</sup> <https://skillsfundingagency.bravosolution.co.uk/web/login.shtml>

Instead, we would recommend that the online portal should enable a PQQ tailored to a specific contract to be submitted. This would give organisations a fair opportunity to submit a PQQ with the information and requirements – i.e. relevant experience and partnership plans – relating to the specific opportunity. We imagine this function could be built into Contracts Finder, whereby a potential bidder clicks to bid and their existing ‘core’ PQQ is displayed for modification.

Another issue highlighted by respondents to NCVO’s SME survey, is that it should be a mandatory requirement for all contracting authorities and commissioners to use the system.

*‘...it is the commissioners that need to sign up to it - if it doesn't meet their needs they will simply go outside of the system.’*

*‘The biggest issue we foresee is the public sector bodies not using the system. If they have the opportunity to opt out, they will. This needs to be enforced all the way through from government down to all local public sector bodies. If there is one platform - it needs to be a mandatory system’*

– Charity respondents to NCVO SME survey, Oct 2013

The implications of a single online platform in terms of the resources needed to run it effectively are currently unclear. However, we do believe that the efficiency savings for the public sector should be significant, and that government should meet the costs associated with developing and maintaining the platform. Many charities are under significant financial pressure and experience significant procurement barriers already, so any new fees are likely to be unwelcome. Over 74 percent (138) of respondents to the NCVO SME survey said they would be unwilling to pay to use the service (assuming the option of manually submitting a PQQ without any charge is also still available).

***Q5. Do you agree that all public procurement opportunities over £10,000 should be accessible from Contracts Finder? How can this be achieved simply and effectively? If you do not agree, why not?***

***Q6. Do you agree that all award notices for public contracts over £10,000 should be accessible from Contracts Finder? How can this be achieved simply and effectively? If you do not agree, why not?***

NCVO believes that all public procurement opportunities and award notices for public contracts over £10,000 should be accessible from Contracts Finder. This proposal was also supported by over 80 percent (145) of respondents to our SME survey. While we acknowledge this could have implications for regional procurement portals that currently operate across the country, the benefits of the proposal - in terms of transparency, creating a level playing field, efficiency and consistency - must take precedence. That said a technological solution which allows Contracts Finder to interface with existing portals could solve this issue.

However, we are also aware that current VCSE usage of Contracts Finder is limited and that there are concerns about its usability. A survey of members of Funding Central<sup>18</sup>, an equivalent platform for grant funding, found that only four percent of respondents used Contracts Finder with just over

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<sup>18</sup> <http://www.fundingcentral.org.uk/>

1.5 percent commenting that it proved useful to their organisation.<sup>19</sup> These low satisfaction levels most likely stem from the difference in the ‘user-friendliness’ of the information provided by the two sites. Part of Funding Central’s appeal derives from its ability to translate complex contract opportunities with technical jargon into a plain English, user-friendly format. This is particularly appealing for organisations that lack previous experience of contracting and public service delivery.

This highlights a potential weakness with Contracts Finder inasmuch as it simply reproduces the differing requirements and often recondite language of different contracting authorities. Some VCSEs find it difficult to navigate. Therefore, while having all public contracts available in one place would mark a significant development for many VCSEs, it is equally important that contract opportunities posted by public bodies are ‘user-friendly’ in both their taxonomy and presentation. Accordingly, any move towards a single portal for all public contracts and award notices must be accompanied by an effort to ensure that contracting authorities use language that is as clear as possible, and that the Contracts Finder site is itself an appealing and user-friendly option for SMEs.

***Q7. Do you agree that all public bodies should publish data on their procurement spend with SMES in one place? How can this be achieved simply and effectively?***

NCVO believes all local public bodies should publish their spending data - including contracts and grants - in a consistent, open and machine-readable format. This should include specific reporting of grants and contracts to VCSEs.

The advantages of better tagging and reporting of spending data has already been well-rehearsed in previous Cabinet Office policy documents and speeches. Francis Maude has been a passionate advocate of open data, arguing that it will lead to greater efficiency savings and transparency.

Furthermore, transparent procurement data is essential for effective policy formation. It enables improvements in procurement – by helping public bodies and VCSEs identify needs, design innovative services and campaign for change – and provides accountability to the taxpayer. Conversely, poor data – or a lack of data – creates challenges for policymakers in assessing progress or driving change.

There is an urgent need for better data about procurement spend with VCSEs specifically.

At present, NCVO derives estimates for public spending with VCSEs from charity accounts data. This is published in its Civil Society Almanac (the most comprehensive financial dataset for the voluntary sector). While this dataset is considerably more reliable than government estimates, there is a timelag of around 18 months while this data is analysed (as charities file accounts up to 10 months after the end of their financial year).

To address this lack of timely data, Compact Voice (CV) also submits FOI requests to all 352 local authorities annually<sup>20</sup>. CV do not receive responses from all LAs, and the responses are often inconsistent or incomplete. Nonetheless, they provide an additional source of information about public spending with VCSEs.

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<sup>19</sup> A selection of the survey results can be found on Funding Central <http://www.fundingcentral.org.uk/Page.aspx?SP=6348>. The question results on Contract Finder are not included but were passed on to OCS in a quarterly monitoring report for Jan-Mar.

<sup>20</sup> <http://www.compactvoice.org.uk/foi2012>

Unfortunately, central and local government data and reporting are inconsistent at present. For example, a recent DCLG statistical release had to be withdrawn after NCVO and NAVCA queried an anomalous 35% rise in grant funding from local authorities between 2010-11 and 2011-12. <http://www.thirdsector.co.uk/news/1182524> This was subsequently investigated and corrected to show a 33% fall over the same time period. We were encouraged by DCLG's consultation in late 2012 on improving local authority data standards, but as far as we are aware, this has not been progressed<sup>21</sup>. Without more reliable data, it is difficult for policymakers, researchers and VCSE organisations themselves to track procurement and public service delivery trends.

This current consultation therefore provides a perfect opportunity to improve data standards across the public sector – to provide a timely and accurate picture of procurement spending with both SMEs and VCSEs specifically. NCVO and other prominent VCSE organisations and researchers would strongly welcome such a commitment and be willing to provide any support required to enable this to happen.

Good practice already exists and could be used as an example for other public bodies to follow. Redbridge Council have developed DataShare<sup>22</sup>, a website that makes inspecting, access to, and downloading their data easier for everyone, including developers who may wish to use the data – including all contracts spend and payments over £500 – in their own applications, web sites and widgets. Although the site does not go far enough in terms of grant and contract funding to VCSEs, it does mark a significant step in the right direction.

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<sup>21</sup> [http://www.ncvo-vol.org.uk/sites/default/files/dclg\\_consultation\\_-\\_code\\_of\\_transparency.pdf](http://www.ncvo-vol.org.uk/sites/default/files/dclg_consultation_-_code_of_transparency.pdf)

<sup>22</sup> <http://data.redbridge.gov.uk/>