

# WORKING TOGETHER

SUPPORTING SMEs TO WIN  
LOCAL GOVERNMENT CONTRACTS

*NOTES FROM AN NLGN ROUNDTABLE HELD IN  
PARTNERSHIP WITH TATA CONSULTANCY SERVICES*

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New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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# INTRODUCTION

In May 2014, NLGN held a roundtable discussion bringing together local government and SMEs to discuss opportunities and barriers to working together. This paper outlines the key themes that came out of the event.

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# SMEs: RISKS AND REWARDS

**Small and Medium Enterprises (SMEs) offer local government both innovation and risk. Councils meet lots of small companies selling cutting edge solutions, but these are often unknown and untested. This is challenging for councils who – particularly given the economic and democratic challenges they face – cannot afford to invest in unsuitable projects and products.**

Even when councils do have an exciting product put in front of them that matches the outcomes they seek, they sometimes require unattainable proof of success before they will commit to buying. For many SMEs (who may have good evidence of success, but not yet at a scale relevant to a local authority) this can be an impossible barrier.

This is symptomatic of the wider paradoxical situation councils often find themselves in – they want to innovate, but first they want to see several examples of where innovation has worked well for other local authorities. But innovation requires someone take a risk – something SMEs know very well. Councils need to be braver when taking what are often relatively quite small risks with small companies.

As budgets are slashed, councils are going to have to rethink the ways in which they are working in order to survive. Thinking laterally, and delving into the creative and innovative solutions some SMEs are able to offer is an excellent way to do this.

The more traditional way of mitigating this risk has been councils buying from big companies who can decide whether to take a decision on whether or not to buy parts of their offer from SMEs and provide the expertise needed to manage supply chains. The problem with this model is that all too often SMEs get a bad deal from some unenlightened prime contractors.

SMEs are agile, and can both facilitate and drive innovation, something councils desperately need to do in this time of austerity. In order to ensure this, the frameworks within which councils operate must be redesigned, to better enable the inclusion of SMEs.

# DEVELOPING A NEW PROCUREMENT ECOSYSTEM

**The procurement process is in need of change. Too often, it remains process driven and too divorced from commissioning.**

The current state of procurement contracting resembles territory cut into chunks, to be looked after by a series of larger contractors. A better vision for the future is one in which we develop a more fruitful and flourishing ecosystem; one in which a network of suppliers of different sizes, shapes and types work in a more synchronised manner. This would be more efficient, streamlined and cost-effective while also having the potential to offer better results for the locality.

A mixed economy is a crucial way to make savings. The fact that some Service Integration companies have identified gaps in their capabilities which require more agile and dynamic suppliers is something which councils should take note of, instead of ignoring or postponing the plugging of these gaps, which may lead to greater financial cost or societal cost.

A better approach is to consider service provision from the perspective of the outcomes which need to be achieved rather than trying to match procurement to the outputs of a single provider. A good procurement officer can then be proactive and strategic about how comprehensively to fill these gaps by working with different partners where the outcomes require it. It is then up to them whether they take this forward with individual contracts with a range of organisations, or find a consortia or network of suppliers of different sized organisations who can provide coverage of all desired outcomes.

The best local authorities are pursuing and implementing the changes needed. Yet many councils, even those next door to one another, are out of sync in their evolution. Some are even moving against trend, beginning to bundle their contracts further and seeking fewer suppliers for more services. Despite these clear differences, too many councils continue to treat

procurement as a fixed, defined and formulaic process. The framework within which many councils source their service provision remains static and rigid. This can be frustrating for SMEs, leaving little room for the kind of flexibility they need to engage in the process. This is despite the fact they have been shown to deliver in areas where some traditional incumbent or market dominant suppliers cannot, and a clear indication from central government of their desire to see more SMEs brought into the process.

We know that innovation is disruptive. It is yet more change in the face of the huge upheaval councils are currently experiencing as a result of the cuts. For some, it may therefore feel preferable to ignore the fact that their endurance requires their evolution. They remain either passive or defensive in the face of threat, rather than taking positive steps to ensure survival.

But the reality is, under their current circumstances, councils have no choice but to innovate.

The desired outcome for councils is to deliver services in a way that is more streamlined and offers social and economic benefits to the local area. The rigidity of many current frameworks for procurement must be relaxed to allow them to reflect these new values in addition to the continuing necessity to offer the best possible value for money.

One way to soften the blow, is to consider where councils have chosen to innovate before and what catalysts made change happen. For example, with Twitter and other forms of social media, councils got involved because they saw their citizens were moving on without them and they knew they needed to deliver the higher levels of engagement that citizens demanded.

There is a great deal to be said for the role of the citizen in championing innovation. SMEs who can successfully convince individual citizens of value of their products, may find them acting as allies during procurement. This works well for councils who wish to innovate as it gives them a democratic mandate as a driver for change.

As councils embark upon integrating more SMEs into their procurement ecosystem, it is crucial for them to be flexible and remember that sometimes

small is beautiful, sometimes big is beautiful and you just have to know what is right on each occasion.

Some councils have been consolidating spend, placing more orders with a smaller group of suppliers. However, organisations that have thought big by thinking small have often found financial success; For example, by unbundling some IT contracts, some councils have made savings of 15%-25%. Equally, social care where personal budgets and the proliferation of small private suppliers has created opportunities for SMEs to win and successfully deliver smaller chunks of work.

The bidding process on contracts takes an incredible amount of work in a very short period of time. Many SMEs simply do not have the capacity to respond to a full and formal tender alone in the timescales available. Again this is where both improvements to the pre-marketing process and ecosystem could make a real difference. Early conversations with the market and greater flexibility is crucial to successful deals with SMEs. Entering the procurement framework can be very costly. It is often simply not worthwhile for SMEs to approach local government for business, especially when there is no guarantee that they will win income. Despite this, there remains an assumption within local government that all organisations will want to supply for councils, because they promise large and stable contracts.

Local authorities need to work to make themselves more attractive as preferred customers for SMEs if they are to fulfil local and national objectives to see more procurement from SMEs. This is not currently the case, and some SMEs would now take some convincing to feel it was worth their while to bid to work with councils. This is not good either for competition or for the oft-stated goal of making procurement more diverse.

# CONCLUSION

**There is huge scope for councils and SMEs to work together and build long and fruitful relationships. Sometimes this will be on a one to one basis, but often as part of a broader consortium of interests. Fundamentally, councils cannot abdicate responsibility for their need to innovate, and force SMEs to move mountains to convince them of their value. As has been seen already, SMEs will take their business elsewhere, and councils will have to scramble to catch up when the world moves on without them.**

Staying ahead of the game, talking to the markets early, and trusting the value of SMEs, is a vital way for councils to drive their innovation, to empower themselves and to take control of the change they are experiencing. It also has the potential to bring far greater social and economic benefits to their localities.

As we find so often, the key to good innovation is early, sustained and ongoing dialogue. If councils can change their approach to procurement to ensure this is built into every stage, the results for all involved could be remarkable.

# THE VIEW FROM TATA CONSULTANCY SERVICES

As a new entrant into the local government market, TCS recognises that there are many instances where SME suppliers have proven solutions or local capability which is attractive not only to the authority but to TCS to complement our service delivery. For example, we work with Brightsolid Technology Limited for hosting/cloud services and have worked with Spider Online and The Pollen Shop for UI design at The Improvement Service and NEST.

The issue for us is that procurement rules do not foster consortia of suppliers to deliver projects and often SMEs are drawn to market dominant suppliers and not to new entrants like ourselves. For SMEs, we offer the financial stability and risk mitigation of a large supplier, a broad range of technical integration skills and experience, plus a willingness to be flexible around pricing. For the authority, we provide the capability and expertise to mitigate risk of using an SME and the ability to negotiate directly with their SME partners rather than contract in a bundle with less transparency. To make consortia successful, an authority needs to take an outcome based approach to service delivery and not just a long term cost saving approach through all-encompassing IT outsourcing arrangements. This tower model is being widely adopted in central government and fosters the opportunity to work with multiple suppliers on outcome based projects whilst preserving more basic service provision such as hosting through local suppliers or through shared service organisations between authorities.

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