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SPEND SMALL

THE LOCAL AUTHORITY SPEND INDEX

A report by
Centre for Entrepreneurs
and Spend Network

September 2014

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THE CENTRE FOR ENTREPRENEURS

The Centre for Entrepreneurs think tank promotes the role of entrepreneurs in creating economic growth and social well-being. It is home to national enterprise campaign StartUp Britain.

The Centre is a non-profit joint venture between *FT* columnist and serial entrepreneur Luke Johnson and the Legatum Institute – a non-partisan think tank best known for its annual *Prosperity Index*.

It is supported by a prominent advisory board including lastminute.com co-founder Brent Hoberman, angel investor Dale Murray, Betfair founder Ed Wray, Legatum Institute director of economics and prosperity studies Graeme Leach and former Number 10 policy advisor Rohan Silva.

SPEND NETWORK

Spend Network uses open spending data to create new insights for Government and its suppliers.

Spend Network was launched in November 2013 using open public data to create the first comprehensive and open repository for government transaction data.

Since joining the Open Data Institute's start up programme, Spend Network have published over 44m transactions, worth in excess of £1.2bn.

The company has grown out of Ticon, a small consultancy focused on government procurement and payments, founded by Ian Makgill.

We are indebted to the Open Data Institute, Open Corporates and to the data publishers that work so hard to make sure that they publish accurate, insightful data.

FOREWORD

One of the best ways that government can support small businesses is buying from them. Sadly, many entrepreneurs are struggling to win business from government, finding its process to be complex, bureaucratic and tilted in favour of large incumbents.

For too long, needless bureaucracy and limited transparency have protected cosy relationships between government and big businesses. The lack of competition has driven down performance and inflated government budgets, to the detriment of the British taxpayer.

In this respect, the government's recent reforms to public sector procurement should be celebrated. Increased transparency of tender opportunities and the removal of restrictive pre-qualification criteria are making it easier for smaller, younger, firms to bid for and win government contracts. As a result, small entrepreneurial firms are proving that they can cut costs and drive innovation in the public sector while boosting their local economies.

In this report, the Centre for Entrepreneurs and Spend Network explore an overlooked aspect of public sector procurement – the small firm spend by the UK's local authorities. Although central government has an explicit strategy to do more business with small firms, the same cannot be said for the UK's local authorities, and thus performance varies widely.

Where local government overlooks the value from small, entrepreneurial, firms, opportunities to support the local economy are missed. Our message is simple. If local authorities wish to cut costs and drive innovation in the delivery of their services, while boosting their local economies, they must be proactive in boosting spend with small firms.

It is time for all parts of government to Spend Small.



Luke Johnson
Chairman, Centre for Entrepreneurs
and Risk Capital Partners

EXECUTIVE SUMMARY

This report presents a comprehensive, nationwide analysis of the state of spending with small businesses by local government over the past three years: the first of its kind undertaken.

Whereas most reports examining procurement rely on survey and self report data, this report draws its conclusions from analysis of government spending data: over 44 million transactions drawn from 158 local authorities.

We find that small firms are fulfilling a vital role in the public sector supply chain, supplying key services to local authorities across the country. They are winning contracts across all categories of spending, with particular success in both the social care and construction sectors.

We find that an authority's spend with small firms is not influenced by factors such as political control, geographic spread, average monthly spend, average earnings for the region or the council's urban or rural position, but by explicit policies to boost small firm procurement.

Our evidence reveals that the level of spending with small businesses varies substantially between local authorities. The top local authority in our Index spends 25.6% with small business, while the authority at the bottom of our Index spends only 4.2% with small businesses.

Despite the significant efforts of some local authorities, many others could still do more to boost their spending with small firms. All local authorities now have the power and discretion to direct spending to smaller firms but many still choose to ignore the economic and social value of doing so.

From our findings, we make the following recommendations:

Within local authorities:

1. Every local authority should have a small firm procurement champion.
2. Every local authority should have explicit policies and outreach programmes to boost small firm procurement.
3. In line with the local authority transparency code, every authority should publish a pipeline of contracts becoming available in the coming year.

Within central government and the Local Government Association:

1. The LGA should strengthen the role of the local authority procurement champion.
2. Government should maintain the Local Authority Spend Index to track performance and to inform an annual 'best councils to do business with' competition, as piloted in 2013.
3. Government and the LGA should work with Spend Network and the Open Data Institute to develop a common framework for local authorities to report on SME spend.
4. Government should research the value for money impact of using small firms.

Looking at data transparency, we recommend:

1. Every UK public body should publish all spend over £500 rather than the current £25,000 minimum for some public bodies.
2. Every public body should link spend data to tenders and contracts awarded to help identify procurable spend.
3. Small firms should be able to flag interest in subcontracting on tenders listed on Contracts Finder.

INTRODUCTION

Enshrined in the coalition agreement of May 2010 is a commitment to promote small business procurement, with an aspiration that 25% of government contracts should be awarded to small and mid-sized firms by 2015. Since 2011, all Whitehall departments have been accountable for this spend and have been required to report against it.

Before this, little was known about the extent or nature of government spending with small firms. When the Cabinet Office published its first review in 2012, they revealed that direct spending with small business was low and went on to identify areas in which government could improve its practices and boost performance.

Over the past three years, the government has introduced a raft of new measures targeted at increasing procurable spend with small firms. Government figures claim an increase in direct spending by Whitehall departments with small firms over this period, though, as a result of the way this spending is reported, this has not been possible to independently verify.

However, while progress has been made within central government, few facts are known about the state of spending with small firms at local government level. Although each local authority records and publishes its spending over £500, no attempt has been made to collate and conduct an analysis of this data at a national level.

Where local authorities have attempted such analysis of their own spending, a lack

of transparency in their calculations calls into question the veracity of their SME spend figures. Further, a lack of consistency in how authorities calculate their small firm spend to date makes it difficult to compare between different authority figures.

By evaluating spend across local authorities using a consistent calculation, we have ranked the performance of local authorities. The findings presented in this report therefore represent the first attempt to build a truly national picture of spending with small business by the local authorities of England and Wales.

By publishing this index, we aim to bring attention to the ongoing work required to boost small-firm spending at a local level, as well as advance the debate on local government transparency. We also provide an impetus for those wanting a level playing field for small firms.

Without action from local authorities, many entrepreneurs will continue to be bogged down with incoherent, incomprehensible and often unfair procurement practices.

Our approach

To examine the extent of spending with small firms by local government, the Centre for Entrepreneurs has:

- Partnered with open data startup Spend Network, to uncover never before seen data on the state of spending with small businesses in the UK;
- Published the first ever index of spending with small businesses by local authorities;
- Campaigned for local authorities to actively 'Spend Small'.

What do we mean by small business?

We have used the company accounts threshold set by Companies House. Therefore, a small company must meet at least two of the following conditions:

- annual turnover must not exceed £6.5 million;
- the balance sheet total must not exceed £3.26 million;
- the average number of employees must be no more than 50.

WHY SPEND SMALL?

While councils must not make the assumption that all spending with small firms will equate to improved economic development, research has shown that small firms are a key source for job creation and economic growth. Therefore, supporting the activities of small businesses is likely to deliver long-term benefits to their region.

The introduction of the Social Value Act means that councils now have the power and discretion required to direct spending to smaller enterprises, and are able to prioritise suppliers most likely to deliver economic generation into their local area. The implication is that placing spend with small firms is a matter of choice and not a question of circumstance.



FINDINGS

Overview

This section presents an analysis of small firm spend by local authorities. It highlights the highest and lowest performing authorities; which regions of the country small firms are succeeding in; and the sectors in which small firms are winning most contracts.

To build this picture we take the amount of spend an authority has placed with companies and determine what proportion of that spend is awarded to small firms. This approach produces a common basis for assessing performance across differently-sized authorities and authorities with different legal responsibilities.¹

This section also examines the trends in small firm spending over the past three years and investigates the causes of spending differentials between local authorities.

Spending

In our sample period between April 2011 and March 2014, local authorities spent a total of £89bn with companies. Of this, £11.1bn was spent with small firms. Small firm spending therefore represented 12.5% of overall local authority company spend.

Over the same period, local authorities spent nearly the same amount on their 20 largest suppliers as the 78,128 small firms that trade with local government – a total of £9.9bn or 10.6% of overall company spend.

The dominance of these large suppliers compared with the small business community reveals the work required by local authorities in order to open up procurement to small firms.

1. The full methodology can be found in the appendix

HEADLINE FIGURES

Total spend with companies (2011–2014)

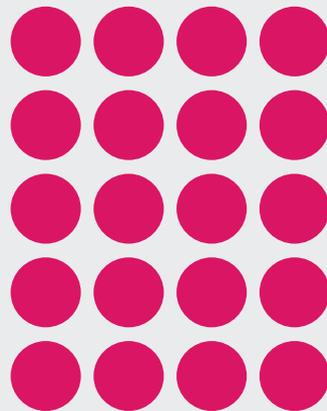
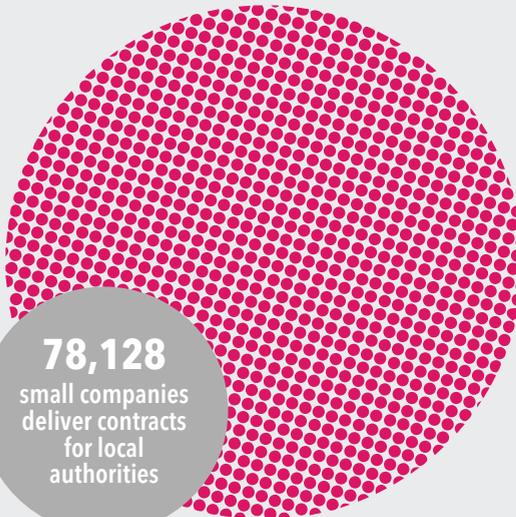
£89.1bn

Total spend with small companies (2011–2014)

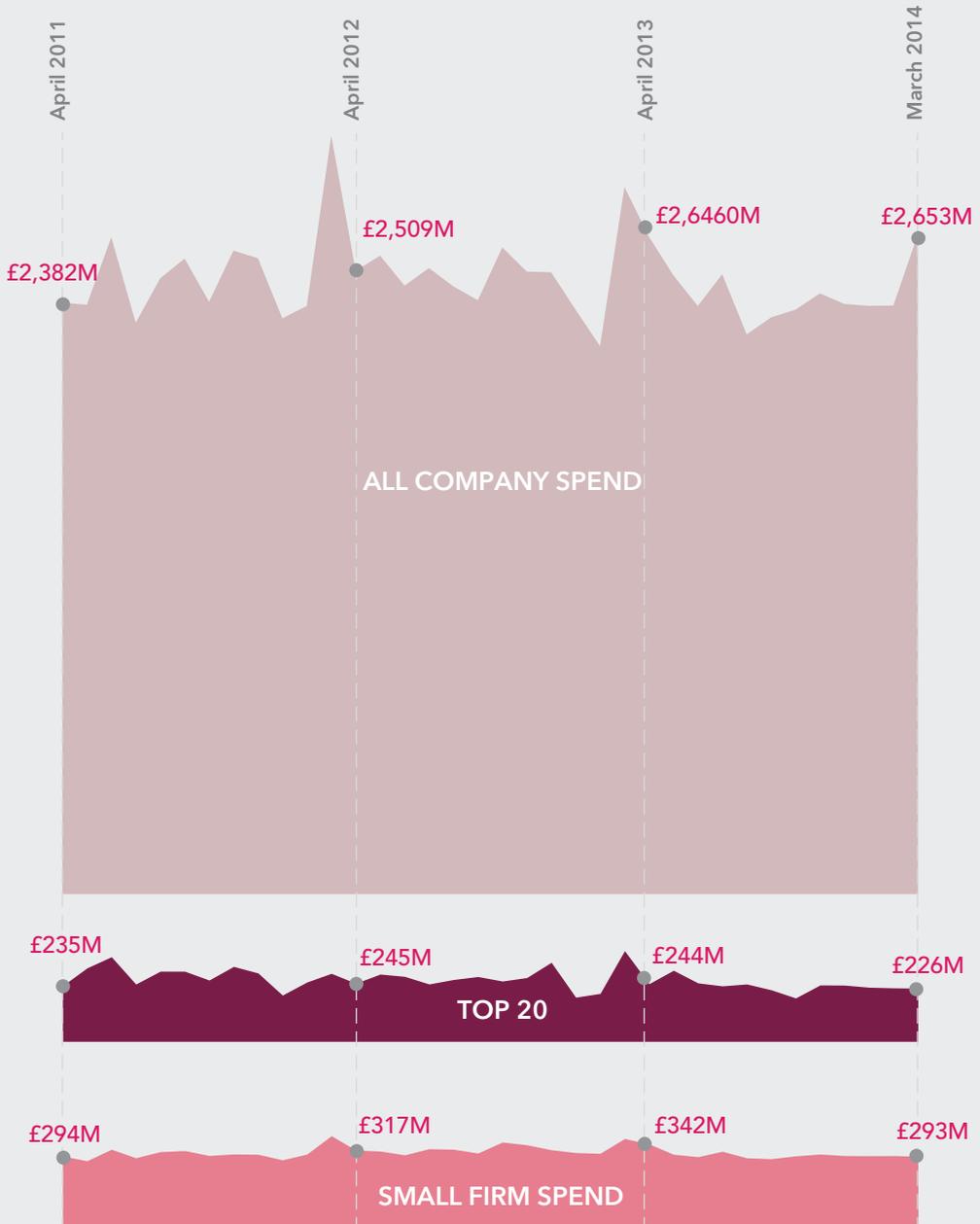
£11.1bn

Total spend with top twenty companies (2011–2014)

£9.9bn



Small business vs. top twenty



Highest and lowest performing local authorities

**Monmouthshire
County Council**

25.60%

Monmouthshire County Council is at the top of our index, with an extraordinary 25.6% of direct spend being awarded to small businesses. The Isles of Scilly's is second with 25.4%.

Given central government's target of 25% spending with small and mid-sized firms includes both direct and indirect spend, for authorities to achieve this level just through direct spend with small firms is a substantial achievement.

**Barnsley Metropolitan
Borough Council**

4.17%

Barnsley Metropolitan Council is at the bottom of our index, with just 4.2% of spend being awarded to small firms, and is closely followed by Sheffield City Council with 4.3%.

Biggest movers

Wandsworth Council

+30.5%

Examining the trends in small firm spending by local authorities, we found significant variance in the rate and direction of growth.

Although some authorities such as Torbay Council and South Tyneside experienced relatively consistent spend throughout the period, others saw large changes in the amount of spend being awarded to small firms.

**Nottinghamshire City
Council**

-36.4%

The most improved authority in this analysis is Wandsworth Council, which succeeded in growing its spend with small firms by 30.5%.

Nottinghamshire City Council saw the largest drop in spending with small firms over the period, with a fall of 36.4%.

Highest and lowest performing local authorities

Top Five Local Authorities		Small Firm Spend	Bottom Five Local Authorities		Small Firm Spend
1	Monmouthshire County Council	25.6%	146	Peterborough City Council	6.73%
2	Isles of Scilly Council	25.40%	147	Manchester City Council	6.53%
3	Windsor and Maidenhead (Royal Borough)	21.85%	148	South Tyneside Council	5.79%
4	Stoke-on-Trent City Council	21.70%	149	Sheffield City Council	4.33%
5	Vale of Glamorgan County Council	21.48%	150	Barnsley Metropolitan Borough Council	4.2%

% CHANGE (2011-2014)



Largest suppliers to local government²

Looking at the other end of the spectrum, we see falling spend with the largest suppliers, which is down by 5% across the three years of our research.

Despite this, we found that the top 20 suppliers to local government succeeded in capturing 10.62% of all local authority spending with private sector companies. This is in contrast to the 12.5% of spend secured by the 78,128 small firms that trade with local government.

The top 20 suppliers received an average of £165m per annum from local government, while each small business received less than £50,000 per annum from local government.

Top sectors

To understand the areas where the public sector is making the best use of small firms, our research examined the sectoral distribution of small firm spend by local authorities.

We found that small firms were most successful in winning contracts in sectors such as social care, construction and business support.

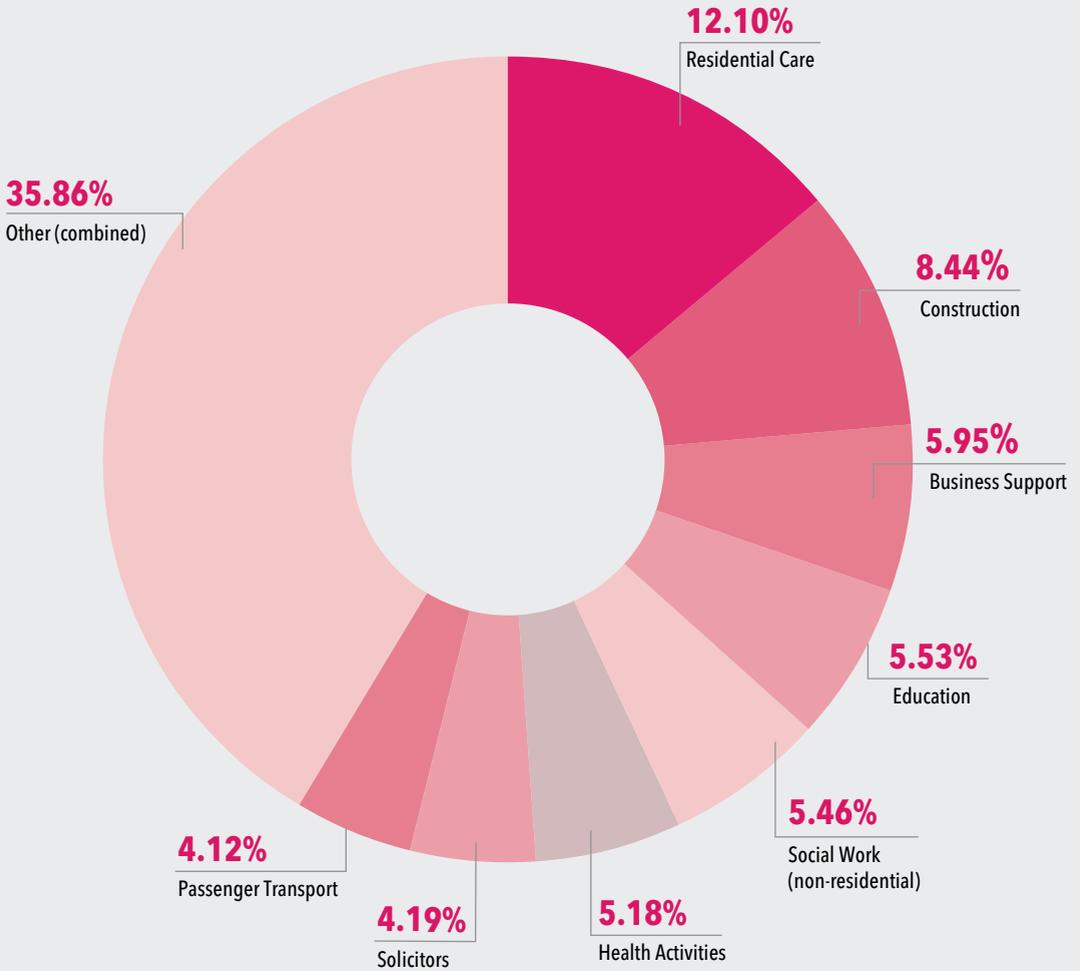
In other sectors, such as accounting, financial services and advertising, we found very little spending going to small firms from local authorities.

2. These are the individual companies receiving largest spend from local government, our work does not consider corporate groupings, PFI or joint ventures.

Largest suppliers to local government (average per annum)

Willmott Dixon Construction Limited	£334M	Mears Limited	£135M
Kier MG Limited	£289M	Balfour Beatty Construction Limited	£134M
Comensura Limited	£275M	Amey Lg Limited	£127M
Capita Business Services Ltd	£232M	Atkins Limited	£124M
Wates Construction Limited	£174M	Bam Construction Limited	£123M
Sita UK Limited	£171M	Apollo Property Services Limited	£122M
Ringway Infrastructure Services Limited	£164M	Stagecoach Services Limited	£117M
Veolia ES (UK) Limited	£150M	Morgan Sindall Plc	£115M
Transport Trading Limited	£149M	IBM United Kingdom Limited	£113M
Sercu Limited	£145M	Morrison Facilities Services Limited	£99M

Spending by category



Category of spend	Avg spend (pa)	Percentage of spend
Residential care	£448,735,692.88	12.10%
Construction	£313,171,022.69	8.44%
Business support	£220,633,624.72	5.95%
Education	£205,199,368.63	5.53%
Social work (non-residential)	£202,366,129.07	5.46%
Health activities	£192,266,972.17	5.18%
Solicitors	£155,369,260.19	4.19%
Passenger transport	£152,857,278.22	4.12%
Other (combined):		
Other services	£144,330,633.40	3.89%
Management consultancy	£138,095,359.12	3.72%
Employment agencies	£135,243,337.28	3.65%
Estate management	£125,607,118.24	3.39%
Specialised construction	£100,223,228.75	2.70%
IT consulting	£95,466,965.85	2.57%
Taxis	£93,557,181.17	2.52%
Electrical installation	£82,698,372.70	2.23%
Building project management	£75,429,475.70	2.03%
Plumbing & heating	£70,841,983.40	1.91%
Other technical	£43,647,437.60	1.18%
Accounting	£42,758,211.06	1.15%
Financial services	£29,943,565.40	0.81%
Accommodation	£29,253,376.01	0.79%
Roofing	£26,251,259.59	0.71%
Vetinary	£26,063,425.20	0.70%
Advertising	£26,063,142.84	0.70%
Other manufacturing	£24,131,665.24	0.65%
Architecture	£20,660,616.81	0.56%

UNDERSTANDING SPEND

Looking across individual authorities, we can see significant variations in spending with small firms. We therefore undertook five pieces of analysis to determine if there were any factors that might explain why some councils spent more with small firms than others.

Geographic spread

To evaluate whether geographic spread was a factor in the amount of spending being awarded to small businesses, we grouped authorities by their local region.³ We then analysed their position in the Index for the total amount of spend going to small businesses.

Our research showed no correlation between geography and spending with small businesses. Each region showed an even distribution across the Index.

Political control

To evaluate whether political control had any impact on spending with small businesses, we identified the status of each authority in our research. Each authority was marked as either being either Conservative, Labour, Liberal, No Overall Control – or in the case of the Isles of Scilly and the City of London, non-political. We then ran a distribution analysis to determine whether political control influenced the amount of spend going to small businesses.

We found no link between the political profile of an authority and the amount being spent with small suppliers.

Average local earnings

We also tested against the total amount of earnings from business rates in each authority. Business rate revenues are an indication of the vibrancy of a local authority's economy and therefore might have an impact on the amount of spend with small businesses.

3. As defined by DCLG in 1994

We found no correlation between spending with small businesses and the revenue local authorities derive from business rates. A good example would be Westminster City Council, which had the largest revenues from business rates in Britain, but had just 7% of its spend being awarded to small businesses.

Urban versus rural councils

Using the Office of National Statistics classification of urban/rural authorities, we analysed whether urban authorities were more or less likely to buy from small businesses.

We found no link between the rural/urban classification of an authority and their propensity to spend money with small firms. The distribution of Major Urban councils showed a slight bias towards being at the lower end of our rankings. However, this factor was within the margin of error for our calculations and so has not asserted the link between urban classification and the propensity for dealing with larger businesses.

Financial size of the council

Finally, we evaluated the average monthly spend of local authorities. This allowed us to consider whether buying power was a factor, as councils with a larger spend may have had a natural propensity to aggregate towards larger suppliers.

As with our previous analysis, we found that authorities with large overall expenditure were no more likely to spend money with small firms.

For example, Dorset County Council and Sheffield City Council. Sheffield outspends Dorset by a factor of more than three times, yet its spend with small businesses is five million pounds per annum lower than that of Dorset's. Conversely, Birmingham City Council spent over 10 times the amount of Tameside in the last financial year. Yet they directed 19% of that spend to small businesses, while Tameside managed just 8%.

| SUMMARY

We can see that the amount of spending with small firms does not depend on the financial size of the council, its location, local earnings, political control or the developed environment. Our analysis therefore excludes some of the most obvious environmental factors potentially shaping an authority's spending.

Our work indicates that a council's set of priorities is the primary factor influencing spend on small companies. Where an authority's leadership commits to boosting small firm spend, they are able to do so – **indicating that the key factor is having a Spend Small policy and implementing it.**

However, as many contracts are awarded for 10 years or longer, it is a long-term proposition – and a council that chooses to refocus their procurement strategy towards spending small may require several years to achieve noticeable results.



LOCAL AUTHORITY SPEND INDEX

TOP 20

Council	small firms (%)	Council	small firms (%)
Monmouthshire County Council	25.60%	Wigan Metropolitan Borough Council	19.87%
Council of the Isles of Scilly	25.40%	Thurrock Borough Council	19.78%
Royal Borough of Windsor and Maidenhead	21.85%	North Lincolnshire Council	19.23%
Stoke-On-Trent City Council	21.70%	Darlington Borough Council	18.99%
Vale Of Glamorgan County Council	21.48%	Brent London Borough Council	18.97%
Shropshire Unitary Authority	21.28%	Norfolk County Council	18.60%
Salford City Council	21.28%	Birmingham City Council	18.51%
Dorset County Council	20.21%	Surrey County Council	18.37%
North East Lincolnshire Council	19.96%	Brighton Hove City Council	18.23%
Nottinghamshire County Council	19.88%	St Helens Metropolitan Borough Council	18.21%

21-40

Council	small firms (%)	Council	small firms (%)
Newport City Council	18.08%	Leicester City Council	16.60%
Islington London Borough Council	17.88%	Herefordshire Council	16.36%
Blackpool Borough Council	17.72%	Hampshire County Council	16.34%
Calderdale Metropolitan Borough Council	17.39%	Wirral Metropolitan Borough Council	16.24%
Hounslow London Borough Council	17.01%	Halton Borough Council	16.21%
Southampton City Council	17.00%	Enfield London Borough Council	16.21%
Worcestershire County Council	16.91%	Havering London Borough Council	15.82%
Bolton Metropolitan Borough Council	16.83%	Croydon London Borough Council	15.74%
Cheshire East Unitary Authority	16.68%	East Riding Of Yorkshire Council	15.67%
Kirklees Metropolitan Council	16.61%	Barking Dagenham London Borough Council	15.54%

41-60

Council	small firms (%)	Council	small firms (%)
Somerset County Council	15.50%	Bedford Unitary Authority	14.80%
Sunderland City Metropolitan Borough Council	15.47%	Blackburn With Darwen Borough Council	14.78%
Bristol City Council	15.19%	Hillingdon London Borough Council	14.71%
Hartlepool Borough Council	15.18%	Reading Borough Council	14.67%
Stockton-On-Tees Borough Council	15.16%	Warrington Borough Council	14.67%
Gateshead Council	15.12%	Medway Council	14.64%
Merton Borough Council	15.00%	Coventry City Council	14.58%
Dudley Metropolitan Borough Council	14.96%	Wakefield City Council	14.48%
Luton Borough Council	14.85%	Lincolnshire County Council	14.44%
Borough of Poole	14.80%	Hammersmith and Fulham London Borough Council	14.25%

61-80

Council	small firms (%)	Council	small firms (%)
Bath North East Somerset Council	14.13%	Bromley London Borough Council	13.66%
Haringey London Borough Council	14.04%	Lancashire County Council	13.23%
Wandsworth London Borough Council	14.01%	Bradford City Council	13.20%
Common Council of The City of London	13.94%	Torbay Council	13.17%
Isle of Wight Council	13.91%	Wolverhampton City Council	13.11%
Bracknell Forest Borough Council	13.89%	Kingston Upon Hull City Council	13.11%
Redbridge London Borough Council	13.89%	North Yorkshire County Council	13.11%
Royal Borough of Kensington and Chelsea Council	13.89%	Milton Keynes Council	13.11%
Gloucestershire County Council	13.88%	Devon County Council	12.94%
Essex County Council	13.84%	Plymouth City Council	12.82%

81-100

Council	small firms (%)	Council	small firms (%)
Hackney London Borough Council	12.54%	West Berkshire Council	11.83%
Ealing London Borough Council	12.53%	Tower Hamlets London Borough Council	11.73%
Buckinghamshire County Council	12.52%	Portsmouth City Council	11.71%
Lewisham London Borough Council	12.50%	Middlesbrough Council	11.56%
Walsall Metropolitan Borough Council	12.49%	Nottingham City Council	11.51%
Kent County Council	12.47%	Southwark London Borough Council	11.41%
Wokingham Council	12.44%	Rushmoor Borough Council	11.39%
Staffordshire County Council	12.25%	West Sussex County Council	11.38%
Rutland County Council	12.18%	Waltham Forest London Borough Council	11.34%
South Gloucestershire Council	12.09%	Hertfordshire County Council	11.30%

101-120

Council	small firms (%)	Council	small firms (%)
Sutton London Borough Council	11.27%	Cornwall Unitary Authority	10.80%
Trafford Metropolitan Borough Council	11.26%	Knowsley Metropolitan Borough Council	10.80%
Wiltshire Unitary Authority	11.21%	Newcastle Upon Tyne City Council	10.75%
Derby City Council	11.15%	Suffolk County Council	10.64%
Solihull Metropolitan Borough Council	11.12%	Lambeth London Borough Council	10.63%
Royal Borough of Kingston Upon Thames Council	11.11%	Greenwich London Borough Council	10.60%
Barnet London Borough Council	11.03%	North Somerset Council	10.58%
Warwickshire County Council	11.03%	Cheshire West and Chester Unitary Authority	10.53%
Redcar and Cleveland Borough Council	10.86%	Newham London Borough Council	10.49%
Oxfordshire County Council	10.81%	Leeds City Council	10.26%

121-140

Council	small firms (%)	Council	small firms (%)
Central Bedfordshire Unitary Authority	10.25%	Slough Borough Council	9.02%
Richmond Upon Thames Borough Council	10.11%	Northumberland Unitary Authority	9.00%
Cambridgeshire County Council	9.89%	Bexley London Borough Council	8.77%
Harrow London Borough Council	9.66%	Borough of Telford and Wrekin	8.66%
Cumbria County Council	9.49%	Rotherham Borough Council	8.37%
Sandwell Metropolitan Borough Council	9.39%	Oldham Metropolitan Borough Council	8.33%
Stockport Metropolitan Borough Council	9.37%	Northamptonshire County Council	8.31%
East Sussex County Council	9.26%	Liverpool City Council	8.29%
Camden London Borough Council	9.13%	Tameside Metropolitan Borough Council	8.17%
Doncaster Metropolitan Borough Council	9.04%	County Durham Unitary Authority	8.05%

140-150

Council	small firms (%)	Council	small firms (%)
Southend-On-Sea Borough Council	8.04%	Peterborough City Council	6.73%
Rochdale Borough Council	7.69%	Manchester City Council	6.53%
Westminster City Council	7.01%	South Tyneside Council	5.79%
Derbyshire County Council	7.00%	Sheffield City Council	4.33%
North Tyneside Metropolitan Borough Council	6.75%	Barnsley Metropolitan Borough Council	4.17%

CONCLUSION

In undertaking this research, we sought to understand the true extent of spending with small firms by local government. Our findings show an undeniable potential for local government to do more business with small firms. We found that:

- Small firms play a vital role in the public sector supply chain, supplying key services to local authorities across the country.
- Small firms are winning contracts across all categories of spending, with particular success in the social care and construction sectors.

It is clear that local government is using small suppliers to deliver on critical areas of their business. However, some local authorities are far more successful than others at making use of small firms. In examining this variance, we found that:

- Prioritising doing business with small firms is the most likely determining factor in driving spend with small suppliers.
- Other factors, such as political control, geography and authority spending do not influence the amount of spend with small firms.

For a local authority to boost its spend with small firms it must have a clear vision, an organisation-wide commitment, and the willingness to learn from other authorities. Only then will we see the whole of government Spending Small.

RECOMMENDATIONS

Within local authorities:

1. Every local authority should have a small-firm procurement champion.
2. Every local authority should develop explicit policies and outreach programmes to boost small-firm procurement.
3. In line with the local authority transparency code, every authority should publish a pipeline of contracts available to small firms in the coming year.

Within central government and the Local Government Association:

1. The LGA should strengthen the role of the local authority procurement champion.
2. Government should maintain the Local Authority Spend Index to track performance and to inform an annual 'best councils to do business with' competition, as piloted in 2013.
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Looking at data transparency, we recommend:

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2. Every public body should link spend data to tenders and contracts awarded to help identify procurable spend.
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DATA TRANSPARENCY

Open Data was essential to the compilation of this Index. We are indebted to the Open Data Institute, Open Corporates and to the data publishers that work so hard to make sure that they release accurate, insightful data.

Our analysis covered all upper and single tier authorities in England as well as three authorities from Wales. Of the 158 authorities which are included in our research, 150 publish data that is of sufficient quality for analysis.

While the UK government has made it mandatory for English local authorities to publish all spending over £500 since January 2011, the devolved governments have not legislated for such reporting. For this reason, we have no data from Scottish or Northern Irish local authorities, while just three Welsh local authorities opt to publish spend data.

We have excluded a further eight local authorities from our analysis due to data quality issues. Although these authorities nominally publish spend data, we could not be confident of its quality.

Those excluded are: Bournemouth Council, Exeter City Council, Bury Metropolitan Borough Council, Leicestershire County Council, Swindon Borough Council, Wrexham County Borough Council, Sefton Metropolitan Borough Council and the City of York Council.

APPENDIX:

Methodology

This report is based on the spending statements published by local government. At the time of writing we have collated over 44m transactions from over 150 councils in 5,800 csv files. A list of bodies covered by our research is available in Appendix 3. The total value of transactions in our database exceeds £1trn. Spending statements are downloaded and then loaded into a database before being linked to an entity record. We link different entity types to different lists, so companies are linked to Companies House records via the OpenCorporates.com API. Care providers are identified using the Care Quality Commission data. Matches are created using a combination of automatic, algorithmic matching and in some cases manual matching.

All of the entities in our research have achieved match rates in excess of 70%, giving us a working sample of at least 70% of each entity's transactions. Absolute accuracy can only be achieved with a 100% match, but our matching is indiscriminate, in that our algorithms are no more likely to match a small firm than a large company. We have focused on larger transactions when undertaking manual matching, which creates a bias towards matching of larger companies, but is necessary to achieving the high match rates needed for the work. Our margins of error are effectively dictated by the amount of matched data, however with the bulk of our data matched algorithmically, our sample sizes provide a strong confidence that our matching is accurate and that increasing matching will see small firm spend rates vary only slightly.

What do we mean by small business?

We have used the company accounts threshold set by Companies House as a definition of whether a company is a small company. Therefore any company that has been exempt from publishing full accounts because they have been defined as a small business in their Companies House entry.

The thresholds used by Companies House are as follows:

“A small company must meet at least two of the following conditions:

- *annual turnover must be not more than £6.5 million*
- *the balance sheet total must be not more than £3.26 million*
- *the average number of employees must be not more than 50”*

Some small companies, such as publicly traded companies or insurance companies, still have to submit full accounts and therefore will be excluded from our analysis.

Data shortcomings

The data we are analysing face a number of shortcomings that limit the analysis we can undertake. Below we outline those shortcomings and what steps we take to address them in the data.

Commercial suppliers

The spend in our database is linked to the company records published through the Open Corporates API. The spending data published by public entities includes significant transfers to state owned businesses such as the BBC and the Post Office, and transfers to banks and other financial institutions that may not be payments for the delivery of goods and services. We also match against the Care Quality Commission’s (CQC) data on care providers, where the CQC have data that identifies the company that owns the care home.

VAT

In the case of some local government entities, we are unsure of whether they have published data to include VAT or not. The guidance from the Local Government Association requires local government bodies to publish net of VAT where it is possible and, in the event that it is not possible to publish values net of VAT, to state where data includes VAT. Where data does not clarify whether spending includes VAT, we’ve contacted Councils to determine whether spending is published net of VAT or inclusive of VAT. Where a Council has failed to respond to our request, we have assumed that the data is published inclusive of VAT and we have subsequently deducted 20% from all published transactions for those files.



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BRITAIN

Centre for Entrepreneurs

11 Charles Street, London W1

Phone **020 7148 5460**

Twitter **@CFEntrepreneurs**

Email **info@centreforentrepreneurs.org**

www.centreforentrepreneurs.org

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3rd Floor, 65 Clifton Street, London EC2A 4JE

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