

A better deal for public sector procurement

A briefing paper from the Open Source Consortium (www.opensourceconsortium.org)

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Executive Summary

By taking positive action to help SMEs compete on a level playing field for public sector contracts, the public sector can make financial savings and assist the growth of local economies.

Achieving this is not easy and will take considerable political effort. SMEs and public sector procurers need help to understand each other's requirements, interests and needs.

In the ICT sector, additional measures are available. By insisting on open standards and promoting free and open source software, the public sector can remove the current imbalances in the marketplace, strengthen the UK's ICT businesses and achieve better value for the public purse.

Our recommendations are that the public sector should :

- Reward public sector buyers for intelligent risk taking.
- Reduce the cost and time involved in tendering for public sector contracts.
- Actively help SMEs to successfully tender for public sector contracts.
- Ensure that all submitted tenders for a contract are evaluated fairly.
- Make it easy for SMEs to find out about public sector invitations to tender.

For ICT tenders, we additionally recommend :

- Open standards be mandated where relevant standards exist.
- Open Source Software (OSS) not be excluded as an option.
- Buyers be aware of the benefits and issues around open standards and open source software.

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Preamble

This briefing paper has been written on behalf of the Open Source Consortium (OSC), a trade body representing SMEs specialising in providing ICT products and services based around free and open source software. The OSC believes that the under-representation of SMEs in public sector procurement harms the public sector, the SMEs and the general economy.

We believe the solution is largely political and so seek to influence politicians to take appropriate action.

Introduction

For some time the Government has recognised that SMEs (businesses with fewer than 250 employees) are less successful at winning public sector than private sector business.

The public and private sectors are roughly equal for ICT (in fact, the public sector spends a little more than the private sector – about £6 billion each year at the moment). So it might be expected that the average SME would generate around half its turnover from the public sector and half from the private sector. A recent survey by the Federation of Small Businesses tells a different story. Small and medium ICT companies generate, not 50%, but only around 10% of their turnover from the public sector.

Why the big difference? Why are SMEs so much more successful at selling to the private sector than the public sector?

SMEs and the public sector

Across all market segments, the public sector uses SMEs less than the private sector.

When looking at the issues around procuring from SMEs, Government studies and reviews have consistently concluded that the benefits to the public sector outweigh the costs. For example, the Gershon review (section 3.25) states :

“improve the strategic management of key supply markets...by having an effective focus that enables wider government policy (for example, innovation and SMEs) to be advanced through public procurement;”

A Small Business Service study states :

“The economic literature generally supports the perception that small businesses, especially those in innovative markets, bring wider benefits to the economy.”

The Government's action plan for small businesses states :

“Small businesses ... make an important contribution to improving the productivity of UK business. They enhance competition by challenging incumbent businesses, and provide an important source of innovation and new techniques.”

In reviewing the literature, we have not found any suggestion that public sector needs differ fundamentally from the private sector; and the Government is certainly keen in principle to increase public sector procurement from SMEs.

There is one area which is less clear-cut : the economic benefits of using local suppliers where possible. The authors of the SBS study agree that a “buy local” policy makes good political sense, but they are less convinced by the economic argument. Their suggestion is that where a local authority pays more for a locally provided service, they may simply be using taxpayers money to prop up an uncompetitive business which, whilst clearly beneficial to the business, may not be good for the local community.

The conclusion in that study, in line with Government guidance, is that merely creating jobs in one place rather than another is not a sufficient reason to pay more for a service; though there may be other related effects such as reducing crime or improving health in an area that make it worthwhile. It is therefore clearly beneficial for a public sector body to buy locally if there is no penalty in doing so.

This caveat accepted, the message from Government is clear. As Theresa Graham wrote in her introduction to the Better Regulation Task Force paper “Government : Supporter and Customer?” in May 2003 :

“It’s time the public sector recognised what the private sector already knows. Small businesses can often offer more innovative solutions and yes they can offer better value for money. Give them a chance! Or suffer the economic consequences of ignoring them – reduced competition, reduced productivity and reduced value for money in public sector procurement.”

What is preventing SMEs from selling to the public sector?

A number of studies and pilot projects have given us some good information as to why SMEs win less business with the public sector than the private sector. These include two pilot projects (in Haringey and the West Midlands) initiated by the Office of Government Commerce, which followed a study by the Better Regulation Task Force in 2003. Taking this data along with the experiences of our members, we have identified several barriers in the path of SMEs.

- There is constant pressure to cut costs and there is an assumption (not necessarily correct) that larger suppliers have efficiencies of scale that lead to lower prices.
- When choosing suppliers, there is often a built-in bias against small or young companies due to the perceived risk. We believe that this overall risk assessment may often be invalid since excessive weight is placed on size and past experience and not enough on the risk of cost overruns and a poor product being delivered.
- There are no standard media for contracts below the European Journal level to be advertised, if they are advertised at all. The perception also exists among SMEs that many contracts that are advertised are not really open : the authority complies with the legal requirements, but the probable successful tender has already been decided.
- The effort required to prepare a tender is high relative to most equivalent private sector tenders. It isn’t clear that this increased effort benefits anyone (for example, does it reduce the chances of a contract running over time or budget?) There is a perception amongst SMEs that the tendering process for public sector work is long, costly and likely to be unsuccessful, making it difficult for a small business to justify the investment.

A comment from one of our members illustrates this last issue well :

I asked the Cabinet Office why it was that the large companies kept getting contracts when they had repeatedly failed to deliver in the past.

I was told that it was because they knew how to put bids together and that they had departments specifically for this purpose.

We found that to put together all the information required for a large bid meant calling in outside financial and project management expertise (this is just to bid, remember). The exercise took two weeks and when we costed out the time involved and the charges of our outside experts - who were essential - simply putting the bid together had cost us close to £30,000.

This sort of expenditure is fine if you actually get the contract, but for small organisations and even for consortia of small organisations, it's just not practical.

We believe there is something fundamentally wrong with a process that bases procurement on the ability to spend tens of thousands of pounds on putting together a bid, rather than the ability to deliver a good, cost effective, timely solution.

Reducing costs by procuring from SMEs

There are a number of ways that the public sector can save money by increasing procurement from SMEs.

- SMEs form half the supplier market, by turnover and a lot more by number. Any organisation that doesn't seriously consider half the options when procuring goods and services will, over time, lose out by buying more expensive or lower specification products.
- SMEs are frequently more innovative, responsive to customer needs and willing to “go the extra mile” compared to their big business counterparts.
- In many cases, a large company wins a bid and subcontracts out to a smaller company which has the expertise to do the work. The public sector gets an illusion of risk reduction but pays heavily for the privilege.

Additional considerations for ICT

Figures from the Public Accounts Committee show that 80% of Government ICT spending goes to just eleven companies. It is difficult to imagine that, of all ICT companies in the UK, never mind the world, the Government can achieve best value by concentrating its spending on such a select group.

Central Government also has a long record of spending huge sums of money on very large ICT projects with a low success rate. A lot of research has been conducted on the success and failure of ICT projects and the evidence suggests that, as a project gets larger, the chances of success drop dramatically. Running very large projects in organisations such as the NHS has a superficial appeal : deal with one supplier, get everything done in one go, ensure it all fits together well. Unfortunately, this has time and again been shown up as excessively optimistic.

Experience is showing that large monolithic projects cannot be clearly defined at the outset, nor can the end position be understood during the initial analysis. Alternative approaches may well yield better results.

We believe an evidence based approach would reject these mega-projects in favour of smaller projects based around open standards and, where appropriate, open source software, to ensure interoperability and future-proofing.

The benefits of adopting open standards

Most organisations of any size find themselves either with a mishmash of incompatible computer systems or purchasing the vast majority of their IT systems from one supplier (in most cases, both of these). Neither is ideal. Few IT systems stand alone. Most need to talk to numerous different systems. For example, a local authority system might need to capture information from a legacy database, handle queries from the public in person, via telephone or web and have interfaces to a GIS and secure messaging system.

Where incompatible systems are purchased, the additional cost of building interfaces between them can be high (frequently higher than the cost of developing the new system itself). Where the organisation is tied to a single supplier, there is limited ability to negotiate a better deal : the supplier knows that the cost of going elsewhere is prohibitively high.

Open standards provides a route that avoids both these pitfalls. An example may help to explain why. When an organisation is shopping for pens, it doesn't matter too much which pens they have currently, nor which pens other people are using. The procurement procedure can go out and choose the best value pen.

The ICT sector generally doesn't work that way. It often matters a great deal what was used before and what the organisations with which you communicate or exchange data use, in a way that restricts your choice and allows vendors to charge higher prices. If, rather than pens, the organisation needs to buy its modern equivalent - word processing software – it can make a big difference. The software must be able to read and write not only files created in the past in your organisation, but also files that other people send you.

This is where open standards comes in. Traditionally, word processing software has worked on closed, proprietary standards. Each product (for example, Microsoft Word and WordPerfect) had a different way of writing a file. They kept that method a secret and deliberately made it difficult for anyone else to figure out how it worked. From the perspective of the vendor this is good business and makes sense, as the vendor effectively locks customers into their product and protects their revenue flow. From the perspective of the buyer it isn't so good. Another word processor might be better and cheaper but, unlike pens, you can't buy it because it won't work with all your existing files. Even worse, when information has to flow between organisations, your choices can be restricted by what someone else has done.

Now let's suppose that the buyer had stipulated an open format for the word processing package. The format would be fully documented and anyone could legally implement it on any other word processing software now or in the future without paying royalties or any other legal encumbrance.

Suddenly, the buyer is once again in charge; no longer tied to one vendor, no matter how overpriced or underspecified their product may be. You can choose the best value product for your organisation.

This section started by discussing the mass of incompatible systems that grow up in an organisation, and the dependence on a vendor. With open standards, both become far smaller issues. If two different companies can easily write software that works together perfectly, and are required to do so, interfaces become far less of a problem and the rationale for putting all your eggs in one basket disappears.

The knock-on effect is that there's little need for the mega-projects that can, and all too frequently do, go badly wrong. Work can be broken down into smaller discrete projects far more easily. The buyer can exercise better control over each element and each vendor.

The adoption of open standards helps return ICT to being an open and competitive marketplace where purchasers have the freedom to select on the basis of value for money. No vendor is shut out since any can choose to implement the relevant standards in their products. Over time, open standards can significantly reduce both the cost and the risk associated with large ICT projects.

Both the European Union and the UK Government have been supportive of open standards, but so far only in a limited context. The EU mandates open standards (and encourages the use of open source software) for the IDA European Interoperability Framework (EIF).

The e-government unit of the UK Cabinet Office has set out in policy that :

UK Government will only use products for interoperability that support open standards and specifications in all future IT developments.

This is to be welcomed. However, it is unclear to us which types of software are included in “products for interoperability”. Does it include office suites or electronic mail, for example? The implication is that this only covers the specific interfaces in the eGovernment Interoperability Framework (eGIF), which comprise a very limited subset of public sector ICT systems. It is also unclear to what extent the policy is being followed within the various branches of Government.

Free and Open Source Software

From the perspective of the public sector, Free and Open Source Software can be seen as an extension of open standards, giving purchasers more power and making the market even fairer.

Normal proprietary software can be used by the buyer but the source code is inaccessible and can only be changed by the vendor. Again, this distorts the market by tying the buyer to the vendor even though the product as specified may not offer the best value for money.

Having bought a product, there is often a need to amend it, perhaps to add new functionality, fix a problem or make it work better with another product. With proprietary software, the organisation typically has little choice about this. Not only must they go to the vendor, they will have to accept the vendor's timescales and priorities. If the required new feature won't soon be available, there may be little to be done but pay heavy development costs to get it sooner.

Free and open source software gives the purchaser control of the source code : the innards of the software. To make a change, simply purchase on the basis of who has the ability to do the job, not who controls the code.

Government policy, set out by the Cabinet Office, states

UK Government will consider OSS solutions alongside proprietary ones in IT procurements. Contracts will be awarded on a value for money basis.

and

UK Government will seek to avoid lock-in to proprietary IT products and services.

Giving open source software consideration is encouraging but largely meaningless unless the criteria used to evaluate it are also considered. We might evaluate whether we will get greater benefit from a bag of gold or a bag of feathers, but if our main criterion is carrying ease, we will walk away with the feathers every time.

Seeking to avoid lock-in is also admirable, but unless buyers have an understanding of what lock-in is, why it should be avoided and what options there are to avoid it, the policy is unlikely to have any significant impact in public sector purchasing decisions.

Creating a free and fair market in ICT

The public sector, controlling over half the UK's ICT market, has the power to boost the UK ICT sector, creating jobs, stimulating innovation and regenerating communities.

By maintaining an anti-competitive marketplace, heavily biased in favour of large companies, the public sector is unintentionally subsidising some of our overseas competitors at the expense of UK companies.

The UK public sector spends around £6 billion on ICT each year. A high proportion of that is split between just eleven companies; the majority foreign-based multinationals. Sometimes those companies genuinely provide the best value for money, but are they always the best at delivering products and projects as specified, to time and to budget?

Unfortunately we just don't know. Because of the tendency in parts of government to prefer large projects over small, the power vendors hold through the use of closed standards and proprietary software, along with the difficulty the public sector has had procuring from SMEs, we have no way of knowing if these eleven companies really consistently provide the best value for the public purse.

If we were able to create a more free and fair marketplace, we might find a host of UK ICT companies that could do better, with the bonus of growing and strengthening our own ICT sector, leading to an increase in skilled ICT jobs, lower public sector costs and increased tax.

Recommendations to implement a fair ICT market

These are the steps we believe should be taken to realise the benefits discussed in this paper.

For some time, there has been little disagreement about the principle that both the public sector and the economy can benefit from opening up public sector procurement to more SMEs. Making progress has been more difficult.

The Open Source Consortium is in general agreement with the proposals made by the Better Regulation Task Force (BRTF), the Office of Government Commerce and the DTI's Small Business Service. We appreciate the Government's positive attitude to date and are keen to work with the public sector to move forward.

Our particular interest and expertise is in public sector ICT procurement. For that area, we have a number of suggestions as to how the studies and pilot schemes can be turned into real cost savings and other benefits across the whole of the public sector.

OSC Proposals for general public sector procurement

- It is critically important to change the culture of public sector procurement. It is unreasonable and unrealistic to expect those responsible for procurement to take unnecessary risks, regardless of the possible benefits for their organisation, the public sector or the country as a whole. Risk assessments need to recognise the positive benefits of procuring from smaller or newer organisations. Buyers need to be rewarded for intelligent risk taking of the sort that the Government expects from the private sector. There should be a recognition that risks sometimes fail, but the overall effect is positive.
- We believe the cost and effort involved in tendering for public sector contracts could be greatly reduced. The hurdles that businesses must jump to be considered for public sector work should be re-evaluated. Which actually achieve their objectives? Is the extent to which they reduce risk cancelled out by the loss of large numbers of potential vendors to the public sector? As the private sector typically demands lower pre-qualification criteria from vendors, the two models can be compared to see which is most effective.
- SMEs must work to meet public sector requirements for doing business. The pilot projects in Haringey and the West Midlands provide good models for how SMEs can be helped, with workshops, advice and ongoing support, as well as pointers for future improvements. Rolling out these pilots across the public sector would be a major step forwards.
- The OGC aims to launch its National Opportunities Portal shortly. This will be a central place for the public sector to advertise smaller contracts, making it much easier for SMEs to find them. The success of this scheme will depend on it being used by the public sector to advertise jobs. Pilots in Haringey and the West Midlands suggest that it cannot be assumed this will happen; but we hope the portal will be successful.

OSC proposals for public sector ICT procurement

- Open standards, as defined by the European Commission, should be considered the default requirement in all ICT projects, with a closed standards being used only when no open standards solution is viable.
- Free and Open Source Software should not be excluded as an option in any ICT contracts. This may involve using existing open source products or by requiring suppliers writing bespoke software to supply it under a suitable free or open source software license.
- Buyers should be aware of the benefits and issues around both open standards and open source software. Without some understanding, the Cabinet Office policy that open source software be considered alongside proprietary software and vendor lock-in avoided cannot be

properly implemented.

Key interested parties

On the Government side, two agencies play the largest role in looking at this issue : the Office of Government Commerce and the Small Business Service (the latter being a part of the DTI). Between them, these two have initiated a number of studies and initiatives to increase SME participation in public sector procurement. The Small Business Service also promotes SMEs in the private sector through initiatives such as Business Link.

The ODPM (Office of the Deputy Prime Minister) and SOCITM (the Society of public sector ICT managers) both have a particular interest in ICT procurement into the public sector and every branch of government is interested in getting best value.

A number of bodies represent the interests of small businesses. The Open Source Consortium, which has produced this paper, represents those businesses specialising in Free and Open Source Software in the ICT sector. The Federation of Small Businesses aims to represent the interests of businesses across all sectors. Other groups represent different subsets of the SME community.

References

In compiling this briefing, we are indebted to all the people who have worked on the studies and documents in this area.

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