



Barriers to Procurement Opportunity Research

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The Welsh Institute of Competitive Advantage is the research arm of the Division of Supply Chain & Strategic Management at University of Glamorgan Business School. Glamorgan Business School is recognised by the Chartered Institute of Purchasing and Supply as Centre of Excellence and is the largest provider of supply chain management education and training in Wales. The divisional team has extensive experience as supply chain managers in manufacturing, construction and the public sector and regularly undertake research and consultancy for the business community in Wales.

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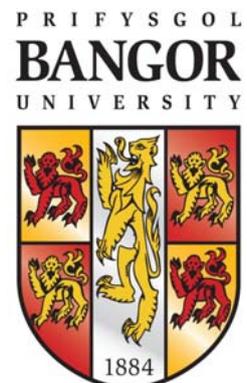
TenderWise

TenderWise www.tenderwise.com an inter-disciplinary, multi-location, non-industry aligned University Research Team, comprising of personnel from Bangor University School of Law (part of the College of Business, Social Sciences and Law) and Trinity University College, Carmarthen, Business Development Unit.

TenderWise is co-directed by Professor Dermot Cahill of Bangor University School of Law and Gary Clifford of Trinity University College Carmarthen Business Development Research Unit. Its strength is its track record and combination of both Procurement Barrier Investigation and Legal Expertise.

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Barriers to Procurement Opportunity Research

Executive Summary

This research was commissioned by the Welsh Assembly Government's Value Wales division on behalf of the Business Procurement Task Force. The primary aim of this research was to review current supplier pre-qualification practices used across the Welsh public sector; consider barriers to engagement and examples of good practice; seek to establish a clear legal view and to produce a framework of good practice which will be adopted by the public sector in Wales. The contract for this research was awarded to

- University of Glamorgan. A team led by Dr. Kath Ringwald, investigating the public sector procurement issues, and with overall responsibility for leading the project.
- Tenderwise. A team from Bangor University and Trinity University College Carmarthen, led by Professor Dermot Cahill, investigating the SME perspective and providing legal advice.

The research was conducted between October 2008 and February 2009. The University of Glamorgan team evaluated 25 sets of PQQ documentation from a variety of public sector organisations, including 3 in England. This was followed up with three focus groups and 19 interviews with buyers and decision makers. The team also tested Buy4Wales and Sell2Wales and had demonstrations of Alito, Bravo and xchangewales.

The Tenderwise team invited 2,200 companies in Wales to participate, and in response 125 organisations completed a questionnaire, of which 118 fully contributed through extensive interviews, email, focus groups or on-line discussion.

The public sector research shows that there is a willingness on the part of the public sector to work with SMEs, and a realisation that the engagement could be further improved. While most parts of the public sector are willing to support small and local businesses, they must be concerned with cashable savings, value for money, reducing transaction costs, developing suppliers and meeting front-line service expectations within existing procedures and regulatory frameworks. This is creating a perceived incompatibility which cannot easily be reconciled – to maximise cost effectiveness and manage risk, while endeavouring to contribute to local economic development. However, the research shows that SMEs do not share this view.

The research with SMEs highlights a number of issues that are experienced as barriers to engagement with the public sector. These include:

- the complexity of the public sector procurement process;
- the difficulty experienced in completing PQQ documentation;
- a lack of transparency in the evaluation and feedback process;
- use of non-contract specific risk criteria which are sometimes unduly onerous compared to the value or risk posed by the contract;
- obtaining access to, and use of 'approved lists'.

The SME sector is also concerned that the aggregation of public sector demand to create consortia contracts and framework agreements can 'lock out' small businesses who cannot compete in terms of scale and scope with larger organisations.

In formulating recommendations, the research teams are mindful that there is a mismatch of expectations between the SMEs and the public sector that raises difficult challenges and for which easy 'quick' solutions are not always possible. Consequently the Recommendations following this research have a pragmatic emphasis, addressing what it is possible to achieve, rather than an unrealistic 'wish list'.

If implemented as a whole the research teams are confident that the Recommendations will advance by a considerable distance the goal of ensuring that current PQQ opportunity barriers are ameliorated to a significant extent. How do we make this happen? Successful implementation requires commitment, effort on the part of both purchasers and suppliers, and political will. An example is the case of Ireland, where political will has manifested itself in the form of legislative powers being conferred on the Auditor General who investigates procurement practices of public bodies, and reports on their compliance with procedures. In turn the AG's report is then brought before a Parliamentary Committee which invites the CEO of the relevant Public Body before it to explain why lapses may have occurred and what steps are being taken to remedy any breaches. In this way procurement compliance and transparency have been given high profile and this also can be an effective way of ensuring that, at CEO level, accountability and priority of procurement processes are visible at the highest organisational level. This is one route that should be considered and while not a Recommendation, it is a useful indication of the level at which the issues might need to be addressed.

The research teams agree that public sector procurement in the Construction Industry is particularly problematic. Constructionline has come in for some praise, and considerable criticism, from both SMEs and the public sector alike. We therefore recommend that public sector construction procurement be the subject of a separate and more detailed study.

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1. INTRODUCTION

1.1. The Project

This research was commissioned by the Welsh Assembly Government's Value Wales division on behalf of the Business Procurement Task Force. The primary aim of this research was to review current supplier pre-qualification practices used across the Welsh public sector; consider barriers to engagement and examples of good practice; seek to establish a clear legal view and to produce a framework of good practice which will be adopted by the public sector in Wales. The contract for this research was awarded to

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- **TenderWise.** A team from Bangor University and Trinity University College Carmarthen, lead by Professor Dermot Cahill, investigating the SME perspective and providing legal advice on the PQQ process.

The research was conducted between October 2008 and February 2009.

1.2. Background to SMEs and the Public Sector in Wales

Public sector procurement in Wales is big business, with £5 billion per annum spent on goods and services. Of the £5 billion it is estimated that approximately 31% is spent on goods, 50% on services, 14% on capital and 5% on food. Local government is the largest spender, accounting for approximately 44% of the total, followed by health 28% and education 10%¹. It is understandable that, particularly in the current recessionary climate SMEs are keen to do business with the circa 90 public bodies in Wales.

Circa 60% of the total public sector spend is subject to the EU Procurement Directives for Goods and Services. Previous research has found that these large period contracts, often for three to five years tend to favour larger companies who are better placed to cope with the cost and complexity of the pre-qualification and tender processes². The EU Directives are dealt with in more detail later in this report

SMEs are vital to the economy of Wales. They represent 98% of all businesses in Wales and provide 59% of non public sector employment. The difficulties SMEs face in engaging with the public sector in Wales have been the subject of research for much of the last ten years³. The key difficulties include the level of bureaucracy involved in pre-qualification and tendering, the cost of completing the documentation and providing the supporting information and certification, accessing information and decision makers, getting on to 'approved supplier lists' and making oneself 'known' in order to secure suitable opportunities for work. These and other issues raised in the course of this research will be addressed in more detail later in this report.

¹ Quayle (2003)

² Mulherne (1994, Quayle (2003)

³ Ringwald (1999), Ringwald & Lee (2001), Ringwald & Lee (2002), Quayle (2003)

Research has shown that both the public sector and SMEs in Wales can benefit from greater engagement⁴ and since the publication of Better Value Wales in 2001, there have been a number of initiatives implemented in Wales to encourage more meaningful engagement e.g. the development of Sell2Wales and Buy4Wales, the Opening Doors initiative, the appointment of local supplier champions. However, SMEs still report that they fail at the first hurdle in the process because of the barriers that pre-qualification processes can represent.

1.3. Pre-Qualification Processes

This research was commissioned by Value Wales to consider the issues around the pre-qualification processes. Public sector bodies throughout Wales use a Pre- Qualification Questionnaire (PQQ) to obtain information about potential suppliers in order to assess their eligibility to proceed to the tender stage. Lam et al (2000) define pre-qualification as follows

'Contractor pre-qualification is a process to evaluate candidate contractors' ability to complete a contract bidding process. The current practice of pre-qualification is that, by exercising a given set of criteria... such as reputation, past performance, financial stability, current workload, firm's resource capacity, experience records and technical expertise, decision-makers draw conclusions regarding the qualification or disqualification'

Public sector bodies in Wales have developed their own PQQs which contain general questions about the company (name, address, number of employees etc) and questions which carry a weighting and which will contribute to a final score that determines success or failure to qualify to tender e.g. technical ability, capacity, financial standing etc. Unfortunately, in the absence of a standard document, public bodies have produced a proliferation of PQQs which vary still further depending on the type and substance of the contract under consideration. PQQs may be required for every invitation to quote or tender, creating a considerable administrative burden for SMEs who have no assurance that their efforts will be rewarded. On the other hand, public sector bodies have a responsibility to minimise their exposure to risk and need to comply with the demands of public accountability which they believe the PQQ process provides. Lam et al (2000) suggest that this creates a mismatch between the 'analytical' approach to the design of the PQQ and the reasoning techniques used to assess them. The issues of the relevance of the PQQ questions and the judgements used in their assessment are addressed later in this report.

1.4. Structure of the Report

The research undertaken in the public sector will be presented in sections two, three and four of this report, followed by the SME research in sections five, six and seven. These are followed by two joint sections outlining conclusions in section eight and recommendations in section nine.

⁴ Quayle (2003a), Ringwald & Lee (2002) Cahill & Clifford (2008)

2. RESEARCH METHODOLOGY: PUBLIC SECTOR PROCUREMENT

The Public Sector Procurement research has two main objectives. The first is to evaluate the documentation currently in use across the public sector in Wales in order to

- understand how and when it is issued and evaluated
- assess the problems the documentation might pose to potential suppliers
- understand how the PQQ fits with existing policies and procedures
- identify models of good practice.

The second objective is concerned with the views of public sector procurement managers in order to

- understand their perception of the PQQ process and the impact that it has on the delivery of value for money
- evaluate the current operation of the PQQ process and the systems which support it
- assess the willingness to accept change and adopt best practice across the public sector in Wales.

These objectives were achieved through a four stage methodology.

2.1. Stage 1: Documentation

All local authorities in Wales and a structured sample of other public sector organisations (including the NHS, emergency services, FE and social housing in Wales, plus three local authorities in England) were contacted and invited to provide

- a copy of their standard PQQ
- a copy of a PQQ for a recent contract, together with guidance for suppliers and evaluation criteria
- an explanation of devolved and centralised procurement within that organisation
- an indication of the use of 'Approved Lists of Suppliers' within the organisation

All local authorities in Wales participated in the study at some point of engagement, 19 public bodies supplied sample documentation. A total of 25 sets of documentation were analysed, including general and specific PQQs plus samples from English authorities. The high response rate is largely due to the support of the Welsh Purchasing Consortium and the North Wales Procurement Partnership. The research team was able to make a presentation at the WPC November 2008 meeting in order to explain the purpose of the research and to open the debate on the subject of pre-qualification. Members of the WPC also agreed to participate in the focus groups.

2.2. Stage 2: Focus Groups

Two formal focus groups were held in December 2008 covering South East and South West Wales consisting of representatives from local government, the NHS and social housing. An informal focus group was held in January 2009 which consisted of representatives from higher education, police, Department of Work and Pensions and local government. The focus groups were directed to concentrate on:-

- the extent to which the PQQ process is used to mitigate risk
- devolved v centralised procurement

- thresholds for quotations, tenders and OJEU
- compliance with the 'Opening Doors' initiative to advertise more widely
- the use of Sell2Wales /Buy4Wales, xchangewales and Constructionline.

The focus groups provided a wealth of information, some of which required in-depth investigation undertaken through a series of follow-up interviews.

2.3. Stage 3: Interviews

A total of 19 interviews were conducted in the course of the research – 15 were face-to-face interviews and the remainder were conducted by telephone. Interviews were used to

- provide specialist knowledge on specific purchases e.g.: social services, construction
- investigate issues raised at Stages 1 and 2
- follow-up on issues raised by Tenderwise during their research with SMEs
- discuss in detail emerging examples of good practice.

2.4. Stage 4: Demonstration and Testing of ICT

The preceding stages highlighted the importance of the systems currently used to support public sector procurement and in particular

- Sell2Wales and Buy4Wales, both Value Wales initiatives
- Alito, a supplier registration system used by five local authorities in South Wales
- xchangewales, also a Value Wales initiative
- Constructionline
- Bravo, as used by the NHS in Wales and as used by the Resource Corporate Procurement Hub (NHS East Midlands)

Representatives from the Public Sector research team were given demonstrations of all the systems. Where possible the researchers conducted 'Mystery Shopper' exercises, simulating a potential supplier wishing to register and access information.

This multi-dimensional approach resulted in rich qualitative data and allowed the team to confirm information at various stages of the research.

However, there are limitations to the research. First, the research focused on purchasing departments or purchasing officers with defined responsibilities for procurement within the organisation. The research recognises that in reality procurement, and the use of PQQs is devolved to varying degrees across the public sector in Wales. Given the resource and time constraints associated with this project, it was not possible to investigate devolved practice and this may warrant further research at a later date. Secondly, we responded to the brief and focused on the PQQ process. If the research is successful in improving the PQQ process it might expose further problems at the tender stage which will need further investigation.

3. FINDINGS: PUBLIC SECTOR PROCUREMENT

3.1. PQQ Documentation

The purchasers expect the PQQ process to assist in reducing risk by eliminating potential suppliers who are financially unstable or who do not have the necessary expertise and / or capacity to fulfil the contract. Purchasers normally provide supporting information with the PQQ that should enable a potential supplier to de-select themselves if they feel they cannot meet the requirements. Ideally only suitably qualified suppliers will progress to the tender stage. As one procurement manager explained

“The issue is you’ve got to manage the risk. You’ve got to make sure companies are financially stable and technically competent to work with. The question is, how can you do that and minimise the hassle for the supplier?”

The success of the tender stage will depend on the appropriate construction of the PQQ by the purchaser and the integrity of the data provided by the potential supplier.

Detailed analysis of the PQQs received showed that approx 90% plus were similar in structure and questions. A table summarising the common areas across the respondents in Wales can be found in Annex 1. As the matrix in Annex 1 demonstrates, much of the information sought in PQQs falls into ‘common’ categories, thereby supporting the case for a standard PQQ to be devised. However, the problem for SMEs is that currently, the ‘common’ categories of information sought are not presented in an easily recognised format and presentation can vary considerably from one organisation to another, thereby greatly increasing the PQQ submission burden for SMEs because a bespoke response is often required, even in response to ‘common’ category items. The evidence suggests that it would be possible to harmonise these questions into a standard form. Specialist information relating to specific contracts varies from a few questions to pages of technical detail and would need to be added to the standard information as and when appropriate.

Some of the information requested in all PQQs reviewed in the course of this research is basic information about the company and its management. This information is also required to register on Sell2Wales. Two of the researchers registered on Sell2Wales to test the degree of complexity involved. Basic information requested on PQQs consists of company details, number employed, registration to trade bodies etc. If companies are not accredited to international standards or if they do not have similar previous experience, it will take longer for the potential supplier to outline the company’s policies and experience.

Some organisations ask for two years accounts, others ask for three years. Most organisations will allow new start-ups who do not have two or three year’s accounts to provide a letter from a bank or accountant outlining their current financial position.

PQQs for specific contracts vary in complexity. Some are quite succinct and specific to the contract concerned e.g. a sample PQQ for eggs, milk, fruit and vegetables, while others are necessarily detailed e.g. a sample NHS PQQ for a finance and procurement system. There are also examples of standard PQQ questions which are not relevant to all contracts and which should not be included as standard. Potential suppliers are often asked to submit copies of documents such as health and safety policies, environmental policies, indemnity insurance etc. all of which take time to assemble and which may result in a very large submission. For example, we found one example of a PQQ of sixteen pages, yet the submission in response by one SME amounted to a total of 90 pages when all supporting documentation was added.

The evaluation criteria examined in the course of this study are generally logical and appropriate. Scoring and weighting factors are formulated in the commercial interests of the purchaser and determined by their priorities in relation to a specific purchase. These are commercial considerations and should be given due consideration when designing the criteria and during evaluation. The detailed weightings used in the evaluation process are rarely communicated to potential suppliers making it difficult for the SMEs to assess their chance of scoring well or to identify areas in which they are deficient. This needs urgent attention as it is out of line with recent European Court of Justice case law.

Where the contract or framework agreement is large and complex, some organisations hold workshops or surgeries to help potential suppliers complete the PQQ. This would appear to be a very welcome initiative but the research revealed that SMEs find these sessions to be time consuming and difficult to understand and therefore attract limited interest.

There is some evidence to support the SME contention that in some sectors PQQs take days to complete. In others the standard sections of PQQs can be completed in hours at most. There is no evidence to suggest that a common, centrally located standard PQQ would pose a problem for buyers or potential suppliers. In fact some buyers would actually welcome it

“In an ideal world what we need is an electronic system where (suppliers) could lodge their details and keep it updated. We would not ask for the same information every time”

However, it would need to be easy to use and demonstrate a benefit for both parties.

3.2. The Public Sector – Regulation and Constraints

The research shows that Public Sector buyers are well aware of their responsibilities regarding transparency and accountability in the procurement processes as they are measured and audited on compliance. An interview with a senior procurement professional in one local authority explained that buyers understand they may be called to account to justify the selection of one supplier over another. Transparent processes - from pre-qualification, bidding and contract award to ongoing monitoring of suppliers – are considered to be very important.

“We do not want to let any poor suppliers slip through the net. We need to be able to say ‘No’, but we have to be able to justify our decisions. We have to be trusted to make good decisions”

Procurement Managers feel that they must be allowed to make commercial decisions which protect the interests of the organisation within the PQQ and tender processes.

However, recent European Courts of Justice (ECJ) case law (outlined in Section 3.5 of this report) suggests that the public sector must be aware that the ECJ now requires that evaluation criteria and weightings within the PQQ and tender process be disclosed in advance, otherwise their lack of disclosure could adversely affect the way a supplier completes their documentation and thereby gives rise to a discrimination claim. Also the giving of written quality feedback should become a regular feature of the process because it will bring public purchaser processes into line with the *Alcatel* line of case law explained in section 3.5 of this report.

Public sector procurement in Wales is regulated at local, regional and supra-national levels. Each public sector organisation develops its own Standing Financial Instructions which determine the limits of authority for departments and individuals. The SFI's will set out the levels at which three quotations are required and the point at which a formal tender process is required. Unfortunately for SMEs, there are considerable differences in these limits across the public sector organisations in Wales, so contracts that are advertised in one area may not be advertised in another. Although Value Wales has exhorted the public bodies to advertise contracts above £25000, the evidence from this research suggests a wide disparity of practice. However, public sector bodies must be aware that although SFIs may not 'require' contracts below EU threshold to be advertised, ECJ case law now 'requires' it in certain situations. These situations are outlined in the legal advice given in section 3.5 of this report.

At regional level public sector organisations may sign-up to participate in consortia purchasing or a Value Wales initiative which will impose a new pattern of purchasing activity e.g. Welsh Purchasing Consortium and Value Wales contracts, and the 'Opening Doors' initiative for wider advertising of opportunities. This appears to have created a traditional paradigm of procurement in the public sector which remains largely unchallenged i.e.: large contracts to lever economies of scale, competitive tendering to ensure best value from suppliers. These approaches are not always understood by SMEs.

The procurement managers in the focus groups explained that their organisations now measure their performance against 'cashable savings' based on value for money. Finance Officers will release money to front-line services on the basis of such savings. It is therefore important to realise that the 'cashable savings' objective may be a constraint on a more inclusive approach to procurement which favours supporting local businesses. Indeed, the definition of 'local' was seen as a matter of debate in the focus groups. Does local mean within a given geographical radius? If so then some parts of eastern Wales have 'local' suppliers in England, when the object of the exercise appears to be supporting companies based in Wales. As one procurement manager explained

"Local is a very crude measure. We are always aware that we are expected to engage with what WAG / Value Wales call local SMEs, but the dilemma for us is the addressing the question of "local vis-à-vis being open and transparent. What do we really mean by local? For example we can contract for 3 years with Chubb in Milton Keynes, but because they have a depot in Bridgend we are actually being serviced by Welsh engineers and therefore a Welsh SME. It's only the invoicing that links us to England and therefore on face value outside of Wales. There are lots of examples like this and category management is another example of this type of practice. We always encourage companies such as Chubb to open up a Welsh depot in these situations".

At a supra-national level the EU Procurement Directives require goods and services above certain thresholds to be purchased in accordance with the directives in order to open public sector procurement opportunities to companies across Europe. The thresholds are set at a level which means that large parts of an organisation's spend may be subject to the directives, particularly where demand has been aggregated to achieve economies of scale and scope. Public sector bodies in Wales are encouraged to participate in aggregated contracts and framework agreements because they reduce transaction costs – one tender and evaluation process – and use the scale economies to achieve low prices. The directives are complex and bureaucratic. It is understandable that small businesses find them difficult to understand and engage with. The procurement Managers emphasised both the advantages and disadvantages of these procedures and stressed that there are serious legal consequences for public sector organisations that are found to be avoiding the rules on aggregation or failing to demonstrate transparency in supplier selection.

The procurement managers generally feel that SMEs do not understand the constraints on the public sector and fail to understand why they have to comply with bureaucratic processes. They do not always see the Public Sector as a 'business'. That said, the procurement managers believe that every public sector organisation is successfully engaging with many small businesses. For example the Spike Cavel data for 2008 shows that 54% of Torfaen's suppliers are SMEs. More research could be done using this data to assess the engagement of SMEs across Wales. Caerphilly C.B.C is proactively increasing its engagement with SMEs. Please see the case studies later in this report.

Most of the procurement managers have very positive experiences of doing business with SMEs who understand or are prepared to understand the public sector environment for example

"Most SMEs are a dream to work with because they want your business, you get a better response. We have less complaints because they value our business and provide a good service... They know that they'll get paid within 30 days whereas Tesco would make them wait 90 days. We want to work with SMEs"

There was general agreement in the focus groups that there is a potential conflict between the notion of developing good local suppliers and achieving a maximum value for money, particularly through aggregation and consortia contracting. One participant reported that certain business support providers may be giving SMEs unrealistic expectations by telling SMEs that some of the existing constraints will be overcome by the WAG applying 'social clauses' which will favour local suppliers.

3.3. Aggregated Demand Procurement

Aggregation of demand existed in the public sector well before the European Procurement Directives required organisations to consider the totality of demand over three years. The NHS and local government have historically had mechanisms in place to organise all-Wales contracts and framework agreements dating back over thirty years. The research suggests that the existing arrangements for consortia procurement and the work of Welsh Health Supplies and Value Wales have four distinct advantages:-

- The aggregated demand attracts very competitive prices and lowers unit prices, releasing 'cashable savings'.

- It provides an auditable trail which provides transparency and accountability
- The centralised administration and management of the contract reduces the administrative overhead for participating organisations.
- Larger and longer contracts can allow suppliers to make investments in necessary infrastructure to become more efficient, improve quality and reduce costs.

The evidence suggests that small businesses can successfully secure a share of these large contracts (see case studies below), but there is no doubt that small local suppliers find it difficult to compete with manufacturers and multi-nationals and procurement managers have cited examples of the financial advantage of participating in consortia contracts at the expense of local small businesses.

Aggregation of demand does not necessarily mean that business will be awarded to large companies i.e. aggregation of *demand* does not always result in aggregation of *supply*. In fact, some contracts are aggregated with a view to awarding the business to small local suppliers.

A sample PQQ for bread, eggs, fruit and vegetables provided for this research exemplifies this approach. The contract has traditionally been awarded to more than twenty local suppliers, each supplying a specific product or servicing a very local area. This is particularly important in less densely populated areas of Wales, where local suppliers are able to provide a better service than national suppliers. The aggregation for EU purposes allows for a single contract process, transparent and accountable, which can ensure a local small business a steady income over three years. The North Wales Partnership framework agreement for plant hire is another example of aggregation of demand leading to disaggregation of supply. Small businesses have been awarded a place on the contract alongside national companies. They may not be able to compete on price, but they can offer speed of response in an emergency. It allows the budget holder to determine whether they can justify the extra cost to have a local service.

Procurement managers suggest that disaggregation into smaller 'lots' is not a quick fix for small businesses and is an over-simplification of the issues which determine when and how demand should be aggregated. The OGC report 'Aggregation – is bigger always better?' outlines the issues to be considered when aggregating demand.

3.4. Advertising and Selected Lists

All public sector bodies in Wales are required to comply with the E.U. Public Procurement Directives for the advertising and the award of Contracts. Under Council Directive 1999/C 379/08 (31st December 1999) the minimum financial thresholds effective from 1st Jan 2008 to 31st Dec 2009 are outlined in Table 1 Below. The evidence provided by Value Wales from Buy4Wales data indicates that such contracts are being advertised in the OJEU and contracts awarded through open, restricted and negotiated procedures.

	Supplies	Services	Works
Entities listed in Schedule 1	£90,319 (£133,000)	£90,319 ² (£133,000)	£3,497,313 (£,150,000)
Other public sector contracting authorities	£139,893 (£206,000)	£139,893 (£206,000)	£3,497,313 (£,150,000)
Indicative Notices	£509,317 (£750,000)	£509,317 (£750,000)	£3,497,313 (£,150,000)
Small Lots	£54,327 (£80,000)	£54,327 (£80,000)	£679,090 (£1,000,000)

It is apparent from the focus groups and interviews that advertising below the OJEU threshold varies considerably from one public sector organisation to another. Each organisation will have limits at which three quotations will be required then a higher threshold at which a formal tender process is necessary. Some organisations require three quotes for up to £10,000 in other organisations it may be £25,000. One NHS Trust is said to have a threshold of £50,000 and another organisation up to £100,000 before tenders are required. These limits are imposed *within* the organisation, in accordance with their financial instructions. Anything below these thresholds may not *need* to be advertised, though consideration must be given to recent ECJ case law outlined in section 3.5 of this report. Above the thresholds organisations are encouraged to advertise the tendering opportunities in accordance with the ‘Opening Doors’ Charter but evidence suggests that very few opportunities are appearing on Buy4Wales. The buyers will be measured on their adherence to the financial instructions and a demonstration of value for money.

Participants in the focus groups and interviews claim that opportunities are advertised on the organisation’s websites or in the local press, but overall there appears to be no enthusiasm for advertising unless the buyer is looking for new sources of supply or a new product or service. The reasons for this reluctance to advertise include

- The cost and time associated with the process for a relatively low value spend
- The risk of being inundated with enquiries which will then need to be evaluated. Buyers frequently have between 20 and 30 completed PQQs to evaluate in response to an advertisement for a contract of £25000 to £50000. Given their limited resources, procurement managers will assess the opportunity cost of advertising every contract.
- Buyers spend time and effort developing reliable local suppliers and will be keen to continue these relationships, but recognise that they can only continue if they can demonstrate value for money through a tender process.

When asked if organisations were operating within the spirit of ‘Opening Doors’ one procurement manager said

“Read Opening Doors’ carefully. It asks us to ‘More widely advertise our contracts over £25,000’. We will try to do that, but it also asks to ‘Look for the best overall outcomes from our procurement activities using broad value for money criteria to make decisions’ and the two do not always go hand in hand”.

This suggests that there is a need for a more uniform approach to advertising whilst recognising the administrative burden that this may create for the public sector.

The use of approved lists of suppliers also varies considerably from organisation to organisation. Some use approved lists and some do not. Some organisations use approved lists for 'simple' requirements which normally fall into the lower value categories. Discussions within the focus groups suggested that organisations have 'lists' of suppliers that they use on a regular basis. New companies would have to complete a PQQ before they could be added to the 'list'.

The evidence suggests that there is no consistent approach to the operation of Approved Lists. The problem is compounded in local authorities who have opted for devolved procurement where 'lists' may be operated by buyers in a variety of departments across the authority.

This situation is understandably confusing for existing and potential suppliers and would benefit from a more consistent approach.

3.5. Legal Advice

The public sector is required to understand and comply with European law in relation to the pre qualification and bidding processes. Professor Cahill has identified the relevant issues which are outlined below and referred to in the public sector findings section of this report.

So far as *Transparency* is concerned, there is room for improvement in two key areas. First, the need to make evaluation criteria and associated weightings available to parties in advance. Now on account of recent European Court of Justice case law based on the Principle of Transparency, public sector purchasers will have to align to new norms of behaviour when dealing with suppliers. For example, the ECJ now requires that evaluation criteria and weightings be disclosed in advance. Otherwise their lack of disclosure could adversely affect the way a supplier completed their documentation and thereby give rise to a discrimination claim.

Second, the giving of written quality feedback should become a regular feature of the process. Not only because it will inspire confidence on the integrity of the evaluation process, but it will also bring public purchaser processes into line with the *Alcatel* line of case law (from the European Court of Justice) on the need for standstill provision during which time the disappointed party must be given reasons why they were rejected. This line of case law has now been further enhanced by two legislative changes. First, the 2004 European Directives which brought a further degree of effective legal change in this area (by deepening Transparency obligations, by obliging the disappointed bidders to be informed of the relative strengths and characteristics of the winning bidder). Second, by the forthcoming European Remedies Directive (coming into force December 2009) will bring about further progression in this area as it *requires* reasons for failure to be given. Therefore, the time is now ripe for the public purchasers to embrace the Transparency principle and bring similar enlightened feedback practices to the PQQ stage as a common feature of the process. The SME research shows that SMEs are almost always happy with quality feedback, particularly where it highlights their weaknesses. Also, the public sector should embrace it as it provides an effective way to reduce loss of management time dealing with often "off-target" freedom of information requests.

Another area where the public sector purchaser needs to adjust to new European inspired behavioural norms is in the recognition that mere adherence to an organisation's own Standing Financial Instructions (SFI's) may no longer be adequate to protect against legal action where, notwithstanding such compliance, it may not be sufficient to guarantee compliance with the latest European Court of Justice jurisprudence. An example of the potential problem here is highlighted by recent 2007 European Court of Justice case law involving Ireland which has found that contracts which were not required to be advertised by the European Directives nevertheless might require to be advertised *where they were likely to attract cross-border interest*. This presents a perfect example of where adherence to an organisation's SFI's might not be sufficient to guarantee compliance with European non-discrimination principles.

Finally, all public sector bodies in Wales are bound to respond to the Welsh Language Policy, even when dealing with the private sector. However, when applying to engage in contracts or tenders, SMEs cannot be disadvantaged by not having an 'internal Welsh language policy' as the likelihood of many of them having such a policy is minimal. If companies are advised that there is a Welsh Language Policy requirement at PQQ level and they are willing to make a reasonable adjustment to satisfy the end needs of the contract e.g. through use of sub-contract translators, this should be made clear in their submission. This may increase costs, but SMEs may still be able to submit an economically advantageous tender. If a contract has to be delivered through the medium of Welsh – for example a training programme – then companies must comply with the appropriate provisions of the Welsh Language Act.

3.6. Construction

Evidence from both the buyer and supplier side of this research suggests that Construction procurement is particularly problematic. Major schemes will be managed through the OJEU process, but smaller projects which may be of considerable monetary value will fall below the threshold and will be managed by tender or quotation, depending on the value of the contract. Larger framework agreements are now being used to aggregate demand and set period agreements which SMEs believe puts them at a distinct disadvantage.

Many small businesses in the building industry will want to engage with public sector organisations but the contracting process may make it difficult for them to become a main contractor, though they may secure business as a sub contractor.

In one example of a PQQ obtained for this project a public sector organisation intended to contract for the refitting of kitchens and central heating boilers in their social housing. The contract, for three years with an option to extend for a further two years, estimated that when fully operational more than 1000 kitchens would need to be replaced in one year. The PQQ also indicated that the organisation was looking to award the contract to one contractor for kitchens and one for boilers. This would appear to disqualify any small business, though in fact even a large national company would find it difficult to resource a contract of this size and would therefore be likely to sub-contract to local firms. However, this contract could be organised into 'lots' that would allow small businesses to tender competitively. Rhondda Cynon Taff County Borough Council Highways Department has taken this approach with a major highways maintenance contract. They are currently evaluating bids from small, medium and large companies. This creative approach to framework agreements deserves further research.

From the evidence provided, the construction industry PQQs appear to be most complex and demanding, particularly in relation to contract-specific information. This is in spite of the existence of Constructionline and Exor, both intended to make supplier accreditation and selection a simpler process.

Constructionline describes itself as

“the UK's largest certified pre-qualification database, saving the construction industry over £500 million a year in administration. Already used by over 60% of local authorities, we reduce duplication and save time and money by encouraging organisations to use a single source for pre-qualification... Constructionline is a public private partnership between the Department of Business, Enterprise and Regulatory Reform (formerly the DTI) and Capita Business Services. As a national online database, it is the UK's largest register for pre-qualified contractors and consultants. Its aim is to improve efficiencies for buyers and suppliers in the construction industry, specifically by reducing the duplication of work and administration relating to the process of pre-qualifying suppliers for construction contracts.”

Companies pay between £100 and £600 to be registered on Constructionline depending on their turnover.

Exor is a private sector organisation offering a very similar service. It claims

“Since 1997, Exor Management Services has worked with thousands of suppliers, from large to small, to certify their capability and helping them win business in the public sector and beyond. Working with the public sector often requires organisations to repeatedly complete Pre-Qualification Questionnaires (PQQ's), a time consuming process. Accreditation by Exor means that this is reduced as customers complete the exercise once...Exor is the leading independent accreditation service provider to the public sector. Our accredited approved supplier databases provides (Public, Private and Domestic) with a visible choice of valid and credible companies when they are looking to purchase goods and services from suppliers”.

Companies pay between £75 and £1500 to be registered on Exor depending on the level of accreditation required.

One procurement manager explained that her organisation always uses Constructionline and Exor to identify potential suppliers and finds that they offer considerable benefits

“We don't have to do all the vetting process – it's a massive job otherwise! As the period of engagement is 3 years we are also saved the job of keeping our records up to date, e.g. with a suppliers Health and Safety record, accounts, County Court judgements, insurance, etc. Both Constructionline and Exor offer “a process of ongoing monitoring”.

However, there are also drawbacks, as in this recent example.

“We find them very helpful as a central repository, but there are still lots of companies not registered on it. There needs to be a ways of factoring in other access to tender, but what else do you use in its place to limit the number of firms that express an interest in a tender? For example we engaged with Constructionline and Exor recently for some building work and we received 97 contractors on the list that were registered and accredited to carry out this piece of work. How do we filter out from these 97 suppliers? We need a filter process that Constructionline and Exor perhaps really doesn’t offer. Perhaps 97 suppliers means that it has been filtered?”

Given this example it is not surprising that some public bodies continue to use their own PQQ in addition to Constructionline, which is supported by the findings of Steel, Todd and Sodhi (2003). Their work indicates that Constructionline has great potential but is not currently delivering on its ‘one stop shop’ objective.

On Monday 23rd February BBC Radio Wales ‘Eye on Wales’ programme highlighted the issues around construction procurement in Wales. The issues raised are not new but they are of particular concern in the current financial climate. There are steps that the public sector could take to reduce the barriers to SME engagement in construction procurement, but the size of the potential market – small builders, heating engineers, plumbers and maintenance engineers etc – creates a significant challenge for the public sector.

Construction procurement is becoming a hot political issue and attracting a good deal of local and national media attention. It is therefore suggested that construction procurement be the subject of further research.

3.7. Staff, Skills and Performance Measurement

There is no common approach to procurement structures in the public sector. The NHS tends to have centralised procurement functions in each NHS Trust, but certain departments within the trust e.g. pharmacy, will also have considerable procurement responsibilities. Welsh Health Supplies will arrange contracts and framework agreements on behalf of the Trusts in Wales, aggregating demand to achieve economies of scale. Local government has a less uniform approach. Some authorities have fairly large centralised purchasing functions e.g. Caerphilly. Torfaen has a Strategic Procurement Director but no centralised department and all authorities have some degree of devolved procurement. Where procurement is devolved there may be a person with a dedicated procurement role or it may be part of a wider job description. Each local authority undertakes its own procurement and will also participate in consortia contracts e.g. Welsh Purchasing Consortium, North Wales Partnership and the contracts and agreements arranged by Value Wales. Where a central procurement department exists it will normally report to the Finance Director. It is therefore possible, indeed likely, that procurement decisions are being made in a number of locations within and outside the organisation, all issuing PQQs and making it difficult for potential suppliers to locate key decision makers.

Traditionally the role of public sector procurement has been to

- Ensure that the necessary goods and services are available to ensure continuity of ‘front line’ services
- Obtain value for money based on whole life costing (though this is not always achieved)

- Advise departments on new products and services, price fluctuation and general market conditions.

The profile of the function has steadily grown over the last thirty years and it is now generally recognised as a 'specialist' role within public sector organisations. This has created a need for better qualified procurement staff. Value Wales has provided opportunity and encouragement for public sector procurement staff in Wales to achieve CIPS membership and Master's qualifications. However the latest available data supplied by the Chartered Institute of Purchasing and Supply suggests that there are currently 210 CIPS qualified staff working in the public sector in Wales, which is considerably less than the spend requires. The McClelland review of public sector procurement in Scotland suggests that there should be one qualified procurement professional for every £15 million spend. If this is applied across Wales then there should be at least 300 qualified staff in the public sector. It must be said that the CIPS data may be unreliable since it shows only those members who still pay their annual registration fee. Some staff may be *qualified* but no longer maintain their membership of CIPS. Some CIPS qualified staff may now hold management positions with unqualified operational staff. What the CIPS data demonstrates clearly is that some organisations have several qualified staff, while other organisations appear to have no qualified staff at all.

Public bodies, particularly local authorities, tend to devolve procurement responsibility to certain disciplines and departments where the value of spend is considerable e.g. construction, social services and education and where procurement is undertaken as part of a wider job description. For example, Cardiff City Council estimates that of 18,000 staff, 1500 have some direct involvement with procurement and payments processes. Such personnel do not regard themselves as professional buyers and would not seek professional qualification. Value Wales has recognised the need for training these people and now offers a range of short-courses to enhance the skills levels of these part-time procurers.

The evidence suggests that where there are central procurement departments with qualified staff e.g. Caerphilly, Cardiff, Value Wales, there is more likely to be a strategic approach to procurement and a policy regarding SME engagement.

The trend in supply chain management generally, well supported by research (van Weele 2000, Helman et al 2003) advocates a rationalisation of the supplier base to reduce transaction costs and to create more collaborative relationships with fewer strategic suppliers i.e. the adoption of tiering. Many organisations are embracing this successfully. In the course of this research two private sector companies explained how they engage with local SMEs indirectly through first tier suppliers. In one contract for a 'direct to desk' stationery contract and one contract for general consumables and MRO, buyers dealt directly with a first tier supplier but the contract stipulated that the contractor should demonstrate a preference for local supply sources wherever possible. This enables the buyers to manage one single contract *and* support local companies. The framework agreements used by some public sector organisations achieve a reduction in transaction costs and reduce unit costs, but they do not discriminate in favour of local sourcing.

The procurement function in the public sector will be audited and measured on

- Adherence to financial instructions
- Maintaining the continuity of 'front-line' services
- Achieving measurable savings

- Evidencing value for money in line with given targets
- Operating within budget constraints.

This research has revealed some evidence of performance measures linked to economic development or engagement with local suppliers e.g. Caerphilly and Cardiff, though the majority of buyers we canvassed are very aware of the need to support the local business community.

“My job is to get the best possible value for money for my authority. That’s what I am measured on. That’s what I want my staff to do. We have good local suppliers. I would like to do more to support them, but I have to do my job”

By creating a better balance between these objectives – in the way that Cardiff CBC and Caerphilly CBC are doing in the case studies below - more innovative approaches to procurement can be seen to emerge.

3.8. Supporting Systems

In order to gauge the level of ICT support for the Public Sector PQQ process, the research team conducted a series of trials, simulations and demonstrations with the key ICT platforms available. One member of the team is a current practitioner engaging with some of these systems within their procurement practices. He felt that these tests and trials were necessary to understand and evaluate the variation of user platforms and the user perceptions of some public sector procurers and SMEs. The key support systems involved in the trials and demonstrations were: -

- Sell2Wales
- Alito
- xchangewales
- Bravo

Sell2Wales: The team member observed that this system appeared to be quite easy to use when first registering, however, having a reasonable grasp of the CPV codes was a great advantage and without this knowledge there might be a tendency to register for far too many categories. This would probably lead the SME to be inundated with contract notices which would need to be viewed in order not to miss a real opportunity.

One member of the team acted as a new business wishing to engage with the public sector and completed the registration process. This was found to be reasonably simple and fast. Notification and confirmation that you had registered with Sell2Wales was received in approximately 2 minutes. It was also reasonably simple to update the businesses details if circumstances changed at any time and clear guidance was provided. Regular ‘notice alerts’ have been received from Sell2Wales since registration. This appears to indicate that the registration process is simple and effective, but later stages may be more challenging

Alito: A team member was given a comprehensive demonstration of this system at Rhondda Cynon Taff C.B.C., one of five local authorities in Wales primarily using the system as a means for companies to register their details and the category of work in which they are interested. If a company is registered they will then be contacted directly if there is a contract notice; this information is also available via the bulletin board. Users of Alito claims it is a simpler system for users with limited IT skills to use, but this could not be tested given the limited time available for the demonstration.

PQQ's are then published which the prospective supplier downloads and then uploads the finished document (basically a glorified post box). The same is done for tenders; there is a facility to lock submitted tenders until the due date. There is no evaluation facility in this system for either PQQs or tenders.

Bravo (xchangewales) system: This appears to be by far a more sophisticated system where first hand knowledge of its use is being experienced by one of the researchers as a practitioner working within the NHS. Comments from the focus groups indicated that xchangewales was complex and time consuming, requiring a considerable amount of training and practice. Our researcher thought the functionality was excellent and could be a great asset to buyers. He has since had 'hands-on' experience of working in Bravo (outside Wales) and has found it to be a little more challenging than it first appeared, but 'worth the effort to master the system'.

The research evidence suggests that the systems currently available to buyers and accessible by suppliers are appropriate and have the potential to improve the interface if both parties are willing and able to use the systems effectively. It may be useful to have an SME user group to comment on the functionality and accessibility from their perspective.

3.9. CIPS Perspective

The Chartered Institute of Purchasing and Supply (CIPS) provide its members with advice and guidance of professional practice. Whilst not specifically referring to the PQQ process, the CIPS Knowledge Summaries on offer sound advice on using local and small suppliers and on managing risk (www.cips.org/professional/resources/knowledgeworks).

In summary they advise that

- Buyers should be familiar with their supply markets locally, nationally and internationally
- *'Good practice dictates that buyers undertake market evaluation, supplier positioning, customer preferencing and risk assessment at the outset in order to determine their purchasing and supply management strategy prior to the process of selecting any suppliers'*, which suggests that the criteria for supplier selection should be well established before the PQQ stage, thus reducing confusion for suppliers
- SME suppliers offer 'a range of benefits' and urges buyers to use them *'where value for money can be secured'*.
- *'Risk is not synonymous with small'* and encourages buyers to be less risk-averse when considering
- *'Risk awareness should be seen as a positive attribute as far as purchasing and supply management is concerned'*.
- Purchasing and supply management professionals should determine the source of supply based on objective and relevant criteria.

The CIPS Knowledge Works series appear to support the contention that the public sector and the SME community can and should engage successfully. This was also the conclusion of Professor Michael Quayle in his research for the Welsh Assembly Government in 2001 which concludes with the comment

‘Organisations in the private sector have no God given right to public sector business. Public sector buyers however, need to look in the mirror once in a while and think about value for money in the context of the wider economic regeneration agenda. Good public sector procurement is about people, expertise and performance not just about a transparent process. The future belongs to those who embrace long-term procurement priorities and those who use technology to make themselves more effective and develop better services. ‘

4. CASE STUDIES: PUBLIC SECTOR

This section contains three public sector case studies. Two of the case studies below illustrate how local authorities in Wales are seeking to balance best value objectives and supporting and sustaining SMEs in the local economy. The third highlights the work of a consortium of local authorities and NHS Trusts, who are proactively engineering their processes to increase engagement with SMEs. These are regarded as examples of creative thinking and good practice which might be adopted across the public sector in Wales.

4.1. Case Study: Caerphilly County Borough Council

Caerphilly CBC has viewed “addressing economic inactivity and regeneration” as one of their key challenges since 2007. Their “improvement plan for regeneration (2007/08)” was developed as a collaborative and corporate response to tackling economic regeneration in the Borough, in particular ‘worklessness’, with the overarching objective “to increase contribution of the council towards raising economic inactivity”.

This key challenge or objective has been tackled at Caerphilly on a number of fronts, most especially by Procurement services who have adopted a strategic approach to help regeneration and tackle inactivity. Their strategic intent can be viewed through their own strategic objective “to use procurement processes to support the local economy”.

This is a corporate procurement approach that supports the Councils overall goals and targets the supply chain as a method of regenerating activity in the Borough, therefore attempting to “make a difference” to this region in South Wales. The approach focuses particularly on significant improvements in relation to the development of their suppliers and most especially Small-Medium Enterprise Businesses (SMEs) and Voluntary Sector Organisations.

Currently, Procurement services at Caerphilly are reporting a budget spend of circa £183m for goods, works and services and SME engagement in 2008 is currently at 49% of spend. This is a significant improvement on 2005 / 2006, where SME engagement was only at 12% of spend. Caerphilly is now able to report **37% increases in the level of spend with local SMEs and the Voluntary Sector** over a 3 year period.

How does Strategic Procurement at Caerphilly CBC contribute to economic regeneration?

There appears to have been three strategic areas / objectives targeted by Procurement at Caerphilly CBC that encapsulate their intention to ‘make a difference’. These areas are: -

- To develop a supply base of small medium businesses supported by appropriate social clauses within contract specifications;
- To design, develop and implement a Corporate Procurement Strategy that addresses through procurement and supply chain activities, the efficiency drivers that impact upon all UK and Welsh public sector bodies up to 2008 (e.g. The Gershon Report 2004”, “Better Values Wales 2001, “Making the Connections 2004”, “The Beecham Report 2006” and “Delivering Beyond Boundaries 2006”);

- To develop, draft and implement a collaborative 5 year sourcing plan that compliments the intentions of Value Wales, the Welsh Public Sector and the Welsh Assembly Government.

In support of these strategic objectives, Caerphilly has also established associated action plans that are measured through a set of Strategic Key Performance Indicators (SKPIs). The most relevant areas / SKPIs for this study included: -

- Savings in the form of efficiencies and sustainability;
- How Caerphilly can engage more effectively with local businesses including SMEs;
- How effective the 'lotting' of appropriate contracts can be to improve the ability for SMEs to bid for business with the Authority.

Caerphilly also recognises some "high level threats that could hinder our progress and stop us reaching our goals". This provides some refreshing realism and objectivity for their corporate procurement plans – as it is one thing to plan a strategy, but often far more difficult to implement it, due to "externalities".

Three of the threats identified are particularly relevant to this study.

Firstly, "the failure to develop the SME supply base." Caerphilly feel that failure here "would result in a higher percentage of the authorities spend (circa £183m) leaving the local economy and being spent outside Caerphilly / Wales";

Secondly - "the lack of collaborative opportunities". Caerphilly's response to this is through engagement with the Welsh Purchasing Consortium who possess a similar and supporting view towards economic regeneration and local SME engagement but at a more holistic level, plus a commitment to the Welsh Assembly Sourcing Plan;

Thirdly, the inability to integrate the procurement process and related supply chain activities and "work together" would result in an inability to maximise efficiencies effectively and consequently they felt that they might have to pay more for the key provisions needed within the Authority. This final threat would also be counter intuitive to any plan to build upon the current engagement levels with local SMEs which currently stands at 49% in 2008.

The success of Caerphilly in engaging with SMEs shows that a good PQQ and tendering process is only one element in a more complex picture, which requires, vision, commitment and political will to succeed.

4.2. Case Study: Cardiff City Council

This case study illustrates how a large local authority plans to build a procurement strategy that has engagement with local SMEs as a measurable priority. Even though Cardiff is currently 65% of its total spend with SMEs, they are planning to do even more.

Cardiff City Council is the largest single employer and Local Authority in Wales with over 18,000 staff, responsible for delivering a range of frontline statutory and discretionary services

to around 320,000 citizens. It takes a lead role in shaping the future of the city and has a clear vision to establish Cardiff as a world class capital city.

The Council spends in the region of £262 million per annum on a diverse range of goods, services and works from more than 10,000 suppliers / contractors which are critical to the direct and indirect delivery of services across the organisation. 65% of the total expenditure is with SMEs. This figure will be reviewed as part of the new Corporate Procurement Strategy 2010-2013, and it is anticipated that this level of engagement can be improved during this period.

'Our Procurement Officers go through a tender process therefore their decisions are cushioned by EU regulations which point to the fact that elimination of some tenderers will occur at some point – "we don't pick the suppliers from an approved list (the only supplier list we have is for Service Areas to go to ask for quotes when wanting a job done under 10,000)". Approximately 1500 staff are directly involved in the procurement and payment process.'

Since 2006, Corporate Procurement Services has progressed actions contained within the Procurement Strategy for 2006-09, a key result of which is that 65 % of the £265m total expenditure from the Council is currently with SMEs. However, despite this key achievement, corporate procurement still feels that it has not achieved the fundamental changes required for a world class procurement strategy for a Capital city such as Cardiff. The Corporate Procurement Strategy 2010-13 is therefore aimed to provide an opportunity to harness a cultural shift away from fragmented and reactive procurement to establish a proactive, strategic approach which supports the Council's aims, aspirations and objectives. This will include addressing issues relevant to this study such as: -

- A provision of an up-to-date, relevant analysis of the Council's procurement practice and performance and to identify opportunities for efficiency improvements and its impacts on economic development and sustainability;
- To provide a better understanding of the compromises to achieve a balance between the policy aims (i.e. economic development, especially increased engagement with local suppliers) and the delivery of best value performance;
- To offer the Council with a clear vision, policy and strategy for procurement that is determined by and aligned to the Council's vision, aims, objectives and aspirations for the next three years and which creates the catalyst for change;
- Create awareness and recognition of the strategic value that can be delivered through strategic procurement in Cardiff, the City-Region and Wales, through a Corporate Procurement Communication Policy;
- To establish and embed an approach to Category Management across the Council that also ensures that local suppliers are not compromised by the use of larger 'tier 1' suppliers when appropriate to specific contracts;
- Increase the use of corporate procurement cards throughout the Council, including SMEs to enhance the cash-flow for suppliers, most especially within the local supply chain.

- Strategic procurement training will be undertaken both within the Corporate Procurement Function and with the local SME community and Voluntary sector suppliers to facilitate strategic change.

In conclusion, Cardiff's Corporate Procurement Strategy (2010-2013), aims to deliver cashable savings of 4% across total expenditure of £265 million and in particular the implementation of Category Management and increased engagement with local suppliers.

4.3. Case Study: North Wales Partnership, Contract for Plant Hire

The North Wales Partnership is a consortium of Local Authorities and NHS Trusts in North Wales that have come together in response to Welsh Assembly Government initiatives, to address common procurement interests. Their first joint activity has been to arrange a Partnership contract for Plant Hire which has proactively involved local SMEs.

First, the Partnership needed to attract a body of local suppliers that could meet the demands of the contract. They combined the existing lists of suppliers in each of the participating organisations and invited them to express an interest in participating. They advertised widely in the local press for new suppliers and worked closely with local supplier champions to identify potential suppliers and to help with the PQQ process. The contract has been organised to allow SMEs to tender for small parts of the contract, either by product/service or geographical location. However, large companies were also eligible, so SMEs competed with companies of all sizes, local and national. The contract has been awarded to large and small suppliers at a range of prices to allow the budget holder to decide, for example, to use a large national supplier or a local SME that can offer improved service, albeit at a higher price.

This contract is very new and there is no evidence yet to confirm if this results in extra business for SMEs, but it does offer SMEs a chance to compete and make themselves known to buyers. It gives buyers the opportunity to make broader and more strategic judgements about 'value' than price alone. The outcome of this contract will be carefully monitored and may be extended to other commodities and services.

5. SME RESEARCH METHODOLOGY

5.1. Background

The SME Research Team based at Bangor University and Trinity University College Carmarthen ("TenderWise") contacted around 2,200 companies across Wales via email to request their participation in the research. In total, 125 (5.6%) organisations responded by filling out the single page questionnaire that asked for background details about their company, as well as details about their experience of Public Sector Pre-Qualification, and their preferred method of contact.

By the end of the study, 118 organisations had contributed extensively to the research by a variety of methods (detailed below), whilst 7 organisations decided not to contribute after the initial phase. Nearly all of the businesses that responded want to be kept up-to-date with the results of the contract.

This Section provides brief details of the Methodology adopted and key respondent data. However, a more detailed Methodology including the Research Questions can be found in Annex 2, along with a breakdown of participants according to Market Sector and Size.

5.2. Research Methods

To make it both simple and convenient for participants, the TenderWise team offered a number of different methods for Welsh businesses to contribute to this research. To ensure consistency, the same sets of questions were used for all methods of communication (i.e. Phone and Face-to-Face Interviews, response by email, Focus Groups responses, and questions for the on-line procurement blog):

1. Phone Interview:

- a) The 'Phone Interview Response Guide' was sent via email to all participants 24/48hrs in advance of a pre-scheduled phone call.
- b) A typical phone interview lasted approximately 30 to 60 minutes.

2. Face-to-Face interview:

- a) The 'Personal Interview Response Guide' was sent to all participants 24/48hrs in advance of a pre-scheduled visit.
- b) A member of the TenderWise team made a personal visit to the premises of the business owner.
- c) A typical personal interview lasted approximately 45 to 75 minutes.

3. Participation in Focus Groups:

- a) 'Focus Group invitations' were distributed during the initial phase of contacting businesses throughout Wales, and several reminder emails were also sent.
- b) Three venues were used:
 - 20th of January in Y Llwyfan, Trinity University College Carmarthen.
 - 21st of January in Bangor Management Center, Bangor University.
 - 30th January in Caerleon Campus, Newport University.
- c) Participants were sent the 'Personal Interview Response Guide' prior to the focus group.
- d) Members of the TenderWise team held group interviews.

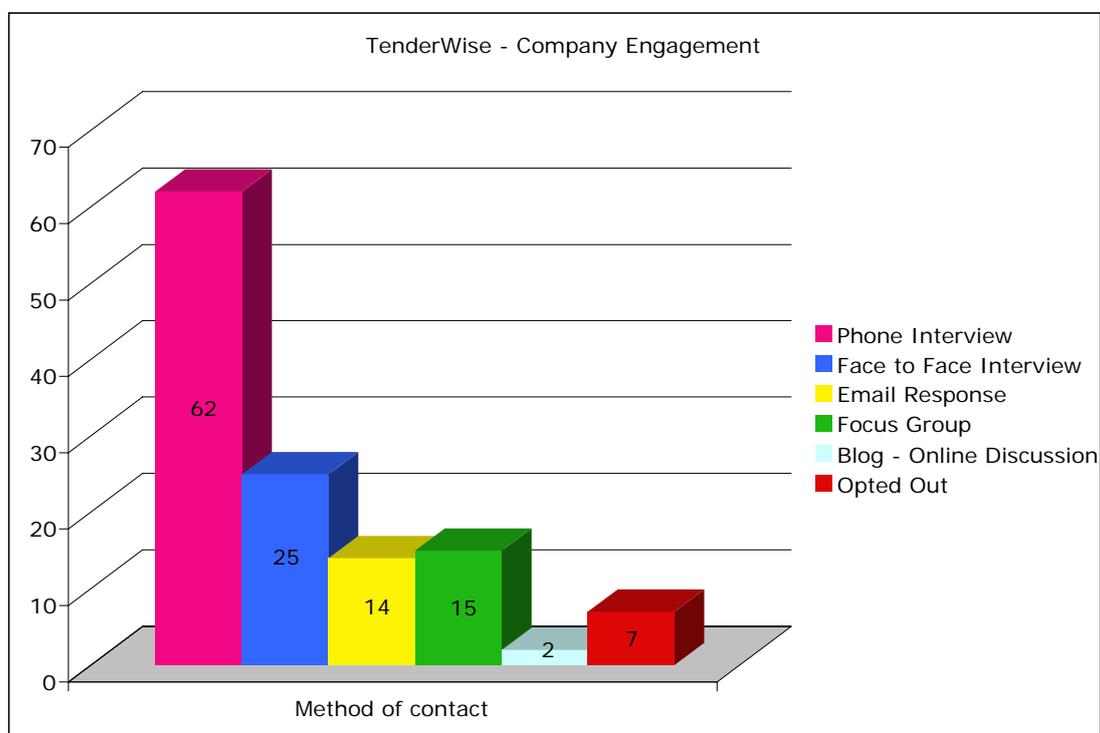
4. Email Response:

- a) The 'Email Response Guide' was distributed during the initial phase of contacting businesses throughout Wales.
- b) Email responses were sent to tenderwise@trinity-cm.ac.uk, and this was accessed by all team members.

5. Participation in an on-line discussion:

- a) During the initial stages of the research all SME's had the option to participate in an online procurement forum - <http://tenderwise.blogspot.com/>.
- b) Participants were able to provide comments and suggestions to 4 'key' topic areas.
- c) This forum is available 24/7 and is currently still available to interested participants.

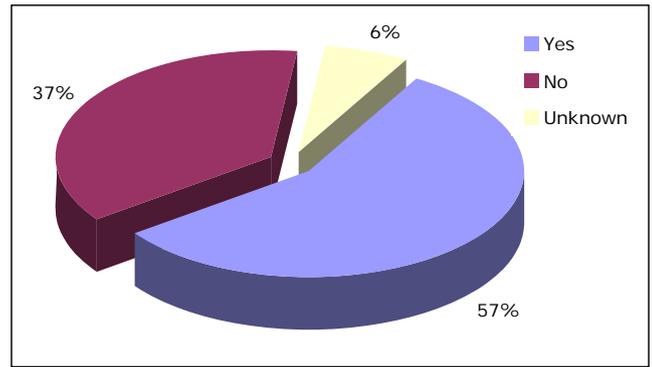
The Participating companies selected the following methods of engagement:



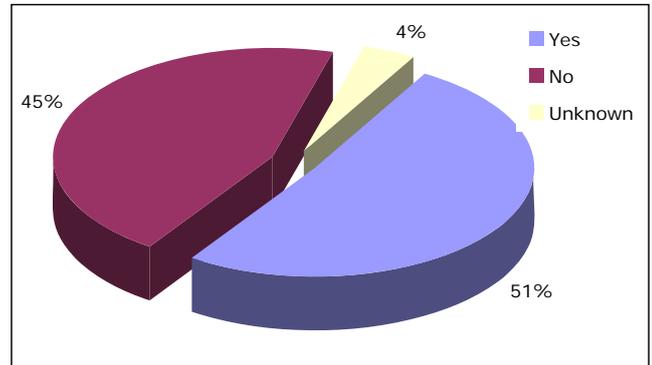
5.3. Key respondent data

The following charts relate to the experience of the respondents in relation to Pre-Qualification within the Welsh Public Sector:

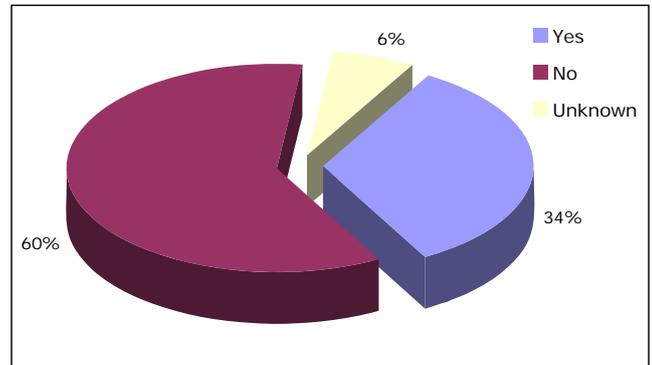
(1) Has your company tendered for Welsh Public Sector contracts where some form of Pre-Qualification method was used? (Chart 1, 57% Yes): 57% of companies had experienced the Welsh Public Sector pre-qualification process in its entirety, whilst 37% stated they had not experienced it in full (Note: many of these respondents had however engaged with the PQQ process, but often decided not to try to proceed to the tender stage for the reasons outlined in the SME Findings Section).



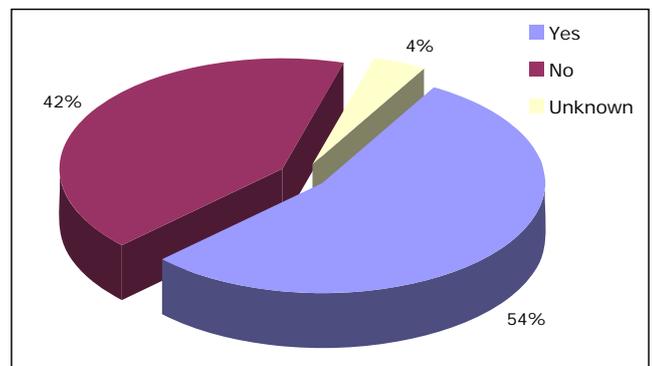
(2) Has your company submitted a Pre-Qualification Questionnaire to a Welsh Public Sector Organisation within the last 12 months? (Chart 2, 51% Yes): 51% of companies had submitted a PQQ to a Public Sector Body within the last 12 months. Although 45% said they had not submitted a PQQ within this 12 month time period, a large proportion of these had submitted within the last 12 - 48 months (Note: Some companies had never submitted a PQQ).



(3) Has your company been short-listed to the invitation to tender stage as a result of submitting a Welsh Public Sector Pre-Qualification Questionnaire within the last 12 months? (Chart 3, 34% Yes): 34% of the companies surveyed had been short-listed to the tender stage within the last 12 months. Additionally, a number had been short-listed within the last 12-48 months (Note: Some companies had never been short-listed to the tender stage).

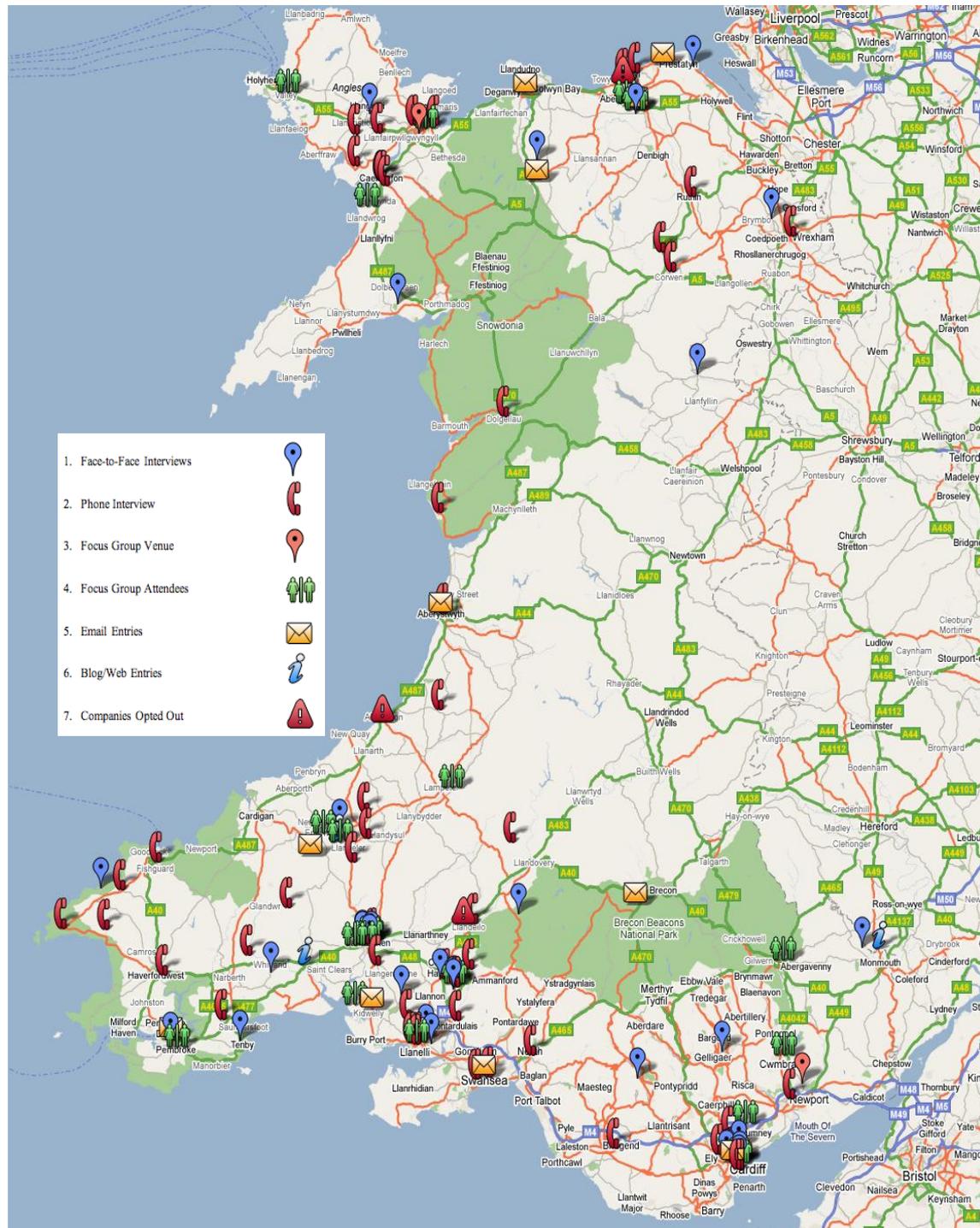


(4) Are you on any Approved Welsh Public Sector supplier lists? (Chart 4, 54% Yes): 54% of participants confirmed they were on an Approved Supplier list (Note: the Research Findings showed that SME's were often unaware whether Approved lists existed, and also whether they were on them or not).



5.4. Location of Participants Surveyed

The map below shows the location of the Organisations that contributed to the Research:



Map Courtesy of Google Maps UK, populated by TenderWise

6. SME FINDINGS

6.1. Introduction

The feedback from the SMEs presents a rich picture of the barriers to opportunity for Small and Medium Enterprises in Wales as a result of Public Sector Pre-Qualification and Supplier Approval processes, and underlies the Recommendations provided later in this Report. The Findings relate to direct feedback provided to the TenderWise team by 118 organisations throughout Wales. They do not reflect isolated comments, but instead relate to key SME experiential and perception issues that came up time and time again. Given the Findings are not the result of a statistical analysis of feedback from all business in Wales (as such a task would be impossible, given the funding constraints opposed by the project) it naturally poses some limitation on the data (from a statistical perspective). Nevertheless the reader is reminded that the SME Findings section has been grouped in a similar way to the structure of the Research Questions detailed in Annex 2, with some additional sections reflecting further issues raised.

- "Short-list Requirements"
- "Finding out about Opportunities"
- "Resource implications of filling out PQQs and Supplier Registration Questionnaires"
- "Documentation Issues"
- "Evaluation and Feedback Issues"
- "Issues with Approved Supplier lists".

Each of the sections detailed above have been further broken down into a summary of the main issues and **also a comprehensive SME Issue Log** that puts the summary SME Findings in a detailed practical context (see Annex 3 for the Log). These two aspects go hand-in-hand, and therefore it is vital they are read together to get a fuller picture of the true situation. Case Studies to further illustrate issues that particular types of organisation face are provided in Section 7 of the Report.

6.2. "Short-List Requirements"

Although the SME respondents understood the Public Sector has a responsibility to manage risk given they are dealing with public money, there is clearly significant dissatisfaction amongst the SME community as to how this is being carried out in practice:

1. It is a commonly held view that risk criteria used in Pre-Qualification are often disproportionate to the risk posed by the contract. Public Sector risk aversion requirements can push unnecessary costs onto suppliers, and there is particular concern amongst SMEs that some purchasers are adopting a 'one size fits all' approach. This naturally creates significant avoidable costs for businesses, and worse still, locks some out from the Public Sector market.
2. New businesses, Sole Traders and Micro businesses, were particularly vocal with regard to the use of rigid Pre-Qualification criteria, given they are most vulnerable to these conservative non-dynamic practices.

3. Many respondents questioned how the Public Sector uses risk-related criteria to decide who should be short-listed, and whether it is based on complex financial assessments, or other criteria? The underlying issue is that Welsh businesses are not aware of the approach the Public Sector is using because this information is not freely available and they believe there should be far more transparency in this respect. They are concerned with the impact this is having on them, and are at a loss to explain why different Welsh Public Sector organisations might be using such widely varying approaches.
4. Amongst some small, as well as large businesses, there was an obvious lack of knowledge as to where they stand in terms of meeting Pre-Qualification criteria, for example with regard to the accreditations they might need. Without this knowledge, it is clear these businesses are not able to move forward. Also the accreditations required can vary from one Public Sector body to another, even for similar contracts!
5. It was very apparent that many SMEs feel that Pre-Qualification requirements are biased towards larger, more established businesses and this was an area that respondents felt particularly strongly about:
 - There was a consensus of opinion that short-list requirements penalize entrepreneurs, newer and smaller businesses, as well as sole traders, because of the public sectors use of risk-minimisation criteria that lack the flexibility to accommodate the innovation and skills strengths smaller businesses can often bring to the table.
 - It was felt that the public sector has a bias towards doing business with larger companies, and consequently this has a far greater bearing on the ability to reach the short-list stage, than capability to deliver a good service.
 - Interestingly, larger companies that are highly reliant on the Public Sector for their business were open about their PR strategies to ensure they are viewed favorably in the Public Sector eye. For example, some were active in developing expensive case studies that showcase their work, which they include as part of the "supporting information" section of a PQQ.
 - Concerns were raised that PQQs are often highly geared towards such things as policies and standards which are often areas of weakness for smaller and newer businesses - rather than capability aspects the SMEs feel should be used as the benchmark for assessment.

Each of the above Summary Findings is explored in further detail in the **SME Issue Log** (Annex 3).

6.3. "Finding Out About Opportunities"

Although there were a number of positive responses with regard to the way the Welsh Public Sector raises awareness of contract opportunities for businesses, there were some serious concerns raised about existing practices and systems, as well as knowledge barriers and perception issues that are proving problematic:

1. Most SMEs feel they are missing out on Lower Value Contracts (typically seen by SMEs as those below £50,000) because they are not hearing about them. In particular, they feel there are few of these types of opportunities advertised on Sell2Wales. Their concerns relate to transparency of opportunity, and there is an uncomfortable feeling amongst the SME community that the Public Sector simply rings up the people they have always used. The perception is that there is no problem finding out about these opportunities if 'you are in the club'.

2. Surprisingly quite a number of SMEs perceive that all Welsh Public Sector opportunities are advertised on Sell2Wales and as a result do not routinely look for opportunities through any other means. This school of thought is perhaps particularly damaging to smaller businesses that rely on Lower Value Contracts.
3. Practically all businesses are confused by the plethora of mechanisms and thresholds that different Welsh Public Sector bodies use to advertise contracts, and can't understand why there is not uniformity across the Public Sector.
4. A number of SMEs are of the opinion that notices advertised on Sell2Wales lack clarity in terms of the nature of the opportunity. This naturally creates inefficiency for SMEs.
5. Some SMEs complain that Sell2Wales fails to provide email alerts of sufficiently targeted opportunities both on a geographical level, and in relation to the type of work that the opportunity relates to. The research did not unearth whether this is simply because SMEs are registering incorrectly, or because of a more fundamental structural issue - further research is required.
6. The main criticism aimed at Meet the Buyer events, related to the view that these are not being run by the actual end-buyer and thus are of limited value, often more akin to PR events.
7. Some businesses, particularly smaller and newer ones, are not aware of how to find out about opportunities and feel they need more sign-posting.

More detail on these Summary Findings is provided in the **SME Issue Log** (Annex 3).

6.4. "Resource Implications of filling out PQQs and Supplier Registration Questionnaires"

It is very evident from the responses in this section that the Public Sector is not taking into account the resource drain that filling out multiple PQQs is having on SMEs:

1. SMEs are vehemently critical of Public bodies use of generic catch-all PQQs on a widespread basis, rather than more focused bespoke PQQs that were specifically designed for the particular contract envisaged.
2. SMEs are very frustrated that Public bodies are not cognisant of the immense burden placed on SMEs which comes from their requirement for a new PQQ to be completed for each separate contract even when applying to the same organisation for a subsequent similar contract within a short period of time.
3. SMEs feel they are being ignored because Public bodies are not taking significant steps to bring coherency and consistency to their PQQs even within the same organisation, with the negative result for SMEs that each PQQ is in fact a unique document, which requires a bespoke response from the SME.
4. SMEs face massive costs in compiling PQQ's – much of this cost is not justified because they complain that much of the PQQ topics are also subsequently duplicated in the subsequent tender documents: public bodies appear to be blurring the distinction between the purpose of the PQQ and the Tender.
5. SMEs are particularly frustrated that a good proportion of the Welsh Public Sector do not appear to be using existing on-line industry Pre-Qualification databases that were in theory supposed to make things easier for them and reduce duplication. A number of respondents for example complained they are incurring a cost for "Constructionline" membership and yet many Public Sector organisations are not using it. The same can be said for "NHS-sid" - the official NHS supplier information database.

6. With regard to PQQ response timelines, the overall view is that these are manageable, however tight deadlines do cause considerable difficulties, as do deadlines that include significant public holiday periods. SMEs are particularly critical when public bodies fail to comply with their own PQQ adjudication timelines.

The **SME Issue Log** (Annex 3) provides examples and analysis of these Summary Findings.

6.5. "Documentation Issues"

SME respondents felt there were a number of areas where the Public Sector could improve their documentation in order to make things more SME friendly:

1. SMEs were critical of the fact that PQQs do not always provide sufficient key information to enable them to make an informed decision on whether it is worth filling out a PQQ in the first place. For example, putting a number of days of effort into completing a PQQ is pointless if businesses are informed at the tender stage that the Public Sector is only willing to pay a maximum daily rate that is not high enough to justify pursuing the business, or if vital advice (such as size of minimum turnover) is buried deep within the documentation, rather than being prominently displayed at the outset. SMEs also felt it would be extremely useful to get some sort of picture within PQQ documentation as to how many businesses would be short-listed at the PQQ stage, again so they could make an informed decision as to whether it is in their interests to pursue the opportunity or not. Clearly the latter point is an extremely contentious issue, but does reflect the feeling on the ground.
2. Many SMEs were very critical of the fact that PQQ questions are often not sufficiently specific about what is required, meaning that much information is included 'just-in-case', with obvious resource implications for SMEs (and the Public Sector!). This lack of clarity related to a number of areas including what the questions are actually asking, as well as the level of detail required. Simple things such as "when answering this question you should consider...", as well as providing word limits etc, were considered to be effective ways of making things easier for SMEs.
3. In line with the above comments, many SMEs felt there was a need for better and clearer guidance such that they are more aware of the sort of things they should consider including in their PQQ submission.
4. Although there were inevitable comments relating to the terminology the Public Sector use, particularly from newer and smaller businesses, and those who typically deal with the private sector, it was felt these issues could be overcome by including a suitable glossary within each PQQ.
5. It was felt that support for newer businesses in terms of how to fill out PQQs is vital so they can learn the rules of the game more quickly than otherwise would be the case.
6. Opinions varied as to the sorts of questions PQQs were asking. Some felt the questions they ask tell the buyer nothing about the business. Others, particularly those businesses involved in construction and consultancy - where longer PQQs seem to be the norm - felt that PQQs are becoming more like tenders in terms of the volume of information required and the amount of thought one needs to give to the actual answers.
7. SMEs commented they were always given the opportunity to contact the Public Sector purchaser, but often they could not successfully establish contact with the right person at a time critical moment. Additionally, it was often felt that clarification to questions was too vague to provide meaningful insight.

Each of the above are illustrated by way of examples in the **SME Issue Log** (Annex 3).

6.6. "Evaluation and Feedback Issues"

Although there were instances where businesses reported they had received good quality feedback that had proved immensely useful, on the whole the SME view is that much can be done to improve the situation. Similarly, there were many issues raised with regard to evaluation criteria.

1. SMEs stated that evaluation criteria were often not included and thus had no idea as to how the PQQ was going to be marked. SMEs want clearer sign-posting as to what is important, and in particular need to know what criteria are:
 - a. "Pass/Fail" Criteria;
 - b. "For Information" Criteria (which do not attract a score), and;
 - c. "Score-able" Criteria and Weightings.
2. There are concerns that evaluation criteria and scoring mechanisms are so vague that the Public Sector can assess a business as they like, and this creates natural question marks with regard to transparency issues.
3. At the same time, there is a feeling that much of the evaluation criteria used is mechanical in nature, and doesn't reflect a true understanding of the business. This arms length approach is seen to be particularly detrimental to smaller and newer businesses and Sole Traders - all of whom are more vulnerable in this area.
4. A number of businesses commented they felt scoring criteria were biased towards larger businesses (and some had evidence to prove it).
5. Although some SMEs reported that feedback was offered, a similar number reported they were not given this opportunity. It is a common view amongst the SME community in Wales that it should be mandatory for the Welsh Public Sector to provide (good quality) feedback. Their view is that this should become a part of the process; and that it is a learning opportunity, and thus is critical to help them move forward.
6. In general, SMEs felt the quality of feedback received from Welsh Public Sector organisations was unsatisfactory - with many labeling it as vague and lacking depth. For example, the SMEs were bitterly critical of the fact that the person that gave them feedback invariably had no active knowledge or role in the PQQ scoring process. Indeed, in those instances where feedback was provided, there was little clear direction on how to improve their performance: this was particularly frustrating for them.
7. Newer companies were especially forthright about the importance of good quality feedback given that winning Public Sector business at an early stage of a company's history can prove fundamental in progressing beyond the difficult early years.
8. Of particular concern to those who had received feedback from a number of different Welsh Public Sector organisations was the lack of consistency, i.e. SMEs are receiving conflicting messages and this is causing great confusion.
9. Some SMEs are afraid to confront the Public Sector regarding feedback because they are worried it may put them in a less favourable position when trying to win new business.

10. It was a commonly held view that much less feedback would be required if PQQs were designed properly in the first place, and if the guidance provided with them was satisfactory.

The **SME Issue Log** (Annex 3) provides examples and analysis of these Summary Findings.

6.7. "Issues with Approved Supplier Lists"

In this section SMEs responded to a variety of questions on the use of Approved Supplier lists. Their responses can be broken into two groups.

The first group in general welcomed Approved Suppliers, but had major criticisms about their operation. The second group were companies who did not do business with the Public Sector but would like to: their main problem was a knowledge barrier as it was not transparent to them how to get onto an Approved Supplier list.

The summary below will focus on the first group's main criticisms (as the second group's issues are self-evident). The first groups' criticisms can be summarised as follows:

1. SMEs feel that Approved Lists are not a legitimate exercise where more than 5 or 6 suppliers make it onto the list as their chance of getting work diminishes correspondingly.
2. SMEs consider that Approved Lists are not used properly by Public Bodies when the "known" companies get work off the list, and the less well known companies do not.
3. SMEs feel Approved Lists are brought into disrepute when companies suddenly appear on the list in circumstances where it is evident they satisfy less stringent criteria.
4. SMEs find that it is onerous to supply update information in order to remain on Approved Lists maintained by even a single Public Body, as the Body will typically maintain multiple Approved Lists and require individual update submission (of often duplicate information) for each particular list.
5. SMEs feel that the Public Sector is using Approved Lists as an effective way of reducing advertising and transparent competition for public contracts.

The **SME Issue Log** (Annex 3) explores all of the above issues in more detail and provides a number of examples.

7. SME CASE STUDIES DEMONSTRATING EXPERIENTIAL AND PERCEPTION OBSTACLES

7.1. Introduction

The SME Findings section of this Report (Section 6) provides detailed insight into the views that SMEs have of Welsh Public Sector Pre-Qualification practices. This particular part of the Report aims to highlight issues relevant to different types of organisation by way of Case Studies.

These Case Studies reflect organisations' experience and perceptions of the PQQ process, and so are illuminating because they demonstrate the obstacles that the PQQ process presents from both experiential and perception perspectives. The Case Studies include both Start-Up companies and those that have been in existence for a considerable length of time. Each Case Study has been specifically selected to provide a good illustration of the pertinent issues to organisations that fit into each of the categories detailed below, and should be viewed hand-in-hand with the detailed SME Findings elsewhere in this Report. We also surveyed 9 Voluntary Sector ("Third Sector") organisations and a Case Study on this sector is included.

Specifically these Case Studies include:

- Case Study A: "A Construction Company".
- Case Study B: "An Education and Training Company".
- Case Study C: "A Start-Up Company".
- Case Study D: "A Sole Trader yet to experience the Welsh Public Sector Pre-Qualification process".
- Case Study E: "A Voluntary Sector Organisation".

7.2. Case Study A: "A Construction Company"

This Case Study illustrates the typical issues that were raised by respondents from the Construction Sector in the research. In addition, it highlights other more generic issues that were unearthed by SMEs from a number of different market sectors.

Key Company Facts:

Market Sector: Construction.	Date Established: 1943.	Company Status: Limited Company.
Number of Employees: 170.	Contract Size: Interested in contracts up to £8m in size.	Respondent: Managing Director.

Major Issues:

- "We have a huge gripe with fact that we're CHAS accredited and Constructionline registered, and yet most of the Public Sector are still asking for this information. Why is there this duplication of data?
- It typically costs us around £3,000 for each PQQ submission including wages and clerical costs. Approximately 12% of our applications clear both the PQQ stage and the tendering hurdle, and thus it costs us £25,000 in PQQ costs alone for the average contract we secure! For a contract of £2m this equates to 1.25% of the contract value, and for a smaller contract of £700,000, this proportion is 3.6%. And remember, this is just for PQQ costs; it doesn't include the tendering costs! This cost burden could be seriously reduced if:
 - o Information was gleaned from other sources, e.g. CHAS and Constructionline, and there was less duplication generally in PQQ processes.
 - o If questions were clear and not open-ended in terms of what they are asking for, and if good guidance was provided. Many Public Sector PQQs do not have evaluation criteria in them, and therefore we have had no idea how they are going to mark it, and what they are looking for.
- Some PQQs are far too large and demanding given the size of the contract.
- Our view is that organisations should be given 4 weeks to complete a PQQ given the need to balance it with other work commitments. They should never be released around the Summer and Christmas holidays.
- Our experience with Approved Supplier lists is that they tend to rotate contracts. We understand this given we would not want to tender if there were more than 6 companies invited to tender (i.e. on the basis of balancing cost of bidding vs. the likelihood of winning). However, it should be good practice to send letters out explaining why you have not been invited to tender on each occasion this occurs.
- We are moving towards ISO 14001 and ISO 9001 to help get us through to the short-list stage. However, this is a big cost to us, and monitoring costs are also going to be very high.
- PQQ processes and requirements provide a huge barrier to smaller companies – they can't afford to invest the time and aren't able to demonstrate things properly. Questions that ask for such things as Employee monitoring procedures are often not fair on small businesses – only the largest companies are likely to do this and the smaller companies are not going to have the resources to bring in such structured systems - and probably won't need to do this anyway!

- A recent £6m Framework contract wanted the same contractor to carry out work in all parts of Wales, thus immediately eliminating most smaller construction companies from bidding given they tend to only do jobs within a relatively small catchment area.
- A recent contract for a [named] building project reduced chances of Welsh companies participating on the basis that extra points were given to those who had already completed jobs in excess of £10m.
- One of the problems we have with Sell2Wales is that you can't screen opportunities well enough.
- Feedback tends to be too vague and you always have to ask for it."

7.3. Case Study B: "An Education and Training Company"

Those organisations in the study providing Education and Training and Consultancy services were particularly critical of the sheer volume of effort required to complete PQQs. This Case Study unearths many of the issues that these particular respondents raised.

Key Company Facts:

Market Sector: Education and Training.	Date Established: 1993.	Company Status: Limited Company.
Number of Employees: 2 (plus many associates).	Contract Size: Interested in contracts between £50,000 and £100,000.	Respondent: Director.

Major Issues:

- "PQQs that we fill in tend to be extremely time consuming and this is a big problem for a small business like ourselves. They can take 5 days to complete which will cost us around £1,000. These PQQs are geared for larger companies that have 3 or 4 people who just fill out PQQs and tender documentation all day! We need an even keel! There is an Economic Cost on both sides – for the SME in filling out the documentation, and for the Public Sector itself when dealing with lengthy PQQs – it is particularly difficult for SMEs in the current downturn.
- One month to complete a PQQ is fine. But when you only have two weeks and you are busy delivering training at the same time, it makes it very hard for the small business!
- We spent five days working on a 50 page PQQ for a consultancy contract, and it was only after reaching the short-list stage that we were informed of the maximum daily rate they were willing to pay. This was ridiculously low, and we felt totally deceived and therefore did not submit our tender. Naivety of Public Sector purchasers of commercial rates is common – there is a clear need for purchasing specialists.
- We are often unclear on the level of detail required in PQQs. Is a one line reply required, or something far more detailed? It would be good if PQQs could stipulate the length of reply required, e.g. 'in this many words'.
- We have 2 employees working for us, so on paper we may appear as being high risk. However, we have over 20 associates working for us and actually physically delivering the training. Assessing capacity by number of employees is therefore unfair on us. We should not be questioned on our ability to deliver large contracts due to the fact that we only have 2 permanent employees.

- We need to reduce the number of suppliers on Approved lists to make them worthwhile, i.e. what's the point when there are 70 organisations on an Approved Supplier list.
- We have tended to find that Evaluation Criteria are usually detailed; however the weightings are not always clear.
- Feedback tends to be good, but it would be far more useful if PQQs are designed more clearly so that it is obvious what the key issues are from the start.
- There is definitely a lack of a common look and feel to Public Sector Pre-Qualification documentation, and little consistency. It would be great if there was an all-Wales approach where you could cut and paste to a certain degree.
- The bilingual Issue is a real problem for us as training consultants given that those who are able to deliver particular training in Welsh may not always have the skill-sets."

7.4. Case Study C: "A Start-up Company (with a 20 year record of prior achievement)"

This Case Study provides a good illustration of the difficulties faced by Start-Up businesses in trying to pre-qualify for Welsh Public Sector contracts. It is particularly interesting because the business has a record of successful prior achievement in another country, and is operating in a field of easily transferable skills, yet the Welsh Public Sector is not giving the business any credit for its extensive record of prior achievement thereby presenting an insurmountable barrier at the Pre-Qualification stage.

Key Company Facts:

Market Sector: Consultancy.	Date Established: 2007.	Company Status: Sole Trader.
Number of Employees: 0.	Contract Size: Interested in opportunities from £2,000 to £200,000.	Respondent: Owner-Manager.

Major Issues:

- "Despite consulting for over 20 years, winning many awards, being highly qualified and internationally experienced, I have not yet been able to get on any Approved Supplier lists in Wales. Although I have been running a financially successful business in Australia for over 15 years, I cannot even pre-qualify here. Because I am in a Start-Up position, I have no UK income or up-to-date client list here yet, and therefore I will not be able to pass the Pre-Qualification stage. How can I ever get started here?"
- It is important to note that I provide specialist leadership development training and coaching. The risks to the purchaser of buying leadership and management consulting services are quite different to the risks of buying large quantities of consumable items. If I go bankrupt, then the Public Sector can simply re-let my contract again – it hasn't really lost anything, and in fact can benefit from my input before stopping the contract. I think that procurement specialists should realise that leadership and management development consulting is a very different 'product' from the consumable products frequently bought by procurers, and as such, should be dealt with differently. Australian Public Service procurers tended to realise that the large training brokers currently getting most of the work in Wales with their large overheads to fund, are not necessarily going to provide the most innovative, and progressive programmes.
- Small businesses often do not have dozens of clients, huge bank deposits in their company financial returns – and so do not look good when the purchaser compares them with larger training brokers, for example. Financial history and current financials are not

as relevant to leadership development expertise: it is capability, experience, range of clients and work that are important. What if a highly reputable consultant decides to take a year or two off for professional development? They cannot then get started again. Or like me, I am in a Start-Up position after many years of successful work [in another country], but cannot get short-listed because I do not have current clients in the UK and my financials currently are not great.

- The Public Sector favours large training brokers and Universities, but is biased against small businesses. I asked a recent procurer how many of the 40 or so providers who had achieved Approved list status for this tender were single operators, as opposed to groups banded together: her response was that there were none.
- Filling out PQQs is incredibly time-consuming. This is hard for very small businesses, because they do not usually have any spare capacity, especially time. Small businesses cannot afford to have dedicated people assigned to this, as larger companies do, and they are probably good at something else altogether - some other skill, on which they build their business.
- It takes me at least 3 days to complete each PQQ (and probably took longer in the beginning). At a daily rate of £500 this equates to a lost income of £1,500. I have now completed 9 PQQs - costing me around £13,500. I have been invited to tender on only one occasion, and this proved to be unsuccessful.
- The [eTenderwales] computer software is complex and tricky for the new user, with even the quick guide being about 4 inches thick! It takes too much time for a new Start-Up business to understand and use the system.
- When I have tried to explain my Start-Up but highly experienced consultancy position in an accompanying email to my PQQ, I still have not been short-listed, and the purchaser has not responded to my points, or referred to them.
- In all my PQQ applications, only one procurer was willing to provide feedback to me about how to improve my submission – the others said they did not have the time, or did not even bother to reply to my email request. This is poor: Start-Up companies need a bit of a helping hand, not a door slammed in their face!
- The Pre-Qualification system favours people who are highly structured in cognitive terms - conservative, detailed people, who are good at bureaucratic processes and form filling. People who are highly innovative may not do well in this system and may not have the patience to see it through to the end!
- Why not reconsider the whole [Pre-Qualification] process as something which could really help small businesses to build up their confidence, learn about their industry, and start to become more competitive and creative. It appears that the current system is there for the benefit of the purchasers to ensure risk minimisation and transfer of procurement and management costs to the supplier."

7.5. Case Study D: "A Sole Trader yet to engage with the Welsh Public Sector Pre-Qualification Process"

This Case Study provides a snapshot of the issues faced by a "hands-on" Sole Trader who is yet to experience the Welsh Public Sector Pre-Qualification process, but is keen to win new business from this market. The Case highlights some of the basic communication and perception issues that can prove to be a significant barrier in the eyes of Small Businesses seeking to navigate through the pre-qualifying process in the first place.

Key Company Facts:

Market Sector: Landscaping.	Date Established: 1998.	Company Status: Sole Trader.
Number of Employees: 2.	Contract Size: Interested in Lower Value Contracts.	Respondent: Owner-manager.

Major Issues:

- "The key issue is the communication from the Public Sector to the potential supplier base. For instance, how do you actually get on an Approved Supplier list? Who do you need to speak to get on this list? And what enables you to become an Approved supplier?"
- It is very important for the Public Sector to make it clear what they expect of you – for example what Accreditations you need? But they don't. It was only by finding out about a particular [named] contract that I realised how unprepared I am, and how far behind I am compared to others – for example, I found out I needed 'PA1' and 'PA6' training [safe use of pesticides], as well as other Accreditations.
- I can't find any of the information I need to move forward on Local Authority web sites - the sites are poorly designed and organised, and the core information you need just doesn't seem to be there.
- I've registered on Sell2Wales, but I only hear about the big contracts, not the smaller ones that might be relevant to me. My view is that the Public Sector directly inform larger companies about these contract opportunities [that I never seem to hear about]. Bigger companies also tend to win these contracts, so as a small company is it worth going for them? Small companies need to be given an opportunity.
- It would be great if there was a single web site with all the contract opportunities of all sizes on there – just so you have a chance. Or alternatively something like a newsletter which is regularly sent out to small businesses with opportunities say in the £20k to £30k range."

7.6. Case Study E: "A Voluntary Sector Organisation"

Although the focus of the research underlying this report was to understand the barriers that Welsh Public Sector Pre-Qualification practices present to SME suppliers, a small number of Voluntary Sector Organisations also participated in the study. This Case Study highlights some of the issues that such organisations have raised. At the end of the Case Study are a number of additional comments raised by other Voluntary Sector Organisations that were interviewed, and they provide a more comprehensive view of the barriers that the sector faces as it moves from a grant funded model to a procurement funded model.

Key Organisation Facts:

Market Sector: Other Services.	Date Established: 1979.	Company Status: Registered Charity.
Number of Employees: 55 Full-time Equivalent.	Contract Size: Up to £140,000 per annum.	Respondent: Director.

Major Issues:

- "There just isn't the expertise in the Voluntary Sector to fill in these PQQs and we can't compete with those organisations that have somebody working on them full-time. However, we have now employed a part-time contracts manager to fill out PQQs, etc.
- It typically takes 6 man days in total to complete PQQs, and this is by somebody very senior as well. It probably costs us around £800 to complete each PQQ at the moment and bearing in mind we are a Charity this is a significant cost.
- Sometimes we are only given 3 weeks to complete PQQs which makes things very difficult.
- The problem with the Voluntary Sector is that they are 'front-line driven', not management driven at the top of the organisation, and therefore will struggle with Public Sector procurement.
- For Social Services and NHS contracts we find out about opportunities through personal contacts - scanning an electronic list is alien to us - we need training!
- It is vital that the Public Sector keep in mind that procuring human services is very different to procuring paper clips!!
- There is need for particularly clarity for Voluntary Sector organisations on how PQQs are to be assessed, i.e. they need to know how this whole system works, given they are not used to working in this way.
- One of the issues I have with PQQs is that they just don't test the ability to innovate - they don't ask the right questions! There is a lack of practitioner-to-practitioner relationships in Public Sector procurement, i.e. the process is at arms length. You need to have the opportunity to discuss with somebody who understands the needs and issues - these are human services we're talking about after all. The opportunity to shape the contract has gone when you reach the tender stage and there is the worry that service users may lose out in the long-run."

7.6.1. Additional Issues raised by the Voluntary Sector

The following details the comments made by the other 8 Voluntary Sector Organisations that participated in the study (it is worth pointing out that those interviewed tended to be the larger Voluntary Sector Organisations, rather than the smaller ones that arguably face the greatest difficulties with Public Sector Pre-Qualification processes):

- "In terms of finding out about opportunities, many do not appear to be advertised on Sell2Wales and we tend to find out about these opportunities from partners having been in the right place at the right time more than anything else! There needs to be some sort of mechanism to ensure we are aware of all the opportunities."
- "There needs to be a consistency about the way opportunities are advertised – the range of ways opportunities are advertised means that we're often close to missing out. We sometimes spot opportunities that we've not received from Sell2Wales. There needs to be agreement across Wales as to where these are being advertised."
- "One of the issues we've experienced with Supplier Approval questionnaires is that they ask 'Which of the following best describes your sector....?' But we are active in more than one sector - environment, health, education, etc. - and therefore we are concerned we are being precluded from some opportunities if we simply tick the 'charity' box (ticking this box doesn't mean a lot in real terms, does it!)."
- "If you are given 2 weeks to complete a PQQ and only 1 week before you find out about it and a key person is on holiday or sick, it causes big problems! The nature of Voluntary Sector employees is that staff are not always working every day!"

- "Smaller Third Sector organisations haven't got a clue how to fill in PQQs, but they are fantastic service providers. There is potentially a huge loss to the public if these organisations can't pre-qualify – so there is an urgent need to address this."
- "We just don't understand the jargon."
- "For smaller and newer Third Sector Organisations, the lack of a track record and no obvious financial stability [that larger national charities have] means it really limits their opportunities."
- "I feel there is a need for additional support and guidance for smaller Third Sector Organisations, especially in those circumstances where an organisation is a fantastic service provider, but struggles when filling out forms. Perhaps there is a need to provide a [business support] officer to work with the applicant, i.e. an element of 'hand-holding'."

A number of other comments were made that do not directly relate to Pre-Qualification, but are crucial to ensuring more effective participation of Voluntary Sector Organisations in Public Sector Procurement:

- "Tendering and contract officers within Third Sector Organisations need to understand the legal implications of getting involved in a binding contract."
- "There are huge governance issues with regard to contract requirements that the Third Sector need to be aware of."
- "Third Sector Organisations need a trained Contract Lawyer, but small Voluntary Sector Organisations just don't have that expertise and there is no margin to pay for that expertise either."
- "In moving from grant funding to Public Sector tendering potentially we will need to win up to 50% of our funding from the Public Sector in future. It is therefore vital that we receive some training in this area."
- "There is a massive awareness issue in that the grant culture era is coming to an end, our grant funding model and ultimate existence is at risk."
- "The 'Not-for-Profit' image means that Public Sector Organisations expect the Third Sector to provide services on the cheap. It puts the sector under a lot of pressure and we are effectively subsidising other services."
- "The Public Sector needs to remember that the citizen should be at the centre - it must be quality driven! Changing suppliers, i.e. re-tendering every couple of years, makes things very difficult for the citizen who becomes comfortable with the carer, etc. The suppliers themselves also need security."
- "For Smaller Voluntary Sector Organisations it is the fear factor of Public Sector procurement that is the biggest issue, as well as the reluctance of the Public Sector to take a chance with them."

8. CONCLUSIONS

In commissioning this research Value Wales has brought together the views of two very different sectors – public sector organisations and SMEs in Wales. The two bodies of knowledge produced by the respective research teams reveal the differences in culture, practice, purpose and perspective between the public sector and SMEs. It is therefore not surprising that there are points on which both agree and also where there are distinct differences of opinion.

The evidence suggests that both the public sector and SMEs would agree that

- SMEs find the process of pre-qualification confusing, bureaucratic, complicated and costly.
- Transparency of the PQQ process and feedback to SMEs could be significantly improved as a priority.
- A simplified and 'fit for purpose' Register of Standard Pre Qualification Data, maintained and managed centrally to avoid duplication for all parties is essential.
- Engagement between SMEs and the public sector can work successfully, given strategic intention and political will. Models of good practice in this regard should be extended across Wales.
- Approved Lists are not working effectively for buyers or suppliers.
- Construction procurement and the interface with Constructionline is particularly problematic and worthy of further investigation.
- Increased and enhanced training and professional qualification would improve overall procurement performance in the public sector.

However, the research shows that the public sector and SMEs disagree on many issues, including the following:

- SMEs believe that the public sector is biased towards larger firms. The Public sector argues that in assessing exposure to risk and potential for value for money, larger firms may have an advantage over SMEs.
- SMEs believe that aggregation of demand into large consortia contracts and framework agreements disadvantages small, local companies. The period contracts essentially 'lock out' SMEs for years at a time. The public sector argues that by aggregating demand it is responding to EU regulation, WAG initiatives and maximising economies of scale advantages to reduce costs.
- SMEs believe that the public sector could and should use all possible means to make contracting opportunities accessible by breaking down contracts into appropriate 'lots', using taster contracts and dual sourcing etc. The public sector claims that aggregation of demand does not necessarily preclude SMEs and that examples of accessibility are common.
- SMEs see the PQQ process as a 'shortlisting' process when it should only be a means of assessing a company's eligibility to tender. Many SMEs feel they are unfairly excluded from the bidding process. The public sector sees the PQQ process as a means of managing risk and reducing the volume of work at the tender stage.

- SMEs complain of duplication of effort, having to complete many and varied PQQs across the public sector in Wales. The PQQs often ask for the same information but in different formats. The public sector recognises that many PQQs exist, but claims that each organisation is autonomous so they can and will produce their own documentation and work to their own regulations.
- SMEs are constantly frustrated by the difficulty in communicating with appropriate public sector personnel. They find the written communication difficult to understand and unhelpful. The public sector often lacks resources and incentives to prioritise extensive communication with suppliers, and reports that SMEs need to engage more effectively with public sector bodies by attending workshops and meet the buyer events etc.
- SMEs struggle to find suitable advertised contracts, particularly low-value ones, whereas the public sector is concerned about the potential high volume of work resulting from the widespread advertising of low-value opportunities.
- The SME sector believes that the 'Opening Doors' threshold for advertising contracts on Sell2Wales (£25,000) should be mandatory. The public sector wishes to retain the right to judge when the transaction costs associated with advertising contracts will outweigh the benefits, given the value of the contract.

The recommendations that follow attempt to build on the points of agreement and reduce the opportunities for disagreement between the public sector and SMEs in Wales.

9. RECOMMENDATIONS

9.1. Standardising the PQQ

Rec.1: Value Wales should produce a standard (non contract-specific) PQQ based on best practice, written in plain English and in compliance with the Welsh Language Policy. This standard PQQ must be adopted by all public sector organisations in Wales.

Supplementary contract-specific questions may be added where appropriate.

All PQQs must clearly indicate on the first page any limitations such as size of turnover, accreditation to a national standard, or indemnity, that would preclude the applicant from being invited to tender for the contract i.e. ensuring the supplier is 'fit' to tender. These overt limitations must also appear in the initial Notice on Sell2Wales.

Rec.2: Suppliers must register their Standard PQQ data in a central electronic repository, e.g. Sell2Wales, and must be responsible for maintaining the accuracy, adequacy and currency of that data. The public sector must use this registered data for every pre-qualification exercise, and can no longer use the PQQ as the vehicle for gathering such routine repetitive data.

Annex 4 contains the research teams' initial thoughts on the pre-qualification data that might be located in a central electronic repository. The Annex was developed from the research evidence from SMEs and the public sector and takes into account the legal implications of recommendation seven (below). It must be stressed that this is **not** a suggested standard PQQ. It is intended to form the basis of future discussion and broad consultation.

Rec.3: The standardised PQQ and accompanying PQQ guidelines, once developed, must be piloted with the business community and public sector community before they go 'live'.

The research indicates that adopting the above recommendations alone would represent significant improvements to the current process for both the public sector and SMEs in Wales.

9.2. Transparency

Rec. 4: All public sector contracts over £25,000 must be advertised on Sell2Wales.

Rec.5: Buyers must review all OJEU and non-OJEU contracts before they are advertised to create a more accessible offering for SMEs, wherever possible within the regulations. This might include using:

- Framework Arrangements
- Tiered Arrangements
- Lots
- Taster Contracts

Rec.6: Value Wales must produce updated guidance on PQQ procedures and the appropriate structuring of contracts in order to maximise opportunities for smaller businesses. This should be based on best practice and case studies, and available to all on a freely-accessible website.

Rec.7: Pre-qualification should be used for identifying, not shortlisting, those candidate firms that are technically and financially qualified to tender. Pass/Fail criteria should be used wherever possible. Criteria attracting a score should be kept to a minimum. Any Pass/Fail items, scoring criteria (however designated), scoring or evaluation weightings, and any evaluation criteria (or sub-criteria), must be revealed in advance before applicants start completing the PQQ. 'For information only' items should be kept to a minimum, or preferably not used at all.

Rec.8: Meaningful high quality written feedback must be available to any PQQ applicant who seeks it within a reasonable period (such period to be specified in the PQQ). The invitation to tender stage should not commence until requested feedback has been given to comply with the Alcatel line of ECJ case law.

Rec.9: The accreditation to be held by a supplier must be specific to a particular PQQ and must remain the responsibility of the buying organisation. Suppliers must understand that no public sector organisations will be bound to accept suppliers that have previously been accredited by another organisation in Wales.

Rec. 10: Due to the inconsistent operation of approved lists, and the frustrations that this causes SMEs and public sector buyers, they should not be used. Value Wales must investigate the feasibility of eliminating approved lists across the public sector in Wales.

9.3. Training & Education

Rec. 11: All public sector organisations must review key performance indicators ('KPIs') for procurement, so that the present emphasis on achieving cashable savings is *rebalanced* within a wider range of KPI criteria to include:

- Engagement in the procurement of innovative products and services
- Identification of new suppliers and procurement from 'new' businesses.
- Innovation in the procurement process
- Contribution to economic development and interaction with the local business community

Rec.12: In line with the rebalancing of KPIs in Recommendation 11, public sector procurement staff must receive appropriate training to deliver on these measures and to adopt best practice across Wales. This training should be delivered consistently across Wales to ensure uniformity of understanding and practice.

Rec.13: SMEs must be made fully aware of the public sector procurement processes in order to overcome real or perceived barriers. Business Support Providers and LSDCs must be able to give appropriate advice and guidance to SMEs on all aspects of engaging with the public sector and in particular the PQQ process. The public sector must support and engage with this wider supplier education agenda.

9.4. Accountability

Rec.14: Value Wales must implement a system whereby models of good practice in public sector procurement be disseminated to all organisations in Wales. Case studies of good practice should be available on Sell2Wales to inform both buyers and potential suppliers.

Rec.15: Once the above recommendations have been implemented, an Ombudsman must be established to bring about the speedy extra-legal resolution of complaints arising from the PQQ process which cannot be satisfactorily resolved between the parties. All public sector bodies and PQQ applicants must agree to be bound by the Ombudsman's decision.

9.5. Supporting Systems

Rec.16: The functionality of existing systems must be reviewed to overcome the current limitations of the Buy4Wales and Sell2Wales system, particularly those that impact on engagement with smaller businesses. Constructionline should also be reviewed, but we recommend that this be undertaken as part of the detailed study of Construction Procurement.

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