



Department for Communities and Local Government

Leaders of Local Authorities &
Chairmen of Fire and Rescue Authorities

cc: Local Authority Chief Executives & Finance
Directors, & Chief Fire Officers

Kris Hopkins MP
Minister for Local Government

***Department for Communities and Local
Government***

4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3460
Fax: 0207 035 0018
E-Mail: kris.hopkins@communities.gsi.gov.uk

www.gov.uk/dclg

10 October 2014

Dear Colleague

PUBLIC SECTOR PROCUREMENT REFORMS

I am writing to draw your attention to major changes that are being introduced which will affect the way the public sector procures goods and services. I expect the changes to take effect in early 2015. This note sets out what the changes are, their proposed impact on small suppliers, and how your council and all public bodies can benefit and prepare for these reforms.

The reforms take account of the wide consultation and engagement the Government has done with public bodies, small businesses and their champions over the last two years and in response to Lord Young's recommendations to Government in his report on 'Growing Your Business' (May 2013). These reflect changes to the way public bodies administer Pre-Qualification Questionnaires, the accessibility of contract opportunities and how suppliers are paid.

The changes are a great opportunity for local authorities such as yours to achieve increased quality and value for money in the procurement of goods and services from small businesses. This is found to be the case in central government, where small firms are delivering dramatic savings to departments compared with incumbent large suppliers. This is also evident in local government and other areas of public sector spend where small businesses are delivering local solutions and specific sector needs at a time when councils and other public buyers are under pressure to save money and deliver better services with limited resources.

These changes will be introduced as part of the new public procurement regulations. They will help ensure a simple and consistent approach to procurement across all public sector authorities so that small businesses can gain better and more direct access to the public sector market. As a key impediment to accessing contract opportunities, Pre-Qualification Questionnaires for low value contracts will be removed. Small businesses say that these have been overly bureaucratic and contained excessive or irrelevant requirements.

For contracts over the value of the European Union threshold, a single and standardised Pre-Qualification Questionnaire will be available for use across the public sector. Once legislation is in place, contract opportunities that would normally be advertised above

£25,000 (or standing order limits) in value will be required to be advertised on an improved and enhanced Contracts Finder. This will transform small businesses' access to the £230 billion of public sector spend on goods and services each year.

Prompt payment is critical to the cash flow of many smaller suppliers and failure to pay on time can lead to serious problems, even threatening their ability to continue trading. The imminent reforms will ensure that suppliers are paid within 30 days not just by contracting authorities, but also by contractors and all the way along a supply chain.

These three measures are designed to ensure that there is a simple and consistent approach across the public sector so that suppliers, especially smaller businesses and voluntary, community and social enterprises, know what information they will be expected to provide and fairer competition for contract opportunities that are being made available to business.

The legislation is due to come into force in early 2015 and this requires all of us across the public sector to make the changes needed to our systems and practices so that we are ready when the changes take effect. I would be grateful if you would discuss these changes with your procurement officers to ensure that they are prepared and ready.

Many local authorities are already taking action in anticipation of these reforms, but a fuller explanatory note of the reforms and what they will mean for you is attached as an Annex to this letter. If you or your procurement staff need more help or further guidance, please contact the Crown Commercial Service Helpdesk on 0345 410 2222 or at info@ccs.gsi.gov.uk.

The Rt Hon Francis Maude MP and The Rt Hon the Lord Young of Graffham are co-signatories to this letter.



KRIS HOPKINS MP
Minister for Local Government



The Rt Hon. Francis Maude MP
Minister for the Cabinet Office
Paymaster General



The Rt Hon. the Lord Young of Graffham
Adviser to the Prime Minister
on Small Business and Enterprise

The three key changes to procurement practices which all contracting authorities will need to comply with from early 2015 are set out below:

1. Pre-Qualification Questionnaires

Many suppliers have told us that Pre-Qualification Questionnaires are overly bureaucratic, containing excessive or irrelevant requirements. Evidence from the Cabinet Office's Mystery Shopper scheme indicates that this is the number one concern for small and medium enterprises.

Use of Pre-Qualification Questionnaires will be prohibited for procurements under the European Union threshold for supplies and services, which is currently £173,000. For procurements above this threshold, a single standardised Pre-Qualification Questionnaire for the public sector will be available. PAS 91 must continue to be used exclusively for construction procurements.

2. Better access to bid opportunities

A new, improved Contracts Finder where all public sector contract opportunities will be easily accessible to suppliers will be launched.

Contracting authorities will be required to ensure that any opportunity is published on Contracts Finder (in addition to any other portal or website it may use). Once a contract is in place, they will also need to publish details of who has won the contract including whether the winning supplier is a small business or voluntary sector organisation. The threshold for publishing is £25,000 but if contracting authorities have standing orders above this value, they are not required to advertise contracts below that threshold although they can choose to do so. This means that informal methods of tendering (e.g. three quotes) without an advert are still available below standing order limits (or £25,000).

3. Prompt payment

Prompt payment is critical to the cash flow of many smaller suppliers and failure to pay on time can lead to serious problems, ultimately putting their ability to continue trading at stake.

The majority of local authorities have a good record of paying invoices on time; for example, City of London, Halton and Harrow councils are all committed to paying suppliers within 10 days of invoice and other councils have been encouraging their suppliers to sign up to the prompt payment code. However, a recent survey by Bacs Payment Schemes revealed that small and medium enterprises across the United Kingdom currently face up to £40 billion in unpaid invoices, with many larger firms using invoice payment terms for small and medium enterprises that are beyond 60 days.

New legislation will require all contracting authorities to pay valid invoices within 30 days and to ensure that these terms are replicated down the supply chain via a contract condition. Contracting authorities will also be required to annually publish statistics relating to invoices which are paid late with their first tier suppliers.

These three measures are designed to ensure that there is a single market approach across the public sector so that suppliers, especially smaller businesses and voluntary, community and social enterprises, know what information they will be expected to provide and what conditions they will have to meet. This will help ensure that best value for money is obtained through the optimum level of competition, whilst supporting local businesses and giving them opportunities to grow.

Next steps

The Government has recently published a consultation paper on the detailed regulations which underpin these measures, as part of the consultation on the new European Union Procurement directive, and your ideas and views are very much welcome before **the closing date of 17 October**.

<https://www.gov.uk/government/consultations/transposing-the-2014-eu-procurement-directives>

This will help to determine the most effective implementation approach which avoids any additional burdens for procurers and suppliers alike and support the Local Government Association's National Procurement Strategy.

Officials will also be disseminating further information in due course to supplement the reforms and help procurers prepare themselves for implementation. This will include details and guidance on the forthcoming products which support all the reforms, such as the new standardised Pre-Qualification Questionnaire for high value contracts, and the new Contracts Finder system.

I look forward to working with you to help local businesses and local economies grow, which will contribute to economic growth for the whole of the country.