Dear Meg,

I am writing to update you on the Crown Commercial Service’s progress in addressing the recommendations of the Public Accounts Committee in its report on Government spending with small and medium-sized enterprises (42nd report Session 2015-16).

I last wrote to you about our activity in this area in October 2016. Since then, we have continued to work on a number of fronts: engaging with government departments and with business as well as strengthening our own systems and processes and re-examining how we measure government’s spend with SMEs.

Key Activity
With the Growth and Enterprise Board, chaired by John Manzoni and attended by the Commercial Directors from the largest spending departments, we have established the right governance to drive the growth and SME agenda forward across government. Both John and I also hold bilateral meetings with departments where we can scrutinise plans and this engagement is helping maintain impetus in the SME agenda as well as identify further specific actions departments can take to increase their spend with SMEs.

We’ve also built stronger links to the SME community. Since her appointment in July 2016, Emma Jones, the Crown Representative for Small Business, has provided a valuable link between government and SMEs, not least in helping to re-establish our Small Business Panel. The Panel – which comprises 24 experienced business representatives – is in the process of identifying practical recommendations to help us address the barriers which SMEs experience.

We’ve taken steps on some key issues already:

- We’ve established a review process to ensure we assess how each of our new frameworks will support SME access. This approach is already bearing some fruit: in 2016-17, an additional £184m was spent directly with SMEs through CCS deals.
- We are simplifying CCS’s own documentation and procurement processes including our standard ‘Terms and Conditions to make it easier to work with us.
- We’re increasing use of Contracts Finder: reminding public authorities of their obligations to publish new contract opportunities there and undertaking periodic spot checks; but also
developing the site so that large government suppliers can use it to advertise supply chain opportunities. In the last 12 months, SME registrations on Contracts Finder have increased from 7,000 to over 11,000. Our target is to reach 13,000 by April 2018.

We’re now also proposing three new actions for 2017-18, focussing on working with government’s larger suppliers to encourage more spend to flow to SMEs and will be consulting on these proposals in the coming weeks:

- **Transparency**: We will encourage government’s biggest suppliers to open up their supply chains to SMEs by requiring them to publish annual data on the spend from major government contracts flowing to smaller businesses in their supply chains. This will also help improve the data on indirect spend (about which more below).

- **Visibility of opportunities**: We will require successful suppliers on major government contracts, where they are refreshing their supply chain, to advertise their subcontracting opportunities on Contracts Finder so SMEs can bid.

- **Prompt payment**: We will evaluate suppliers’ ability to pay their subcontractors promptly as part of the assessment of technical and professional ability in major government contracts. If a bidder fails to satisfy this criterion they could be excluded from the procurement.

**Spend data methodology and publication**

We have now published Government procurement spend figures for 2015-16. These show that SMEs benefitted from £12.2 billion worth of central government spending in 2015/16 and that the amount government spends directly with SMEs has continued to climb. This now stands at £5.6bn, representing a significant increase since 2011/12 when £4.4bn was spent. The data does however also show a fall in the overall percentage of spend going to SMEs, from 27.1% in 2014-15 to 24% in 2015-16.

Most of the change is the result of a lower proportion of spend with SMEs in two departments, Defence and Justice, where, because of the size of their spend, even relatively small changes have a significant impact on overall government performance. For the first time the figures also include Network Rail, now classified as a government body, and this has also reduced the overall proportion. However we expect Network Rail’s percentage to increase as its data on the indirect spend with SMEs in its supply chain improves.

We have not materially changed our approach to measurement of direct spend with SMEs since 2011/12 and do not intend to change it. Data from our central spend analysis system is analysed using Dun and Bradstreet identifiers to identify departments’ and their ALBs’ direct spend with SMEs and the resulting reports are reviewed and signed off by each department’s Commercial Director.

To estimate indirect spend, for the past 3 years CCS has surveyed the top 500 suppliers to government asking them to report their business with each government department and how much goes to SME subcontractors. Because we rely on reported data from suppliers, the approach to indirect spend can only ever be indicative and is liable to fluctuate. As with direct data, returns are reviewed and signed off by each department’s Commercial Director. This is the approach we have taken for 2015-16 and it is also the approach we are taking for 2016-17 data.

From 2017-18 onwards, we will also use data from larger suppliers on the proportion of spend from major government contracts which flows to smaller businesses in their supply chains. We are still developing the detail on how to manage this, and propose to engage with the National Audit Office on the approach and then write to you to set this out.

We have considered, following the Committee’s recommendation, whether to establish separate targets for direct and indirect spend. However, we believe this will reduce departments’ flexibility
in delivering their targets and it may lead to perverse incentives e.g. to award contracts based just on contribution to delivering the SME target, rather than value for money which remains our over-arching objective. CCS will not be recommending this approach to Ministers.

I hope that this letter provides you with a helpful update. I am copying it to the Chief Executive of the Civil Service, the Treasury Officer of Accounts and to the Comptroller and Auditor General.

Yours Sincerely,

Malcolm Harrison
Chief Executive, CCS