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Osborne: Get money to small businesses now

George Osborne today called on Labour to open up the £125 billion government procurement budget to small and medium sized businesses.

The government is the biggest purchaser of goods and services in the UK economy, but Labour's bureaucracy means that small businesses are locked out of this system. Making it easier for small businesses to win government contracts will provide companies with a crucial source of revenue during the downturn, helping to protect jobs across the country.

The Conservative Party's small business procurement package sets out the policy changes the Government should introduce today to get money to small businesses:

- 1. **Scrap the rule requiring companies to provide three years of audited accounts when bidding for government contracts.** This counterproductive rule locks start-up companies out of the procurement system - because new companies may not have three years of audited accounts.*
- 2. **Immediately introduce a single pre-qualification questionnaire for government contracts worth less than £50,000.** This would only have to be filled in once and logged for future contract bids. This will radically reduce the administrative burden involved in bidding for government contracts.*
- 3. **Introduce an immediate requirement that all government contracts worth over £10,000 are published online, so that small companies can for the first time find out exactly what contracts are available.** At present, it is not mandatory for contracts to be published online - as a result, over 75% of SMEs report that it is difficult to find out about procurement opportunities.*
- 4. **Introduce an aspiration that 25% of government contracts should be awarded to SMEs.** This would bring the UK into line with the US federal government, and help overcome the risk aversion that leads to SMEs being overlooked for government contracts.*

Shadow Chancellor George Osborne said:

"This is another part of the Conservative action plan for small business, which also includes policies to defer VAT bills, cut payroll taxes by 1p and reduce the small company corporation tax rate.

"This ambitious package will help open up the government's procurement system and get money to small businesses across the country. It's not just small businesses that stand to benefit - taxpayers benefit from the innovation and greater efficiency that small businesses can bring to government contracts.

"Small businesses are facing a very difficult time and jobs are at risk. If Labour are serious about making a difference, they'd pull their finger out and get on with adopting these proposals."

NOTES TO EDITORS

David Cameron today visited Sweep Ltd, as small business in Sittingbourne, Kent, to discuss how these proposals would help the economy.

The public sector spends £125 billion annually on procuring a wide range of goods and services, from every day items such as pens and paper, to major construction such as schools and hospitals. This makes it the biggest purchaser of goods and services in the UK economy.1[1]

However, only 16% of government contracts are awarded to SMEs in the UK, a significantly lower proportion than in the US, where 25% of the US federal budget has to be spent with small businesses.2[2]

Recent government reports have highlighted the benefits to the public of opening up the procurement process to SMEs:

“Much could be gained by enabling more SMEs to compete. The benefits to the public sector can include better levels of service, innovative business solutions and increased competitiveness in the longer term.”3[3]

Other benefits of procuring from SMEs listed in government reports4[4] include:

- *SMEs have lower administrative overheads and management costs than larger firms. Depending on the nature of the procurement, this can result in lower prices.*
- *SMEs have short management chains and approval routes, so they can respond quickly to changing requirements. SMEs may also be highly focused on particular markets, making them particularly responsive to changes in those markets.*
- *Being a large customer of a small business means a government contract is typically very important to an SME. This can result in a better, and often more personal, level of service and in a better relationship with the supplier.*

However, Labour’s procurement process locks out too many SMEs, denying them access to vital sources of revenue and growth. According to the latest research by the Federation of Small Businesses5[5]:

- *Nearly three quarters of SMEs rarely or never bid for government work.*
- *Over 50% of SMEs feel the process of tendering for government contracts requires more time and resource than their business can allow.*

The US government has introduced a range of measures to open up the procurement system to SMEs.

Each government agency has a minimum percentage that they must spend with US small businesses. The specific percentage varies from agency to agency but the statutory minimum is 23%. The Set Aside legislation also applies to some prime contractors of the US government and these targets are carefully monitored by either the government or internal small business offices.

ENDS

1[1] ‘Transforming government procurement’ – HM Treasury, March 2007

2[2] ‘Progress on improving access to public sector procurement’ – DBERR, 2007

3[3] ‘Public Procurement: Removing the barriers to SMEs’ - Central Procurement Directorate

4[4] Summarised in ‘Evaluating SME experiences of Government procurement’ – FSB, October 2008

5[5] ‘Evaluating SME experiences of Government procurement’ – FSB & CBI, October 2008