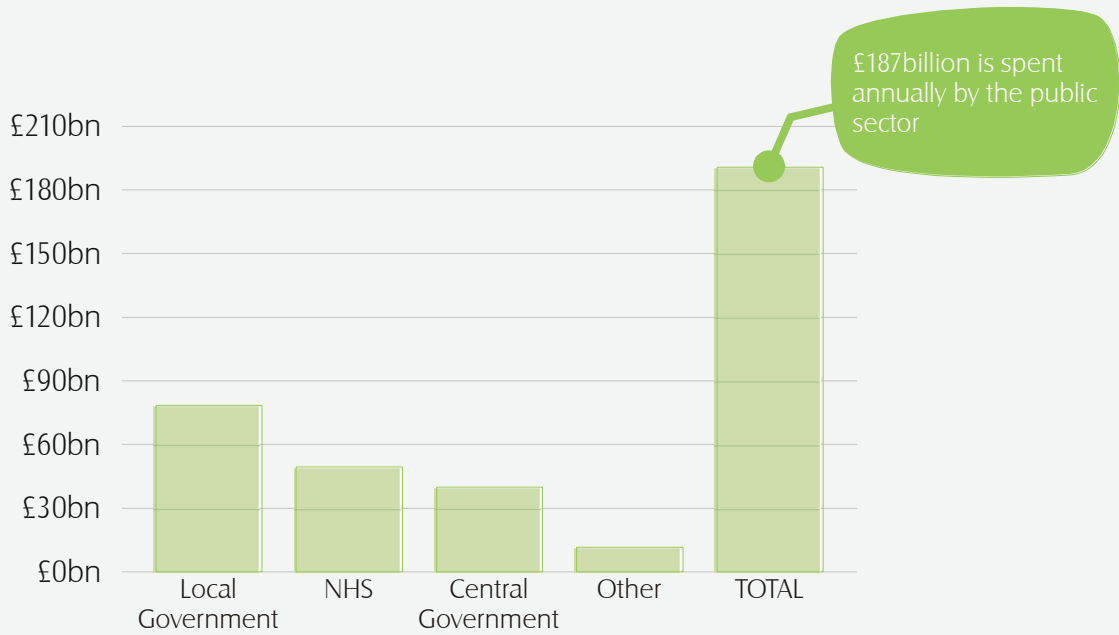


1. Context

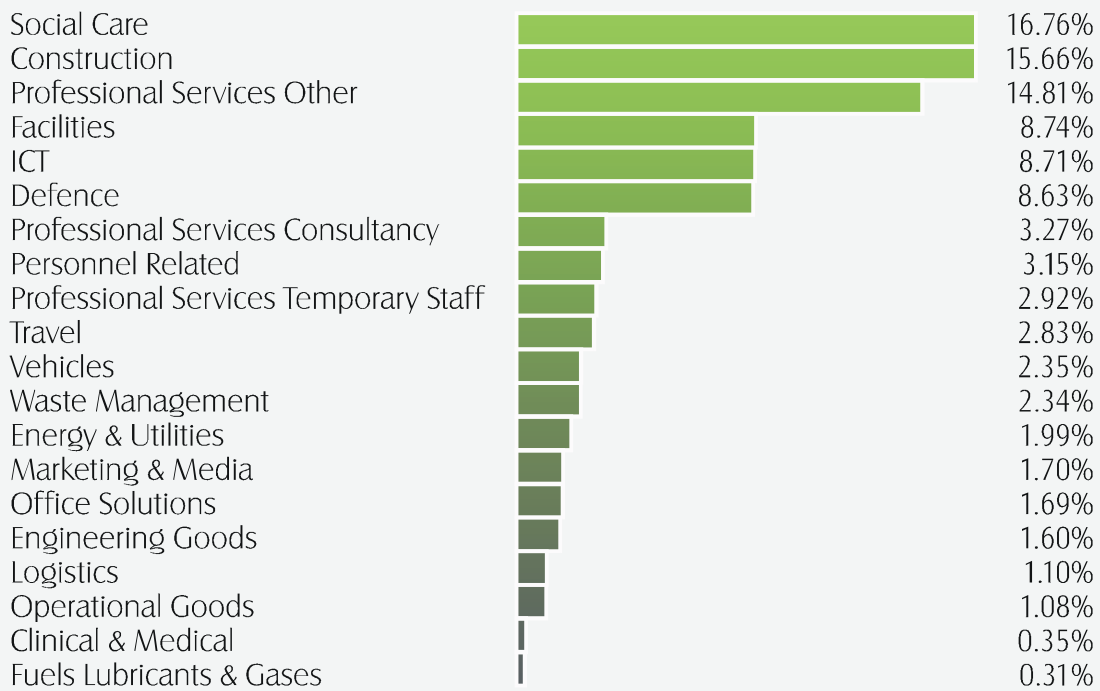
It's important to understand your buyers and the context that they face. This section will highlight where the funding is coming from and where it is being spent.



This graph shows the annual spend, broken down against public sector organisations

An estimated £84bn is spent on third party contracts by local authorities alone every year and this figure is rising. The annual increase is due primarily to central government cuts to local authority grant funding. We know this sounds contradictory but what it means is local authorities must find more and more cost effective ways to deliver services. Although cutting the more discretionary services can help, this option carries with it inherent reputational and political risks. Therefore, by far the most common route local authorities take to tackle the budgetary deficit is outsourcing. Local authorities up and down the country are ceasing to deliver services in house and instead outsourcing to more cost effective, third party solutions. There are, therefore, an increasing number of opportunities for private businesses and charities to secure their piece of the £84bn local government contract pie.

Approximately 27% of central government spend is contracted with SMEs (Small and medium-sized enterprises) either directly or indirectly. Again this figure is rising, with Central Government setting a target of 33% by 2020 and local authorities following suit with spend ranging between 4-26%. This equates to between £3.3bn - £21.8bn every year spent with SMEs



This graph provides a more detailed breakdown of third party spend across different categories of business.

Actions

Use the Local Authority index in Appendix 1 to identify your nearest local authority as well as your neighbouring authorities.

2. Why the Public Sector

The fact that you have bought this guide indicates an appreciation of the value of contracting with a public sector organisation. However, to allay any doubts, here are five reasons why holding a public sector contract will be beneficial for your business.

1. Central and local government pay consistently and on time. The regulations mean that contracting authorities must pay suppliers within 30 days of receipt of a valid invoice.
2. Your local contracting authority won't go bust. Contracting authorities, although facing serious financial deficits, are very stable institutions. Contracts held with other buyers have the inherent risk of liquidation or cash flow issues that could impact upon their ability to pay your invoices. Cash flow in the public sector is not an issue.
3. The typical contract term falls between 2 - 4 years providing you with revenue security.
4. Your business will benefit from having a credible reference in future bids for work.
5. Often contracts will be extended beyond the initial term as cost of change can be prohibitive to contracting authorities.

3. The Rules (The Law)

Contracting authorities are public bodies and they are responsible for spending public money. This responsibility means that they must comply with a number of governing laws.

First and foremost it's important to be able to calculate the contract value correctly. The contract value will be the figure that dictates which rules the contracting authority must follow. Although contracting authorities may not always identify a budget or contract value in their tendering documents, the route that they take will give you clues as to how much they intend to spend on the contract and therefore help guide you towards a realistic contract price.

Contract value is the gross value of the contract for the full term of the contract. For most contracts this is the contract fee that the contracting authority pays the supplier for the lifetime of the contract. As mentioned in the Concession Contracts Regulations 2016 section below, this could also include the income generated by the supplier as a result of the operation of the contract. The contract value will also include ALL potential extension periods.

Example 1

A support and maintenance contract is worth £50k per annum. If the local authority tendered for a 2 year contract with no extension periods, the contract value would be:

$$£50k \text{ pa} \times 2 \text{ years} = £100k$$

Example 2

A support and software licensing contract is worth £30k per annum. If the local authority tendered for a 4 year contract with an extension period of 3 years, the contract value would be:

$$£30k \text{ pa} \times 7 \text{ years} = £210k$$

Public Contracts Regulations 2015

From 26th February 2015 the Public Contracts Regulations 2015¹ took effect. This was an updated set of procurement and contract rules to incorporate various European laws, known as Directives, and described the rules around how contracting authorities must manage their procurement activity.

¹ <http://www.legislation.gov.uk/uksi/2015/102/contents/made>