

Cabinet Office
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Procuring Innovation

In response to Cabinet Office's Green Paper: Transforming Public Procurement

At £292 billion, public procurement accounts for around a third of all public expenditure. Given the scale of this budget there is a compelling opportunity to utilise a proportion of this spend to drive innovation in the wider economy, creating improved outcomes for society and achieving long-term value for money for Government.

The Innovation Expert Group (IEG) was announced within the R&D Roadmap and launched on 10th September 2020, chaired by Dr Hayaatun Sillem. The Group provides advice to government on the priority actions and early opportunities that need to be taken to boost innovation and drive up the UK's productivity. It comprises of people with deep knowledge, experience and a clear vision to help advise on innovation, drawing from industry, public services, the investment community and relevant disciplines of the research community.

The IEG warmly welcomes the Government's commitment to transforming public procurement, as demonstrated through Cabinet Office's 2020 Green Paper and the positive recent measures introduced to embed the social value model. This letter provides a set of recommendations in response to the Green Paper aimed at enabling public procurement to further foster innovation and create impact.

The UK has a strong and flourishing start-up ecosystem, with over half a million companies founded every year¹. There is a unique opportunity to use these reforms to create a prosperous environment that helps companies cross the chasm and scale – unlocking the growth potential of our start-up ecosystem and making the UK the best place to scale a business, where market access is critical to this stage of growth.

The UK's 34,000 scale-ups were estimated to add £1 trillion to the UK economy in 2018². Leveraging procurement to transform more start-ups to fast growth scale-ups has the potential to contribute strongly to the Government's ambition to unlock innovation and growth throughout the UK. The IEG welcomes the recent Budget announcements to support scale-up firms, including recognition of UK scale-up employees for fast-track visas, and the announcement of *Future Fund: Breakthrough* for scaling R&D intensive businesses.

The implementation of the recommendations listed in this response build on this support. Taking a systemic view, five principles have been identified to tackle the blockers that are preventing the UK from converting its current, successful start-up ecosystem into a flourishing scale-up ecosystem. These will help ensure that innovative companies can

¹ <https://www.gov.uk/government/news/uk-company-statistics-2018-to-2019>

² <https://www.scaleupinstitute.org.uk/scaleup-review-2020/scaleup-indicators-from-a-national-and-local-perspective-2-2>

compete for and win work in the public sector and, where appropriate, secure Government as their first reference customer, supporting their growth and delivering public benefit.

This response to innovation spans both:

- Procuring from innovative companies – to fuel the scale-up ecosystem across UK and productivity growth.
- Procuring new innovative services – including challenges.

Recommendations: Five principles to drive innovation through procurement

Principle 1: Champion a systems approach

The UK innovation system is currently fragmented, with unintended barriers preventing innovative SMEs from working with Government - ranging from the speed and cost of tendering, to restrictions in place on insurance, requirements to demonstrate substantial past project experience over a threshold size. and contract requirements that block small or early-stage companies from competing for work.

Opportunity: Use procurement to fuel the scale-up ecosystem across the UK, along with productivity growth by ensuring these firms are able to compete in public procurement, with Government as the first customer supporting growth.

How: Delivering this systems approach across all elements of the procurement ecosystem, from contracts, compliance and bid processes through to supplier relationship management, requires senior-level champions and empowered leadership to secure buy-in from all stakeholders (not just procurers and end users). This is critical to ensure innovative companies and services do not remain forever in a 'pilot mode' but can transition to large scale deployments.

Procurement should be approached as one step within an end-to-end integrated ecosystem of innovation, adoption, and operation rather than as an isolated process or policy. Procurement policy must also consider the infrastructure and tools required to support the procurement ecosystem and new ways to evidence value, for example, prospective suppliers could use models such as simulations and digital twins to demonstrate plausibility to stakeholders.

Investment in infrastructure and major projects provides a good opportunity to increase the pace and impact of innovation to increase productivity and support Levelling Up. This builds on successful UK examples since the 1990s and networks such as [i3P](#) but needs additional scaling and funding to exploit the full innovation potential. A key opportunity is to expand the adoption of the new [Project 13 model](#) used by organisations such as the Environment Agency, as this integrated delivery model helps remove key barriers for working with SMEs though changing risk allocation and incentivising innovation and value delivery.

Principle 2: Draw on data, target outcomes and build KPIs into the system

As highlighted in the Green Paper, the focus on input rather than output specifications restricts new technologies, methodologies, and business models from being employed and results in a lack of tracking of outcome KPIs. Smarter approaches to data are required more broadly.

Opportunity: Build on the green paper focus on outcome specification (technology agnostic) and track impact and social value from procurement, with targeted metrics on innovation.

How: Incentivise buying from SMEs, both through direct and indirect procurement (through Tier 1 organisations), and measure and track scale-ups supported by public procurement.

Pre-commercial procurement and procurement of innovative solutions require specific and separate targeted metrics, rather than a one size fits all approach.

One example of a target to incentivise pro-innovation procurement would be an identified proportion (e.g., 5%) of UK public procurement spend allocated to high innovation-content commercial programmes in sectors which are already working more closely with innovative scale-up companies, e.g., Ministry of Defence (DASA Accelerator), Department for Health (SBRI Healthcare) and emerging Clean Growth procurement. [Ref. Q11].

In many data-driven projects, a large initial effort is needed to release data for testing and product development. In many cases, in addition to having this initial release of data, software products need real-time or updated access to data in perpetuity. Organising the infrastructure, resources and legalities around this perpetual data supply should be considered as early as possible to enable prototypes or solutions developed in the open call phase to be adopted as quickly as possible and operate sustainably. [Ref. Q10].

Principle 3: Government as the first customer, supporting capacity building

Barriers that prevent innovative SMEs from bidding, and winning, work in the public sector also prevent the Government from accessing new technologies from start-ups that can improve public services and help these companies grow.

Opportunity: Commitment to be the first customer for innovative SMEs. Building on the Green Paper's recommendation to upskill procurement teams, one or two departments should be selected to pioneer innovation-led procurement; these should be areas where there is strong Secretary of State-level buy-in for using innovation to drive change in a sector or tackle one or more major challenges.

How: We recommend establishing a specialist team, fully integrated as part of the procurement team and with senior sponsorship, to run innovation procurement – covering buying from innovative SMEs, buying innovative services, supporting capacity building of SMEs on accreditations and risk management, and owning the reporting of metrics to the social value targets. Expanding SBRI uptake should be a by-product of this process, but noting that this ends at the development of the prototype where there is often extremely limited opportunity to scale into commercial development.

Upskilling of Government teams for innovative procurement needs to directly address the difference between **perceived risk and actual risk**, particularly in respect of SMEs. As noted in the Green Paper, evidence shows that small suppliers can consistently perform and outperform larger businesses. Confident and evidence-based management of risk is a necessary component of effective procurement; concerns about risk must not reduce the appetite for innovation.

A **challenge-led approach** can be a powerful route to creating an ecosystem of suppliers to unlock the progression from pilot to adoption while also tackling key societal needs.³ A degree of co-creation, including with the SME community and academia, is necessary to drive more transformational innovation.

Principle 4: Help UK companies build and retain Intellectual Property for growth

Opportunity: Enable SMEs to protect and retain Intellectual Property (IP) when participating in public procurement, to strengthen our scale-up ecosystem. Intellectual Property developed by SMEs is frequently undervalued or overlooked through the public procurement process. This includes understanding and valuation of the IP resulting from R&D, expertise

³ <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2020/dec/mission-oriented-public-procurement-international-examples>

and know-how leading to the development of innovative goods and services that might be purchased, and IP directly created through Government contracts.

How: We recommend agreeing an appropriate strategy for the identification, recognition, and ownership of IP, building on the work referenced in the Green Paper and wider HMT activities in this area, which will help overcome existing barriers to participation from innovative SMEs. Businesses who have been through an SBRI tender, retain their IP at the end of the process. This potential for this to be extended to all SMEs should be explored.

Transparency and clear communication on IP are crucial since lack of knowledge or misperception may be as much of a barrier as the reality. Direct support for small firms in registering their IP and upskilling of Government procurement teams would be beneficial.

Principle 5: Inclusion - ensure that procurement processes work for all and access is fair

Participating in existing procurement processes is costly for small companies, e.g., indemnity clauses may be unrealistic for and unfamiliar to start-ups and scale-ups. In addition, there is currently unequal access to Government decision-makers across the business community, with incumbents and large companies securing more ready access as a result of the other contracts they are working on and pre-existing relationships.

Opportunity: Build an innovation community of start-ups, scale-ups, and innovative SMEs from across the UK, including to review and test systems prior to adoption to identify any risks or barriers to use.

How: Create a progression framework that can be used by procurement teams to assess the inclusion level of procurement policies for innovative SMEs and when buying innovative services. This framework could support the Systems Approach (Recommendation 1) by providing an overview on the innovation level for each area of the procurement ecosystem⁴.

Equal access measures should take greater account of the fact that some bidders see commissioners on unrelated topics. There should be more direct incentives for commissioners to procure from SMEs, for example, rewards, for achieving at least 25% of value of contracts procured from SMEs. [Ref. Q11].

Procurement panel members should bring a diversity of perspectives and include representatives from the start-up and scale-up community and innovation agencies. [Ref. Q3].

The Green Paper's ambitions to increase accessibility for new entrants, including the single platform for supplier registration, are welcome. The 'Enterprise Ready Passport' is based on a similar principle and would support smarter engagement with SMEs, improved visibility of innovations, more effective collaboration, and opportunities to scale solutions beyond the initial proof of concept.

The proposal to make it easier to consider past performance could also be helpful providing that it does not negatively impact innovative companies by inappropriately disadvantaging companies without a track record or penalising companies who have led an innovative project that has failed, since it is not possible to achieve a 100% success rate for highly innovative projects. [Ref. Q22].

⁴ An example of a progression framework, in this case targeted at improving diversity for professional bodies, is here: <https://www.raeng.org.uk/publications/other/diversity-progression-framework>