

Signed, Sealed, Delivered

How public procurement can
unlock small business growth





Acknowledgments

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The views expressed in this report should not be taken to reflect the official position of JPMorganChase or any of its affiliates.

About FSB

The Federation of Small Businesses (FSB) is the UK's grassroots business organisation. We are a cross-party non-profit body that represents small business and self-employed members in every nation and region. In 2024, FSB celebrated 50 years of being the authoritative voice on issues affecting the UK's 5.6 million small businesses, microbusinesses and the self-employed.

FSB is the UK's largest business group and leading business campaigner, focused on achieving change which supports smaller businesses to grow and succeed. We also provide our members with a wide range of vital business services, helping them to start, run and grow successful businesses through high quality protection and support. This includes 24/7 legal support, financial expertise, training and events, debt recovery and employment/HR advice – alongside a powerful voice heard by governments at all levels.

Our local, national and international activity helps shape policy decisions that have a direct impact on the day-to-day running of smaller businesses. We work for their interests through research and engagement with our members and by effective campaigning – informing those in power through policy analysis, government affairs, international engagement, and media, communications & public relations. Our advocacy work starts with our expert external affairs team in Westminster, which focuses on UK and England policy issues, the UK Government, Parliament and media and communications engagement. Further to this, our teams in Glasgow, Cardiff and Belfast work with governments, elected representatives and media in Scotland, Wales and Northern Ireland.



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Procurement

Of the small businesses who bid for public sector work:



35%

had to **submit the same information repeatedly** for each new bid



81%

prepare bids **in-house**



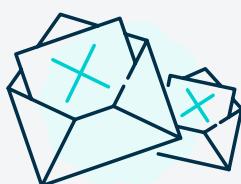
43%

say **unreasonable eligibility rules** shut them out of Government contracts



5 days

The average time small businesses spend **preparing a public sector bid**



31%

haven't won any tenders in three years



Only 5%

received **adequate feedback**



34%

of small businesses want **simplified terms and conditions**

Further findings:



62%

of small businesses report that **finding public contracts** is difficult



Foreword

Small businesses are the driving force of our economy, yet their potential for driving greater economic growth and social impact through public procurement remains largely untapped. Every pound spent with an SME delivers greater place-based outcomes, drives innovation, and supports our net zero ambitions. But despite clear benefits, government targets for SME engagement have stagnated, and too many unnecessary barriers persist.

Complex processes, oversized contracts, and burdensome requirements continue to shut out talented small firms. Many SMEs see public procurement as inaccessible and biased, with contract management, feedback and support often falling short. The new Procurement Act is a major step forward to creating a fair playing field for small businesses. This sets the stage for real change, and

the Government has been vocal about departments improving their spend with SMEs, but real progress demands action, not just policy.

Central government must be more accountable, breaking contracts into manageable lots that attract SME participation and simplify access for all. Mandatory feedback, prompt payment, and genuine engagement are essential. Technology and targeted support can empower SMEs to compete and win, but only if adoption is made possible for every business.

It is time to deliver practical reforms, ensure transparency, enforce accountability in government departments and unlock the incredible value that small businesses bring to our public sector. In this report, FSB provides the evidence that it is time for public procurement to evolve and support our SMEs to deliver more.

Arnab Dutt OBE
FSB Policy Champion for
Procurement and Social Value





Recommendations

The untapped potential of small businesses in public procurement

The UK Government departments and other public spending bodies should:

- Set and publish ambitious three-year targets for their SME spend by end of February 2026.** These targets should drive an increase over the three-year period. While the move away from the central 33 per cent target to individual departmental goals makes sense, it must not be an opportunity for backsliding on ambition in general. Setting these targets is required by the National Procurement Policy Statement (NPPS) 2024, and over time, should be extended to a broader range of public contracting bodies, not just those who spend more than £100m per year.
- Draw a clearer link with departmental procurement targets and the SME action plans, which are published by departments annually.** In the past, there has been a clear mismatch between Government's overall procurement target and the content of SME action plans. The establishment of direct spend targets for each department is a chance to strengthen these plans and give them clear ownership of their targets. Each SME action plan should outline how the department will reform its procurement pipeline, including strategies for market engagement, contract disaggregation, and simplifying bidding processes. The wide variance in performance and historic failure to improve highlight a lack of focused effort from some major spending departments. An action plan would shift the focus from simply having a target to having a credible strategy to achieve it.

- Nominate a member of the Ministerial team in each department to be responsible for the above SME procurement target and action plan.** These nominees should report to the Procurement Minister in the Cabinet Office to provide regular updates on progress, and to share best practice and performance metrics across the group.
- Where 'Social Value' is used as an evaluation criterion in bid evaluation, companies below a certain size (e.g. 50 FTE) with a local presence should automatically receive full scores for this criterion.** This would relieve small businesses of the burden of having to extensively prove their social value in ways that may exclude them and would reflect their contribution to the local community and positive employment impact. This should apply to all procurements below the value of £5m unless specific, clearly articulated factors justify an exception.
- Require Tier 1 and Strategic Suppliers to publish three-year direct SME spending targets and to report performance against those targets as a contractual condition.** This would extend transparency and accountability from contracting authorities to their largest suppliers. The current absence of scrutiny has allowed poor practices, such as late payment, to persist across supply chains. Making this a formal requirement would give Tier 1 a reason to work with smaller firms, knowing the government will look at their performance. It would also help to drive good practice and opportunity sharing across the public sector ecosystem.



The Cabinet Office should:

- **Create a watchdog to hold government departments to when they miss SME spending targets.** The Procurement Review Service should include a dedicated taskforce, which will review departmental SME procurement strategies and have the power to intervene where progress is not being made. The continued stagnation of direct public spending with SMEs suggests that setting targets alone is insufficient. This body would provide accountability, share best practice, and offer support to underperforming departments while also recommending clear consequences for any persistent failures to improve.

The Crown Commercial Service should:

- **Apply 'local' first and 'small' first tests to all new framework designs to prioritise smaller, more regionally focused tenders over larger national contracts.** This would involve systematically reviewing all upcoming frameworks for opportunities to disaggregate tenders into smaller, more defined pieces of work, wherever the size of the contract, the geography, or both, is likely to disincentivise small firms from placing bids. The high value and broad geographical spread of many central government contracts are primary barriers for SMEs. These reforms would create more accessible entry points for specialist firms across the country, tackling one of the core structural reasons why central government is failing to attract SME bids.

The Department for Business and Trade should:

- **Launch a cross-government 'Public Sector Open for Business' re-engagement campaign in partnership with the Business Growth Service.** This campaign would proactively target new and existing small businesses at key points, such as Companies House registration, with a 'Welcome Pack' explaining how to access public procurement. FSB research shows 19 per cent of small businesses "would not search for public sector work at all", representing a large pool

of potential suppliers. This initiative would aim to reverse that trend by offering simple guidance, signposting to support networks, and rebuilding the trust of businesses who have been discouraged from the public sector market.

The Procurement Review Service should:

- **Be given a new remit to conduct reviews of the systemic barriers faced by SMEs within specific contracting authorities.** This would expand its function beyond investigating individual procurement complaints to identifying and reporting on recurring issues, such as over-complex pre-qualification questionnaires or the inappropriate use of frameworks that lock out small businesses. While individual complaints are important, they do not tackle the root causes of SME exclusion. This new function would provide an independent evidence base that highlight poor institutional practice and recommend specific, authority-wide reforms to the Cabinet Office intervention taskforce.

The Ministry of Defence should:

- **Take a leading role in setting ambitious targets and developing new plans to give small businesses across the UK better access to contracts.** This was promised by the Chancellor in the Spring Statement 2025, and this ambition needs to be realised with concrete action. MoD is one of the largest government departments but has one of the lowest rates of SME spend across government. It could make a real difference through the promised reform of the defence procurement system to make it more agile and accessible.



Structural barriers to procurement

The Cabinet Office should:

- **Mandate the use of Dynamic Markets for all framework agreements likely to last longer than four years.** This policy would restrict the use of long-term static or “open” frameworks, which can lock out new entrants, and instead promote the “always open” model of Dynamic Markets. The initial process of getting onto a framework is a major barrier for SMEs. By making Dynamic Markets (which are more flexible and accessible) the default for any long-term arrangement, this change would ensure that small businesses are not at risk of being shut out of public sector supply chains for up to eight years, while fostering a more competitive and innovative marketplace. All new or updated Dynamic Markets should also include a published description of the steps taken to ensure that it is accessible to SMEs, so that accessibility is built in by design.
- **Implement the ‘Tell Us Once’ principle by accelerating the full implementation of the Central Digital Platform, and mandate its use by all Tier 1 and Strategic Suppliers for their supply chain procurement.** Once a small business uploads its core compliance and financial details, it should be automatically accepted everywhere, from direct government bids to subcontracting opportunities. This policy would drastically reduce the administrative burden that 57 per cent of small businesses find too complex. The full implementation of the Central Digital Platform should be used by 90 per cent of direct public procurement by the end of 2027.
- **Bring in a legal cap on the turnover levels that companies are required to have in order to bid for public contracts, limiting them to no more than 1.5 times the contract’s estimated value.** This would be implemented through new statutory guidance under the Procurement Act 2023. FSB research shows that “unreasonable eligibility requirements”

are a key barrier for 43 per cent of small business bidders. This policy would replace an arbitrary and damaging practice with a clear, proportionate rule, opening the market to a wider range of capable SMEs that are currently being barred from competing.

- **Create and require a new training course for everyone who works on buying goods or services in the public sector on ‘Modern Risk Assessment and SME Value’.** This training would focus on how to assess risk in a fair, modern way, how to recognise the value small businesses can bring, and the resilience benefits of a diverse supply chain. Risk aversion from commissioners currently drives behaviours that favour large firms. This would tackle the cultural root of the problem, equipping buyers with the skills to assess suppliers based on capability, not just size, thereby building their confidence in working with SMEs. This could be combined with the buyer training on delivering effective supplier feedback recommended in Chapter 4.

The Crown Commercial Service should:

- **Introduce a ‘Mid-Point Health Check’ for all frameworks lasting longer than three years.** This review would assess the framework’s performance on value for money, SME participation levels, and overall market competition, with a summary of findings made public. Our research shows that frameworks can become outdated and reinforce incumbent relationships. A mandatory health check would introduce a crucial accountability mechanism, allowing for underperforming frameworks to be reformed or terminated early, preventing lock-in and ensuring they continue to deliver value for the taxpayer, providing opportunities for a diverse range of businesses.



- **Develop and pilot a 'Vetted SME Subcontractor Directory' for its major frameworks and Dynamic Markets.** This would create a pre-approved list of compliant small businesses that Tier 1 contractors can easily and confidently subcontract work to, acting as the "Annex to the main framework" suggested above. Building trusted partnerships is essential, but difficult for new entrants. This directory would reduce friction and risk for large suppliers looking for new SME partners, while providing a clear and accessible route for small businesses to get a 'foot in the door' on major government projects.

All contracting authorities should:

- **Bring in a 'Break it down by default' rule for all public contracts worth more than £5 million.** Under this policy, contracting authorities would have to split large projects into smaller, clearly defined parts. Currently, many framework lots are too large for SMEs to bid for, while our survey and interview evidence shows small businesses thrive on smaller pieces of work. This principle would reverse the current incentive to bundle contracts, which often results in higher intermediary costs, and would instead create a structure that is naturally more accessible to the specialist SMEs who are currently excluded, allowing them to compete.

Bidding process

The Cabinet Office should:

- **Create one free UK-wide online portal where all public sector contracts are advertised.** This platform must consolidate all opportunities from central government, local government, the NHS, and the wider public sector, which are currently spread across multiple competing platforms. It should also enable Tier 1 and strategic suppliers to advertise subcontracting opportunities. FSB research shows official platforms are underused (28% of SMEs), with businesses instead relying on informal networks. A single, comprehensive, and user-friendly portal with features like email alerts would simplify the process of finding work, which 62 per cent of small businesses find difficult, and create the transparent marketplace needed to encourage disengaged firms to participate.

- **End the 'work for free' culture by stopping contracting authorities from demanding unpaid work before the contract is awarded.** If a contracting authority requires the creation of original concept designs, prototypes, or other unique material, it must be structured as a multi-stage competition where a shortlist of firms are each paid a fair stipend for this development work. Our research highlights that currently businesses can be asked to develop bespoke work to pitch their bids, in some cases the equivalent of "a month's worth of work for free". This practice is exploitative and creates an insurmountable barrier for small firms that cannot afford to gamble such significant resources. Banning it would level the playing field and ensure businesses are valued for their expertise.



- **Establish guardrails for AI use by public sector buyers through a new Procurement Policy Note (PPN).** This guidance must ensure that AI is used to simplify tenders and that evaluation criteria are designed to reward genuine expertise rather than algorithmically “perfect” but generic answers. There is a clear risk that if buyers use AI to draft and judge tenders, it could undermine competitive processes and negate the ‘Most Advantageous Tender’ principle by making it harder to differentiate bids on terms other than purely financial ones. Alternative methods to differentiate bids will be needed, such as an increased emphasis on meeting bidders directly. These guardrails are needed to preserve the importance of informed human judgment and prevent a race to the bottom on cost, which normally comes at the expense of quality.

The Department for Business and Trade should:

- **Create a dedicated ‘Tech for Tendering’ support programme within the Business Growth Service.** This would provide online training modules for small business owners on how to use AI and digital tools effectively and ethically to prepare bids. With 48 per cent of the smallest firms currently not using these technologies, this programme would address the capability gap, building the digital fluency needed for SMEs to remain competitive in a rapidly evolving procurement landscape.

The Cabinet Office should:

- **Enhance the Central Digital Platform with an AI-powered ‘Opportunity Matching’ service.** This service would allow small businesses to create a detailed profile of their capabilities, with the platform then proactively notifying them of relevant contract opportunities across the public sector. Rather than leaving SMEs to navigate a complex market, this turns AI into an inclusive tool that improves market visibility, directly helping smaller firms find the opportunities that they are best suited to deliver.

All contracting authorities should:

- **Require all Tier 1 and Strategic Suppliers to advertise all subcontracting opportunities over £25,000 on the same single, mandatory, and free-to-use UK-wide public procurement portal.** This would address the opaque supply chains that develop within large frameworks, which the National Audit Office has flagged as a significant issue. The lack of transparency allows poor practices like late payment to spread and makes it harder for new SMEs to find opportunities. This requirement would help create a level playing field for subcontracting, increasing competition, and giving government the visibility it needs to track whether its SME spending ambitions are being delivered.



Feedback, engagement, and procurement culture

The Cabinet Office should:

- **Issue a new Procurement Policy Note on 'Best Practice for SME Feedback' to supplement the Procurement Act 2023.** This PPN would go beyond the legal minimum of the 'Assessment Summary' to establish a 'gold standard' for feedback by providing clear templates and examples. Feedback should go beyond simplistic scoring to offer specific, constructive explanations. Crucially, feedback must be based only on the explicitly stated evaluation criteria to avoid subjectivity. While the new Act sets a baseline, a cultural shift is needed to ensure feedback is genuinely constructive. This PPN would provide the practical guidance and a clear statement of intent needed to drive that cultural change across the public sector. This PPN should also set out how departments should evaluate the usefulness of their feedback through surveying bidders.
- **Develop a training module for all commercial staff on 'Delivering Effective Supplier Feedback'.** This training would cover the legal requirements of the Procurement Act 2023, the principles of providing constructive and actionable advice, and how to use digital tools to provide high-quality feedback efficiently. Legislation alone is insufficient if buyers lack the time or skills to implement it. This initiative would equip procurement teams with the capability to turn feedback from a compliance task into a valuable tool for improved market engagement. This could be combined with the buyer training on 'Modern Risk Assessment and SME Value' recommended in Chapter 2.
- **Issue statutory guidance under the Procurement Act 2023 to create a 'Safe Harbour' for constructive feedback.** This guidance would advise contracting bodies on how to deliver good-faith, evidence-based feedback in a way that is protected from speculative legal challenges. Fear of legal challenges causes a culture of opacity, meaning 31 per cent of SMEs receive no feedback at all. This policy would help to de-risk the provision of honest feedback through best practice, giving procurement teams the confidence to be transparent, ending the demotivating culture of silence that SMEs face.
- **Mandate that all UK public sector tendering platforms are fully interoperable with the Central Digital Platform (CDP) by the end of 2026.** This would require all systems, including those used by devolved administrations and the wider public sector, to use the CDP as the single, authoritative source for core supplier information. SMEs find the current fragmented landscape soul-destroying due to repetitive data entry, a barrier for 35 per cent of bidders. This policy is the only way to deliver the "tell us once" promise in practice, slashing red tape and creating a seamless digital onboarding experience regardless of which portal a business uses.



All public contracting bodies should:

- **Require Tier 1 and Strategic Suppliers to comply with the same feedback standards as public bodies for their own subcontracting opportunities within the public supply chain.** This requirement should be written into all major government contracts, with performance monitored as a key contractual key performance indicator (KPI). Just as their contracting bodies are required to, Tier 1 contractors should provide high-quality, constructive feedback to the SMEs they engage with on their public sector work, fostering a learning environment throughout the ecosystem.
- **Make 'Meet the Buyer' Events worth small firms' time by adopting a 'Best Practice' Charter.** This charter, developed by the Cabinet Office, would mandate minimum standards, such as allocating at least 15 minutes for one-to-one discussions, ensuring senior decision-makers are present, and theming events around specific, upcoming

contract pipelines. The research highlights that these events are often poorly designed and ineffective, functioning as a "telling rather than listening" exercise. A charter would help to transform them into genuine opportunities for dialogue and relationship-building, as intended by the Procurement Act's focus on market engagement.

The Procurement Review Unit should be empowered to:

- **Award standard compensation sums to suppliers who do not receive feedback.** Under the Procurement Act 2023, feedback is a legal requirement, but too often small businesses wait months and hear nothing. A new rule should award £1,000 in compensation to any supplier left without proper feedback within six months, paid by the contracting body at fault. The payment would come with the overdue feedback and not replace it to ensure accountability and respect for the effort small firms put into every bid.

Subcontracting public work

The Cabinet Office should:

- **Launch a regular Public Sector Market Health Review on the UK's supply chain.** The collapse of Carillion showed what happens when government relies heavily on a handful of major contractors – small firms lose work overnight and vital services are thrown into chaos. The CO should publish a review every three years to flag early warning signs, track where too much power sits with big players and strengthen the role of smaller suppliers.
- **Work with the Net Zero Council to promote a standardised and light-touch carbon accounting framework throughout the economy.** Small businesses are currently facing diverging requests from Government,

large businesses, and financial institutions in terms of the carbon data requested, the format of the data, and the period covered. Through adapting its procurement policy, the Government can set realistic carbon reporting standards and promote these throughout supply chains, so small businesses are not unduly burdened or excluded from supply chains. To ensure that costs are minimised, one of the founding principles should be that after a small business has measured its carbon footprint once in respect of a given year, that information must be re-usable, without needing to be recalculated for future bidding opportunities. This can be reflected in an updated version of PPN06/21.



All contracting authorities should:

- **Carry out (and report on) their responsibility to run random spot checks of large suppliers' payment performance.** Late payment drives 38 small businesses to closure each day in the UK. The maximum payment terms enacted by the Procurement Act 2023 are a big step forwards for small businesses in the public procurement supply chain, but will only be effective if large suppliers are held to account through regular checks. Any supplier with a contract worth more than £5m per year should have a random invoice spot checked every six months, as per PPN 021, and any supplier who fails a spot check should be ruled ineligible for future bids until they can show that satisfactory measures have been taken to prevent future late payments.
- **Consider including an evaluation weighting for 'Supply Chain Development and Management' in all contracts over £5million.** Big contractors should be accountable for how they treat their small suppliers, including prompt and flexible payment terms, simplifying their own onboarding processes, and providing transparent communication on future opportunities. This policy would turn supply chain support from a voluntary 'good practice' into a scored, competitive advantage, directly incentivising prime contractors to become better partners.

- **Require all Tier 1 and Strategic Suppliers to use the Central Digital Platform for their own supplier onboarding and advertise subcontracting opportunities on Contracts Finder.** This would be a mandatory condition of all new central government contracts over £5 million. The benefits of transparency and efficiency cannot stop at direct government procurement. This policy would cascade the "tell us once" principle and improved market visibility down the supply chain, tackling the opaque practices that allow issues like late payment to thrive, and creating a fairer system for the 60 per cent of SMEs who access public work indirectly.

The Procurement Review Unit should:

- **Create an anonymous online reporting tool for subcontractors to report non-compliance with 30-day payment terms.** These reports could be used to trigger spot-checks to investigate whether the sub-contracting supplier is complying with their prompt payment requirements or not. Government must ensure that small businesses using this "whistleblowing" tool are guaranteed that their details won't ever be shared publicly, with the Tier 1 supplier in question (even under FOI), otherwise the SMEs will not come forward for fear of reprisals or being 'blacklisted'. Late-paying Tier 1 suppliers must be excluded from public contracts, in line with the requirements of PPN018 and PPN021.



Chapter 1:

The untapped potential of small businesses in public procurement

Public procurement: What is it?

Procurement, the process of one organisation buying goods and services from another, is a vital element of the UK economy. While consumer-facing trade is highly visible, most economic activity occurs between businesses, and with the public sector. The government's role within this system is substantial, with public sector procurement accounting for nearly £400 billion in spending each year.¹

Where and how this money is spent gives the government monumental potential to support and maintain desired types of economic activity. Used strategically, these taxpayer funds can strengthen domestic supply chains and foster innovation across industries.

The quality of public procurement has a profound impact on the quality of public services and national infrastructure as well as the cost to the taxpayer. Procurement that is open to the widest possible range of businesses encourages innovation, higher quality and value for money.

For thousands of businesses throughout the UK, a public sector contract provides the critical opportunity they need to invest, expand their operations, and thrive. This spending is not just an operational cost for Government, but a direct injection of capital and confidence into the business community. Ensuring this opportunity is accessible to businesses of all sizes is therefore a key challenge for economic policy.

Spend with SMEs drives local growth

Beyond the direct benefits to individual firms, directing public spending towards small businesses delivers significant wider economic advantages for local communities. Previous FSB research has demonstrated a powerful local multiplier effect: for every £1 spent with Small and Medium Enterprises (SMEs) by public bodies, an additional 63p is generated for the local economy, compared to just 40p for every £1 spent with a larger UK business, and minimal benefit for overseas spend.² Public sector work acts as a “growth accelerator”, enabling businesses to invest, develop new products, and create more jobs within their local community.

For public bodies, spending with small businesses is one of the most direct and efficient ways to fulfil their statutory obligations under the Public Services (Social Value) Act 2012.³ Most small businesses contribute to social value in their default operations, for instance by employing those furthest from the labour force, or contributing to local community initiatives. Their inherent commitment to the communities in which they live and work makes them natural partners in improving local economic and social well-being.⁴



SMEs also bring operational advantages rooted in their local presence. They often possess a deep understanding of the local culture and the specific needs of their operating areas, allowing them to deliver more bespoke and specialised services. Their smaller structure also makes them inherently more agile, allowing for greater flexibility in their response to changing requirements.

This agility is often paired with deep expertise. Many SMEs are highly specialised, concentrating their resources and knowledge on a single product, service, or niche. This focus can result in greater efficiencies and a higher level of quality than might be found in a larger, more diversified supplier, providing the public sector with access to new innovations, and best-in-class solutions.

“When we review a public sector tender, we can often tell immediately which multinational firm wrote the specification because it’s tailored precisely to their existing equipment. This practice doesn’t just limit fair competition; it actively stifles innovation. The system ensures that new technology cannot succeed on its own merits until it is purchased and introduced by a massive company that already controls the market.”

**Laboratory Supplies Distributor,
East of England**

Engaging local SMEs can also make a direct contribution to the public sector’s net zero goals. Sourcing goods and services from nearby businesses reduces transportation costs and significantly cuts the carbon footprint associated with long-distance freight. This alignment with strategic national goals is another key dimension of the value SMEs provide.

Taken together, these factors demonstrate that procuring from small businesses is not just about supporting enterprise but about making a strategic investment in stronger communities. The benefits range from measurable economic returns and job creation to enhanced social value, greater responsiveness, and improved environmental outcomes, representing a more effective and holistic use of public funds.

Public spend with SMEs has stalled

Strategic progress on increasing public procurement spending with SMEs has stalled at a central government level. The previous national ambition, a target for 33 per cent of procurement spending to reach SMEs by 2020,⁵ was not met, undermining long-standing objectives to diversify the public sector supply chain and leverage public spending for economic growth.

The proportion of direct procurement spend reaching SMEs has remained flat, and is described as being “stuck at around 20% of the total for the past six years running”.⁶ A department-by-department look shows that in most cases, even the inclusion of indirect spend (around 12.7% of which is typically with SMEs) does not bring the total to the 33 per cent target.⁷



Further analysis reveals a worrying trend in SME engagement with the public sector. The total number of small businesses directly invoicing the public sector has seen a slight decline since 2020, dropping to 130,000 in 2024. In the same year, the median revenue an SME earned from public sector work stalled at £31,000. This marks the first time since 2020 that this median revenue figure failed to grow, suggesting a stagnation in the value of opportunities for individual small firms.⁸

In sharp contrast, local government has demonstrated consistent progress. In 2024, local government's direct spend with SMEs was more than that of Central Government and the NHS combined.

This national picture, however, masks a wide variance in performance across individual government departments with some (e.g. DCMS and DFE) performing above that target already.

Figure 1: Absolute SME spend by government organisation type (£bn)

Source: Tussell SME Procurement Tracker 2025 report

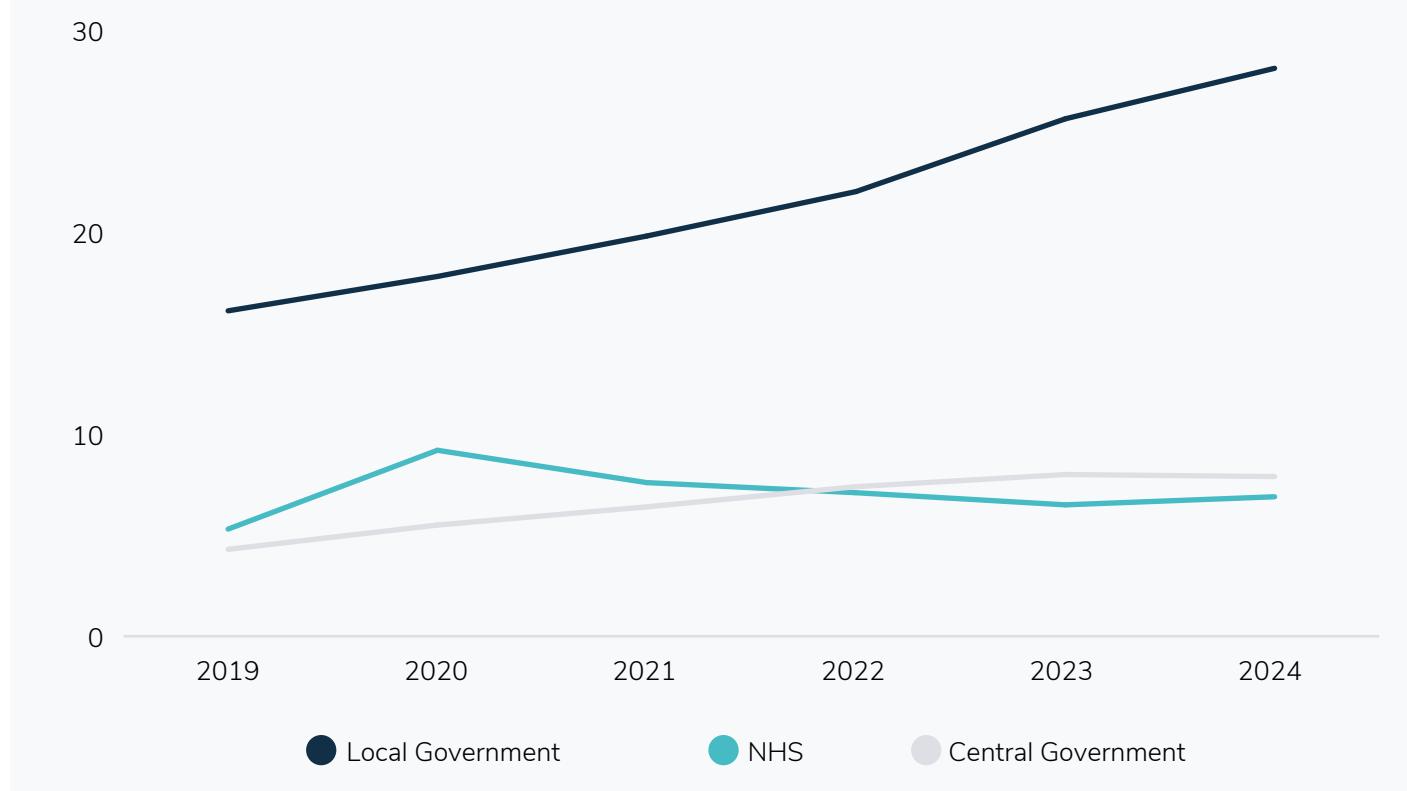
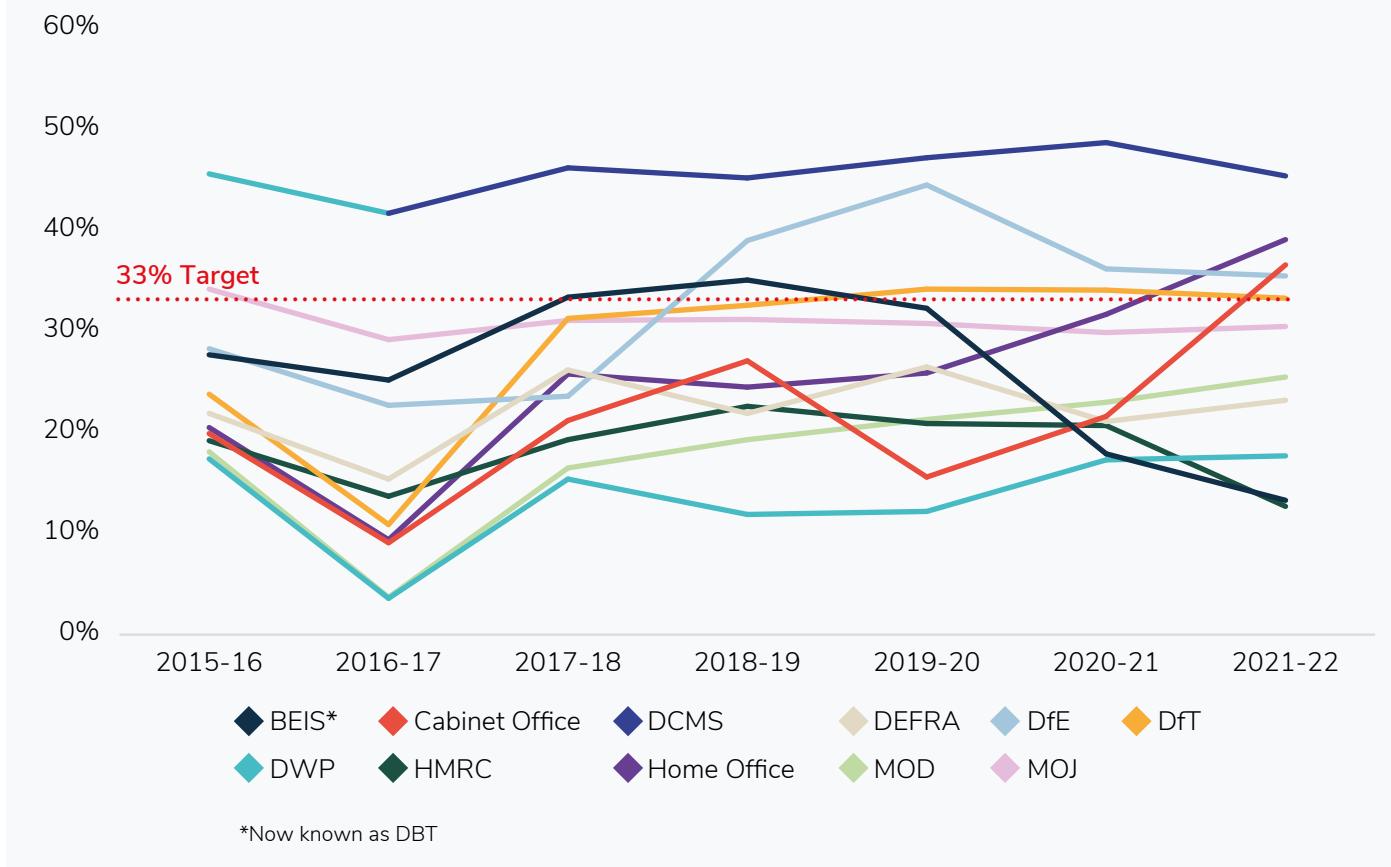




Figure 2: Small business spend as a % of all spend by major government departments

Source: <https://www.gov.uk/government/collections/central-government-spend-with-smes>



However, several of the largest departments are lagging significantly behind. The low proportionate spend from major buyers like the MoD (£547m spent with SMEs in 2024) and Home Office (£251m) has a substantial impact on the overall national figure.

The data presents a clear picture of a two-track system. While local government and some central departments are successfully increasing their engagement with SMEs, the overall national ambition is being held back by stagnation across parts of central government.

Tracked spend with public bodies and action plans

A new policy framework, emerging from the National Procurement Policy Statement,⁹ and the 2025 consultation “Public Procurement: Growing British industry, jobs and skills”, has been established to address these issues.¹⁰ The National Procurement Policy Statement 2024 builds on the Procurement Act, which came into force in February 2025.¹¹ It mandates that large contracting authorities with spend over £100m per annum must set a three-year target for direct spend with SMEs and Voluntary, Community and Social Enterprises (VCSEs), starting from April 1, 2025. For this policy to be effective, however, the publication of progress must be accompanied by a clear accountability framework.



Meaningful progress cannot be made without first tracking performance, and the government's intention for these new targets to be ambitious is the correct approach. The use of 'stretch targets' will be key; however, a careful balance must be struck. To build confidence among small businesses sceptical after years of stalled progress, targets must be grounded in a realistic assessment of what is achievable, while still providing an ambitious goal to inspire genuine improvement.

The first of these to be published, in October 2025, is the Crown Commercial Services SME Action Plan¹². CCS manages a range of procurement frameworks that span other government departments, so it doesn't have any direct spend themselves, and therefore did not set a target, but their reporting shows the proportion of direct spend going through their frameworks to SMEs is only 10.8 per cent, down from 12.5 per cent the previous year. They propose seven improvement actions to try and address this, which centre around offering articles and guidance for SMEs looking to access this spending. While we encourage these initiatives, it is unlikely that alone they will bring CCS's proportion of spend with SMEs anywhere close to 33 per cent.

This reporting must lead to accountability. Annual progress reports are the ideal mechanism for identifying and sharing the most impactful changes that successfully increase SME and VCSE spend. Where performance is stagnant or negative, this must trigger a formal review of processes and leadership.

For the worst performers, intervention from a central government taskforce, led by the Cabinet Office, should be used to refresh their approach, sharing best practice from other bodies and ultimately demonstrating clear consequences for failure.

Lessons from local authority spend

Lessons drawn from the consistent success of local authorities in increasing their SME spend may help improve performance across central government departments. A key reason for this success is the alignment of local authority (LA) procurement with local economic priorities. LAs have a democratic mandate to stimulate sustainable growth in their local economies; this means councillors and officers are directly accountable to the local businesses and residents who benefit from a thriving local economy, creating a powerful incentive for SME-friendly procurement. LAs recognise that money spent locally often remains in the local economy, creating a positive multiplier effect.

The nature and size of contracts procured by local government are also generally more accessible to SMEs. Compared to the large, complex, and high-value contracts typically awarded by central government departments, LA tenders are often for smaller, more defined pieces of work. This structural difference opens the door to specialist SMEs who may lack the scale to bid for large national frameworks. This practical distinction is a primary reason why local government's direct spend with SMEs in 2024 surpassed that of Central Government and the NHS combined.

Beyond contract design, the day-to-day operational realities of local government also favour SME engagement. LAs are often purchasing standardised goods and services from local suppliers, a practice which strengthens community links and helps meet net zero goals by minimising the carbon footprint associated with long-distance supply chains. This proximity fosters clearer communication and allows for quicker response times, enabling a more agile and personal service that benefits both the supplier and the contracting authority.



NHS procurement has been through a lengthy transformation to centralise spending and procurement, with the rationale that this enables stronger negotiation on price, drives consistency across the regions, and allows savings by replacing countless local procurement professionals with a smaller central team. While this has been effective at driving down costs for the NHS, it has worked against the ambition of greater SME investment, and in some cases has worked against the national resilience goals by depending on lower-cost overseas suppliers.¹³

International comparison on SME spend

While information is not always uniformly collected across different jurisdictions, international comparisons provide useful context when assessing the UK's performance on public procurement. These comparisons highlight alternative policy approaches and reveal structural factors that can significantly influence the ability of small businesses to access public sector supply chains.

The United States offers a clear example of a target-driven system that is underpinned by accountability. The US Small Business Administration (SBA) uses an annual scorecard to measure performance against an aggregate goal of 23 per cent of federal contracting spending being directed toward small businesses. The US has consistently met or exceeded this goal in recent years.¹⁴

In Europe, while direct spending data is less comparable, an analysis of contract characteristics is revealing. The UK has one of the largest average contract values in the public sector. In contrast, countries with similarly sized economies, such as France and Germany, have significantly lower average contract values; France's average contract value is less than half that of the UK's. As a result of their smaller, more accessible contracts, France and Germany are generally recognized as performing far better than the UK in terms of SME access to public contracts.^{15,16}

SME engagement with bidding

FSB research shows that small businesses are highly active in seeking new work, with the majority focused on the domestic private sector market. In the last three years, 64 per cent of small businesses submitted bids to other private UK businesses, and 54 per cent submitted bids specifically to other small businesses. This demonstrates a strong and established business-to-business marketplace where SMEs regularly compete. In comparison, 41 per cent of small businesses submitted bids to public sector organisations over the same period.

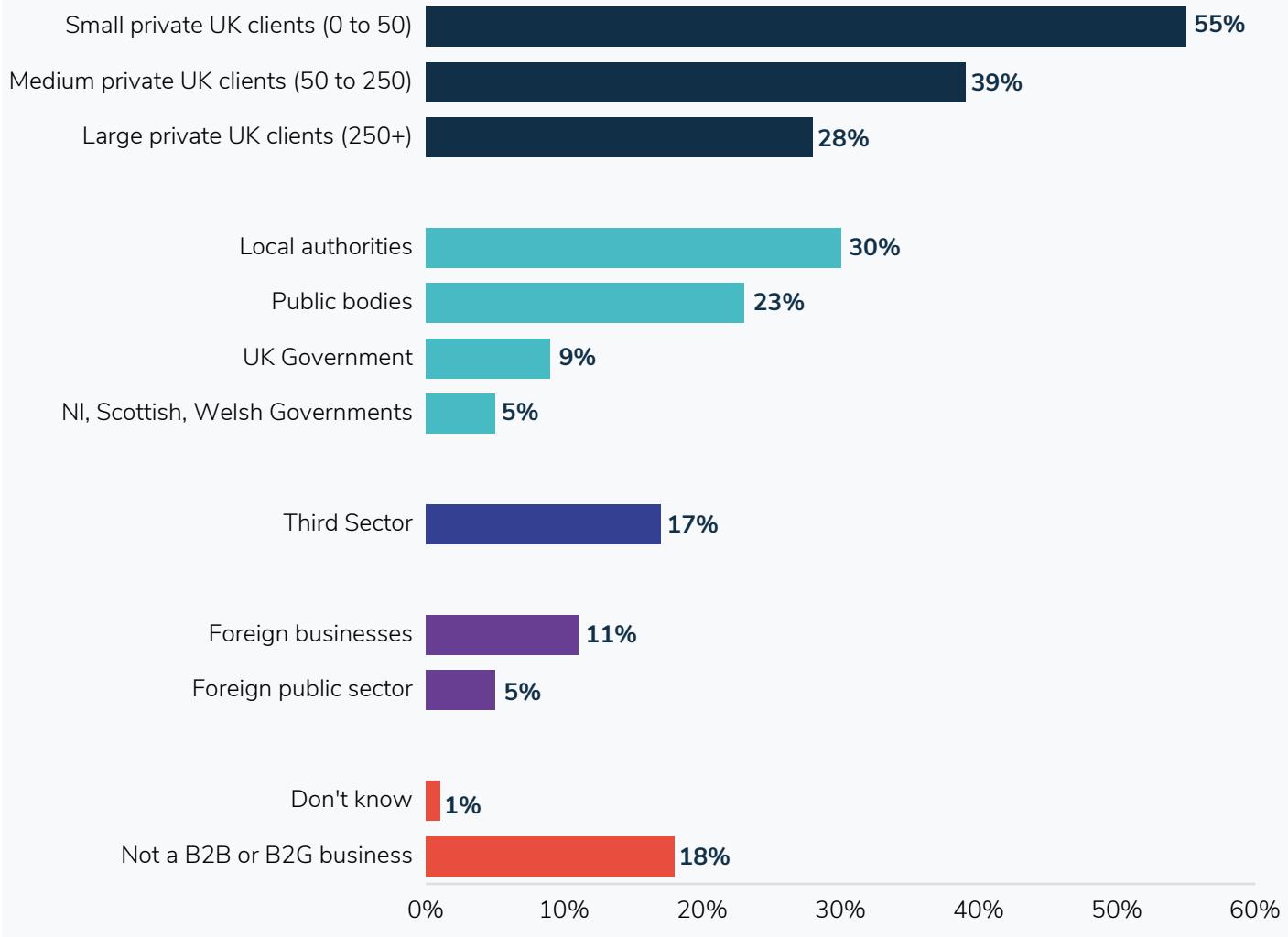
“For a micro business, the time invested in a dozen bids is an unacceptable gamble when the likelihood of winning is so slim. We avoid formal tendering because the administrative effort required is simply not commercially justified compared to the guarantee of work we can secure through other channels.”

**Marketing Consultancy,
West Midlands**



Figure 3: Proportion of small businesses bidding to different types of organisation (in the last three years)

Source: FSB 2025 Procurement Survey



Within the public sector, our research finds a clear hierarchy of engagement. Local authorities are the most popular public recipients of bids from small businesses (30% of SMEs in the last three years). In contrast, only nine per cent of small businesses had bid for central UK Government contracts, highlighting this as the least accessible part of the public sector market.

Overall, the data shows that while SMEs are proactive in seeking contracts, their engagement with the public sector lags behind the private market, with central government procurement being a particularly challenging area to penetrate.

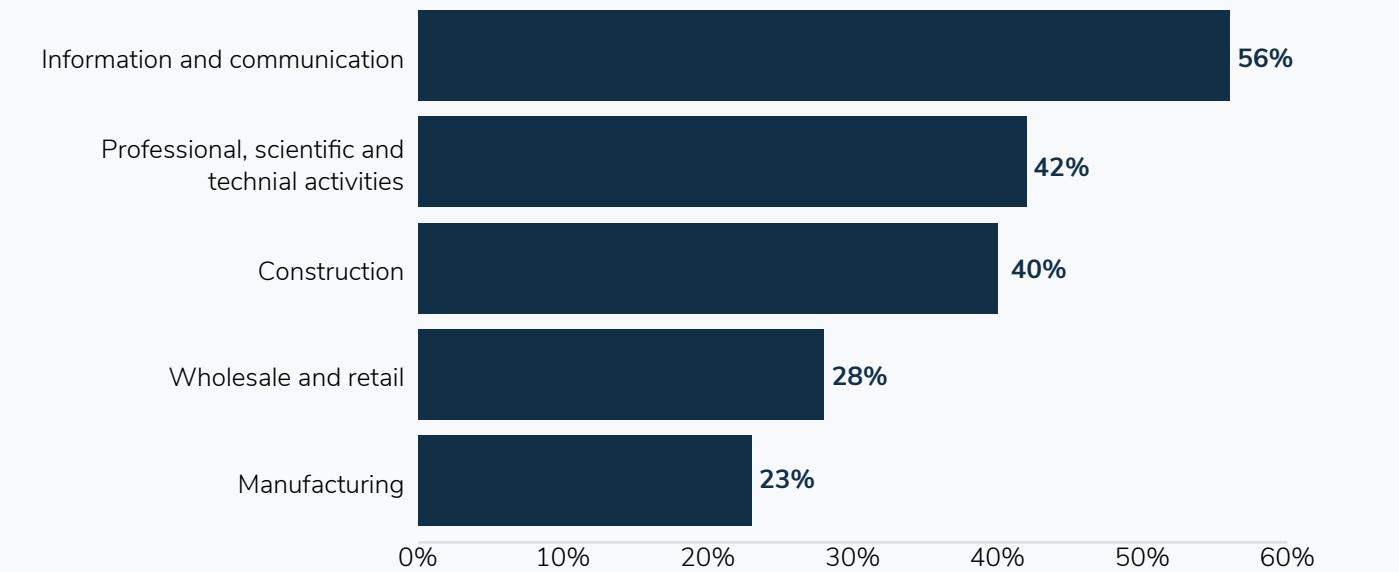


FSB research shows that the likelihood of small businesses seeking opportunities with public sector bodies differs significantly depending on the size and location of the business. Larger small businesses are more inclined to bid; 49 per cent of businesses with 10 or more employees said they sought public sector opportunities, compared to just 40 per cent

of sole traders or micro businesses with up to 9 employees. There are also stark regional variations. Small businesses in Yorkshire and The Humber & The North East were the most likely to say they sought opportunities with the public sector (53%), compared to just 34 per cent in the South West and 27 per cent in the West Midlands.

Figure 4: Proportion of small businesses in each sector bidding to public sector organisations (national and local) within the last three years

Source: FSB 2025 Procurement Survey



“Every time we consider engaging with the public sector, we conduct a basic risk assessment: the resources we'd burn on the effort versus the chance of success. When the possible benefit is so remote, the calculation is clear - it's simply not worth diverting our limited time and energy away from guaranteed private work.”

Communications Trainer, London

Engagement with public procurement also varies considerably by industry sector. Our research finds that businesses in service-based and digital industries are the most active in pursuing public contracts. Small businesses in the information and communication sectors were the most likely to bid for public sector work (56%), followed by 42 per cent in the professional, scientific and technical services. This suggests that public sector opportunities may be more concentrated in, or more visible to, businesses operating in these specific sectors.



SMEs locked out of public procurement

A common theme from the qualitative interviews conducted for this report is the prevalent perception among small businesses that winning public procurement work is incredibly difficult and not worth the effort. This perception barrier contributes to widespread disengagement from the public sector market. FSB research shows that 19 per cent of small businesses say they would not search for public sector work at all.

Some of these small businesses will have decided to focus on business-to-business opportunities, having been discouraged by earlier explorations into public contracts. A single negative or unexplained experience can be enough to cause them to abandon the public sector marketplace permanently.

“Frameworks and public procurement portals, which are designed to create a level playing field, often fail in practice. In reality, they frequently serve only as a costly administrative mechanism to validate the selection of suppliers the institution wanted to appoint in the first place, reinforcing existing relationships rather than opening the door to new expertise.”

**Marketing Consultancy,
West Midlands**

This common view is that public procurement is a closed system, accessible only to those already established within it. This perception deters new entrants and validates the decision of many experienced businesses to focus their resources on more accessible private sector markets where their investment of time and effort is more likely to be rewarded.

“When we evaluate a public sector opportunity, the effort required feels like pushing water uphill compared to the guarantee of private sector work. We are making a purely commercial decision: why invest resources in a complex process that feels impossible to win when we have clients for whom the work is easier and, frankly, more profitable?”

**Market Research Agency,
East of England**



RECOMMENDATIONS

The UK Government departments and other public spending bodies should:

- Set and publish ambitious three-year targets for their SME spend by end of February 2026.** These targets should drive an increase over the three-year period. While the move away from the central 33 per cent target to individual departmental goals makes sense, it must not be an opportunity for backsliding on ambition in general. Setting these targets is required by the National Procurement Policy Statement (NPPS) 2024, and over time, should be extended to a broader range of public contracting bodies, not just those who spend more than £100m per year.
- Draw a clearer link with departmental procurement targets and the SME action plans, which are published by departments annually.** In the past, there has been a clear mismatch between Government's overall procurement target and the content of SME action plans. The establishment of direct spend targets for each department is a chance to strengthen these plans and give them clear ownership of their targets. Each SME action plan should outline how the department will reform its procurement pipeline, including strategies for market engagement, contract disaggregation, and simplifying bidding processes. The wide variance in performance and historic failure to improve highlight a lack of focused effort from some major spending departments. An action plan would shift the focus from simply having a target to having a credible strategy to achieve it.

- Nominate a member of the Ministerial team in each department to be responsible for the above SME procurement target and action plan.** These nominees should report to the Procurement Minister in the Cabinet Office to provide regular updates on progress, and to share best practice and performance metrics across the group.
- Where 'Social Value' is used as an evaluation criterion in bid evaluation, companies below a certain size (e.g. 50 FTE) with a local presence should automatically receive full scores for this criterion.** This would relieve small businesses of the burden of having to extensively prove their social value in ways that may exclude them and would reflect their contribution to the local community and positive employment impact. This should apply to all procurements below the value of £5m unless specific, clearly articulated factors justify an exception.
- Require Tier 1 and Strategic Suppliers to publish three-year direct SME spending targets and to report performance against those targets as a contractual condition.** This would extend transparency and accountability from contracting authorities to their largest suppliers. The current absence of scrutiny has allowed poor practices, such as late payment, to persist across supply chains. Making this a formal requirement would give Tier 1 a reason to work with smaller firms, knowing the government will look at their performance. It would also help to drive good practice and opportunity sharing across the public sector ecosystem.



The Cabinet Office should:

- **Create a watchdog to hold government departments to when they miss SME spending targets.** The Procurement Review Service should include a dedicated taskforce, which will review departmental SME procurement strategies and have the power to intervene where progress is not being made. The continued stagnation of direct public spending with SMEs suggests that setting targets alone is insufficient. This body would provide accountability, share best practice, and offer support to underperforming departments while also recommending clear consequences for any persistent failures to improve.

The Crown Commercial Service should:

- **Apply 'local' first and 'small' first tests to all new framework designs to prioritise smaller, more regionally focused tenders over larger national contracts.** This would involve systematically reviewing all upcoming frameworks for opportunities to disaggregate tenders into smaller, more defined pieces of work, wherever the size of the contract, the geography, or both, is likely to disincentivise small firms from placing bids. The high value and broad geographical spread of many central government contracts are primary barriers for SMEs. These reforms would create more accessible entry points for specialist firms across the country, tackling one of the core structural reasons why central government is failing to attract SME bids.

The Department for Business and Trade should:

- **Launch a cross-government 'Public Sector Open for Business' re-engagement campaign in partnership with the Business Growth Service.** This campaign would proactively target new and existing small businesses at key

points, such as Companies House registration, with a 'Welcome Pack' explaining how to access public procurement. FSB research shows 19 per cent of small businesses "would not search for public sector work at all", representing a large pool of potential suppliers. This initiative would aim to reverse that trend by offering simple guidance, signposting to support networks, and rebuilding the trust of businesses who have been discouraged from the public sector market.

The Procurement Review Service should:

- **Be given a new remit to conduct reviews of the systemic barriers faced by SMEs within specific contracting authorities.** This would expand its function beyond investigating individual procurement complaints to identifying and reporting on recurring issues, such as over-complex pre-qualification questionnaires or the inappropriate use of frameworks that lock out small businesses. While individual complaints are important, they do not tackle the root causes of SME exclusion. This new function would provide an independent evidence base that highlight poor institutional practice and recommend specific, authority-wide reforms to the Cabinet Office intervention taskforce.

The Ministry of Defence should:

- **Take a leading role in setting ambitious targets and developing new plans to give small businesses across the UK better access to contracts.** This was promised by the Chancellor in the Spring Statement 2025, and this ambition needs to be realised with concrete action. MoD is one of the largest government departments but has one of the lowest rates of SME spend across government. It could make a real difference through the promised reform of the defence procurement system to make it more agile and accessible.



Chapter 2: Structural barriers to procurement

Government policies to diversify the supply chain

Over recent years, the government has announced multiple policies which aim to reduce strategic barriers and improve access to public procurement for SMEs. These initiatives represent a significant shift in the intended ambition for public sector commercial activity, creating a new legislative and policy framework designed to foster a more diverse and competitive supply chain.

One of the foundational steps in this process was The Public Services (Social Value) Act 2012. This act required public bodies to “consider” how their procurement could improve the economic, social, and environmental well-being of their area. This allowed non-cost elements to be considered in bids, supporting smaller, community-focused suppliers.

This was surpassed by a significant overhaul when the Procurement Act 2023 came into effect in February 2025. This legislation aims to simplify procedures, cut red tape, and consolidate numerous previous regulations into a single framework. Crucially, the Act places a new statutory duty on contracting authorities to “have regard to the fact that small and medium-sized enterprises may face particular barriers to participation” and to consider how to remove or reduce those barriers.

Released alongside the Procurement Act, the National Procurement Policy Statement (NPPS) reinforces this strategic direction. This document mandates that all contracting authorities “must have regard” to national strategic priorities when procuring, a list which includes maximizing procurement spend with SMEs.

FSB saw significant success in helping to shape the Procurement Act so that it addresses the practical barriers faced by small businesses. The Act introduces proportionate requirements, e.g. preventing contracting authorities from demanding that a supplier has contract-specific insurance in place before a contract is awarded. Similarly, it limits requirements for submitting audited annual accounts, removing a costly and unnecessary bureaucratic hurdle for many small firms.

This new framework marks a departure from the culture that developed under previous regulations. Historically, contracts were awarded based on the “Most Economically Advantageous Tender” (MEAT) principle. This methodology, reinforced by budgetary and accountability pressures, often led to a decision-making culture focused heavily on price.



“The greatest obstacle to getting a fair shot isn’t the tender documents; it’s the institutional belief that ‘best value’ simply means ‘cheapest price.’ This outdated mindset forces us to cut margins or compete on quality, undermining the very specifications they wrote. As long as the system rewards the lowest bid instead of the best outcome, creative or innovative solutions will always be stifled because public buyers feel pressured to play it safe.”

**Bid Support Consultancy,
East Midlands**

The Procurement Act 2023 replaces this concept with the “Most Advantageous Tender” (MAT). This deliberate change removes the word “economically” to empower authorities with greater freedom to consider the wider benefits a contract will achieve beyond the lowest price. Value for money is now defined as securing the best mix of quality and effectiveness for the least outlay over the period of use, with the expectation that for complex contracts, cost will be secondary to quality.

If this cultural shift is not embraced, the headline changes redefining value in the Procurement Act risk becoming a missed opportunity, leaving the procurement landscape fundamentally unchanged for SMEs. While these policies represent significant progress in the direction of travel, it is still too early to know if they will result in a tangible improvement in SMEs’ share of public procurement.

Procurement Act: Preparedness and Awareness

Despite the implementation of the landmark Procurement Act from February 2025, the level of awareness among the small business community is surprisingly low. FSB research shows that only 29 per cent of small businesses are aware of the Act coming into effect, while 55 per cent are unaware. Even among the most engaged cohort - small businesses who already bid for public sector contracts - awareness is still low, with only 39 per cent aware of these significant changes.

This pattern of awareness mirrors the propensity of different types of SMEs to seek public sector contracts in the first place, with the smallest businesses being the least informed. Our research finds that small businesses with 10 or more employees were much more likely to be aware of the Act (45%), compared to only 28 per cent of micro businesses (1 to 9 employees) and 20 per cent of sole traders.

Interviews conducted as part of this research show that this wide spectrum of awareness and understanding regarding the new Procurement Act also understandably varies depending on the business’s proximity to the procurement process itself. At one end of the spectrum, a specialized consultant and bid writer demonstrated high technical knowledge of the Act. They framed its importance around key measures such as the shift from MEAT to MAT and highlighted the subsequent challenge of changing the entrenched mindsets of procurement officers. At the other extreme, a sole trader in crisis management, who has historically avoided public procurement, indicated a complete lack of awareness, reflecting the low priority for tracking complex policy changes by businesses which already facing significant barriers to entry.



Frameworks and contract sizing

Framework agreements are a major and growing route for public procurement in the UK, but they present specific structural challenges that can limit access for SMEs. These agreements, which govern the future award of contracts for a pre-approved list of suppliers, are intended to offer a quicker and simpler route to market. Their use has expanded significantly in recent years. In 2023, approximately a quarter of the total value of government contracts was awarded via frameworks (26%), a sharp increase from just 11 per cent in 2018. Central government makes the greatest use of this route, with frameworks accounting for a third of its total contract value in 2023.¹⁷

This procurement route is particularly favoured by the government's largest "Strategic Suppliers". In the 2023/24 fiscal year, these cornerstone contractors won nearly half (48%) of their contracts via frameworks or Dynamic Purchasing Systems (DPS agreements), compared to a wider public sector average of 25 per cent. Usage also varies by sector, with 72 per cent of the value of the Consultancy sector contracts that were won by Strategic Suppliers being awarded via frameworks in FY23/24, compared to only 8 per cent of the value of Aerospace & Defence contracts won by Strategic Suppliers being awarded in this way.¹⁸

The Procurement Act 2023 has recently introduced the new concept of 'open frameworks'. This model allows new suppliers to be appointed to a framework throughout its lifetime on "substantially the same terms". While typical frameworks are limited to four years, open frameworks can last up to eight, with the stated intent of encouraging innovation and fostering long-term supplier engagement.

Despite the potential of these reforms, the initial process of getting onto a framework still presents a major barrier for SMEs. The tender process required is often nearly as difficult as a standard high-value contract, demanding significant time and resource investment, with no guarantee of winning work even if accepted onto the framework. Furthermore, qualitative evidence suggests that frameworks can risk reinforcing existing relationships, sometimes functioning as a mechanism for authorities to re-appoint suppliers they already know, rather than creating a truly level playing field.

A majority (57%) of small business bidders disagree that "the application forms and frameworks are simple and easy to use" for public sector bids. This statistic underscores a critical barrier to entry and continued participation, as complex and difficult processes place a disproportionate administrative burden on smaller organisations with limited resources.

Once a framework is established, structural difficulties can persist. The drive for economies of scale often leads to the aggregation of procurement requirements, meaning that individual lots within the frameworks may be too large for many SMEs to bid for. Frameworks for construction contracts, for example, are sometimes long-term and complex, with lots valued in the tens of millions, a scale that automatically excludes the majority of SME builders. Historically, members have also complained that pre-qualification questionnaires (PQQs) set unnecessarily high requirements for financial standing or insurance, which disproportionately excluded smaller, competent firms.¹⁹



The majority of SMEs access public work indirectly. In 2014-15, 60 per cent of government SME spending was through the supply chain.²⁰ This framework system can encourage these supply chains to form, as Tier 1 suppliers win lucrative bids and then disaggregate and farm out the individual elements, and these supply chains exhibit a lack of transparency that has allowed poor payment practices to thrive, with Tier 1 contractors enforcing lengthy payment schedules of 90 days or more, directly contradicting the government's wider commitment to tackling late payment. The National Audit Office (NAO) noted in 2016 that the government had limited knowledge of these opaque supply chains, making it difficult to track whether goals of increasing competition were being met or not.²¹

“The greatest frustration is the mountain of procedures that seem to serve no practical purpose. I’m constantly required to follow processes that seem to have zero impact on the quality of the end result. It becomes an exercise in bureaucracy for bureaucracy’s sake, where following the set procedures seems to matter more than delivering a quality service.”

Communications Trainer, London

The government has acknowledged these issues through policy actions. The Procurement Act introduced a legal duty on contracting authorities to explicitly regard barriers faced by SMEs and seek to reduce them, while central government departments must now set three-year direct spend targets.

“The core friction point is that we, the consultants, often end up spending valuable, non-billable time helping the actual client - the buyer - navigate their own internal procurement team just to finalize the contract. We are forced to suggest tactical scope changes, sometimes purely to squeeze the contract under a certain administrative threshold, turning our advisory role into an administrative one simply to satisfy a box-ticking exercise.”

Strategy Consultancy, South East

However, the NAO has long highlighted systemic challenges, recommending in 2016 that the government adopt a more focused approach than generally “lifting barriers,” and noting in 2024 a concern over the profusion of framework agreements.²²

Ultimately, the effectiveness of both frameworks and the policies designed to improve them is undermined by persistent data challenges. The NAO has concluded that it cannot be certain that the total amount government spends with SMEs truly increased after 2010, largely because the government continuously changed its measurement methodology between 2010 and 2015. The NAO has also noted that fractured, non-integrated digital platforms make it hard to assess spending and identify opportunities for SMEs. Without accurate and consistent data, it is impossible to properly monitor progress or hold the public sector to account.²³



The importance of flexibility in the procurement process cannot be overstated, as getting a 'foot in the door' is often one of the largest hurdles for a small business. While the initial process of getting onto a framework is a significant challenge, FSB research finds that the sentiment of businesses changes dramatically for those that successfully manage it. This shift in perspective highlights that while the barriers to entry are high, the benefits of inclusion can be substantial.

Once a business is appointed, frameworks provide considerable relief from the administrative burdens that plague standalone procurement processes. The major benefit reported in our research is that subsequent bids, known as call-offs, are significantly easier because suppliers are not required to resubmit extensive compliance documents.

Dynamism and flexibility in procurement

Dynamic Purchasing Systems (DPS) are already part of a major and growing procurement route; in 2023, approximately a quarter of the total value of government contracts was awarded via framework agreements or DPSs. As a more flexible and accessible model, Dynamic Markets (DMs) provide a powerful tool for contracting authorities to diversify their supply chains.

The primary benefit of DPSs and DMs is their enhanced accessibility. They allow suppliers to apply for membership at any time during the term of the arrangement, creating an 'always open' door to public contracts. This continuous entry model directly solves the problem of market foreclosure, a major issue with traditional frameworks where SMEs can be locked out for up to four years. Furthermore, DMs generally have unlimited numbers of suppliers, offering buyers unrestricted access to a wider pool of smaller and specialist businesses.

"We often waste days preparing detailed bids, only to discover a critical prerequisite - like a mandatory turnover ratio or required international experience - is buried pages deep. The system forces us to speculate on our eligibility. If public procurement truly wanted engagement from micro-businesses, essential requirements should be listed on the front page, because we simply cannot afford to invest non-billable time chasing opportunities we were ineligible for from the start."

Marketing Agency, East Midlands

These systems also work to reduce the bureaucratic barriers that disproportionately affect small firms. The joining process is typically quick and simple, often operating on a self-certification basis for compliance. The Procurement Act builds on this by introducing a mechanism where core business details can be registered and stored once on the Central Digital Platform. This "tell us once" approach is intended to reduce the repeated administrative burden for suppliers when bidding for subsequent opportunities.



Dynamic Markets also provide greater flexibility for both buyers and suppliers. Unlike conventional frameworks (which typically do not exceed four years), DMs have no maximum duration. Once a supplier is appointed, the process for bidding on subsequent contracts (call-offs) is simplified, as they are not required to resubmit extensive compliance documentation. Crucially, joining conditions must be proportionate to the supplier's ability to perform the contract, preventing the use of the overly restrictive criteria that have historically excluded competent SMEs.

For the public sector, DMs are an efficient route to procure common goods and services, helping authorities access economies of scale while maintaining a competitive and diverse supplier base, which can lead to greater value for money. The streamlined nature of DMs makes them a key mechanism for modernising procurement, and their wider adoption should be a priority for any contracting authority serious about reducing barriers for SMEs.

Hurdles faced when bidding

FSB research clearly outlines various barriers that prevent SMEs from effectively accessing public contracts. For those that do bid, the key barriers reported by at least a third of respondents include a lack of open and accessible procurement frameworks (43%), unreasonable eligibility requirements (43%), the requirement to fill out separate supplier information forms for each bid (35%), and contracts being too large in scope (32%).

The issue of inaccessible frameworks is a primary concern. Although designed to simplify subsequent bidding, they often function in practice as a mechanism to reinforce existing relationships, creating unequal access for new entrants. Furthermore, getting onto a framework requires a complex and resource-intensive initial tender process that many SMEs lack the capacity to undertake. The

Procurement Act 2023 aims to address this lack of openness through Dynamic Markets (DMs) and Open Frameworks, which allow suppliers to apply to join at any time.

Unreasonable eligibility requirements were cited as a barrier by a similar proportion of bidders (43%). This typically involves disproportionate financial thresholds, such as overly high turnover requirements, which are used for "risk assessment" but effectively bar capable smaller firms. The arbitrary nature of these rules can have a stark real-world impact; in one case highlighted to FSB, a business was rendered ineligible for a contract requiring a large turnover after an adverse exchange rate movement pushed them just below the threshold, despite no change to their technical competence.

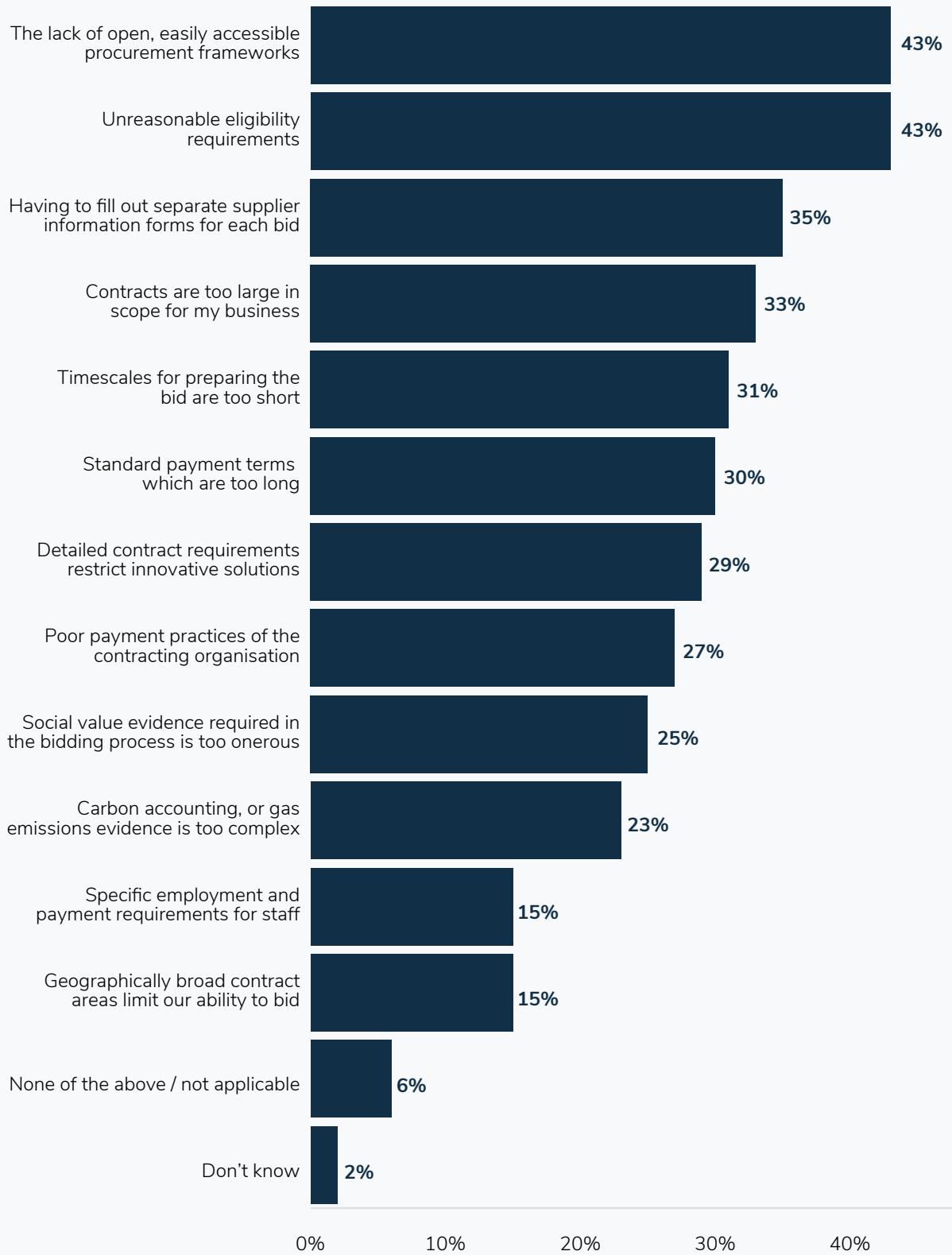
The need to repeatedly submit the same supplier information for each bid creates significant administrative friction for over a third of SMEs (35%). This duplication arises from a lack of standardization across government portals and is an expensive and time-consuming drain on the resources of the smallest firms. The Procurement Act introduces the Central Digital Platform (CDP) with the intention to mitigate this issue, allowing suppliers to store core business details once and share them for multiple bids.

Finally, contracts being too large in scope served as a major barrier for a third of small businesses (32%). This problem is often aggravated by contract aggregation, where multiple smaller requirements are bundled into one large contract to achieve perceived economies of scale for the buyer.



Figure 5: Barriers experienced by small businesses bidding for public sector contracts

Source: FSB 2025 Procurement Survey





“Before we even get to the technical questions about how we plan to deliver, we have to spend thousands and months compiling non-billable compliance documentation - whether it’s creating a carbon plan or securing Cyber Essentials accreditation. This is entirely speculative investment. For a small operation, spending that time and money upfront, with zero guarantee of winning the work, makes the decision to even engage in public procurement feel like an irresponsible commercial risk.”

**Bid Support Consultancy,
East Midlands**

Turnover requirements and resilience thresholds

The use of disproportionate turnover requirements and financial resilience thresholds in public contracts is a major and well-documented barrier for SMEs, effectively excluding a significant portion of the market.

A key challenge, particularly in larger procurements, is demonstrating a level of “financial standing” that satisfies the contracting authority.

Public bodies often impose high turnover thresholds, sometimes requiring a company’s turnover to be double or even triple the value of the contract itself. These arbitrary minimum turnover thresholds are typically justified as a form of “risk assessment” by the contracting authority.

The consequence of this approach is the arbitrary exclusion of competent and innovative SMEs. A business may have the technical expertise and capacity to deliver a specific service, but find itself barred from bidding simply because its overall turnover does not meet a rigid, and often excessive, financial benchmark. This is the case even when the actual delivery of the contract might only require the capacity of a small contractor.

This issue of disproportionate financial requirements is like other qualification barriers that have historically hindered SME participation. While the Procurement Act has successfully addressed some of these, particularly by prohibiting demands for pre-award insurance, the continued reliance on excessive turnover thresholds remains a significant and unresolved barrier to entry. This demonstrates the urgent need for new statutory guidance under the Procurement Act to cap turnover requirements at a proportionate level, such as a maximum of 1.5 times the contract value.²⁴



“My biggest conundrum is managing client risk perception. Despite proving we can successfully manage projects up to half a million pounds, maintain excellent quality control, and rely on years of repeat business, new clients often react with alarm once they understand our business structure is small and lean. This anxiety peaks when we request necessary large upfront deposits, which we need to protect our cash flow and secure our supply chain. Clients feel ‘psychologically safer’ handing that money to a massive furniture manufacturer, yet this sentiment is illogical. Our business, which maintains minimal overheads, actually carries less inherent risk than a massive corporation that could go bust just as easily. We are penalized for our efficiency and expertise because the procurement mindset equates size with stability, even when the facts prove otherwise.”

**Commercial Interior Design business,
South West**

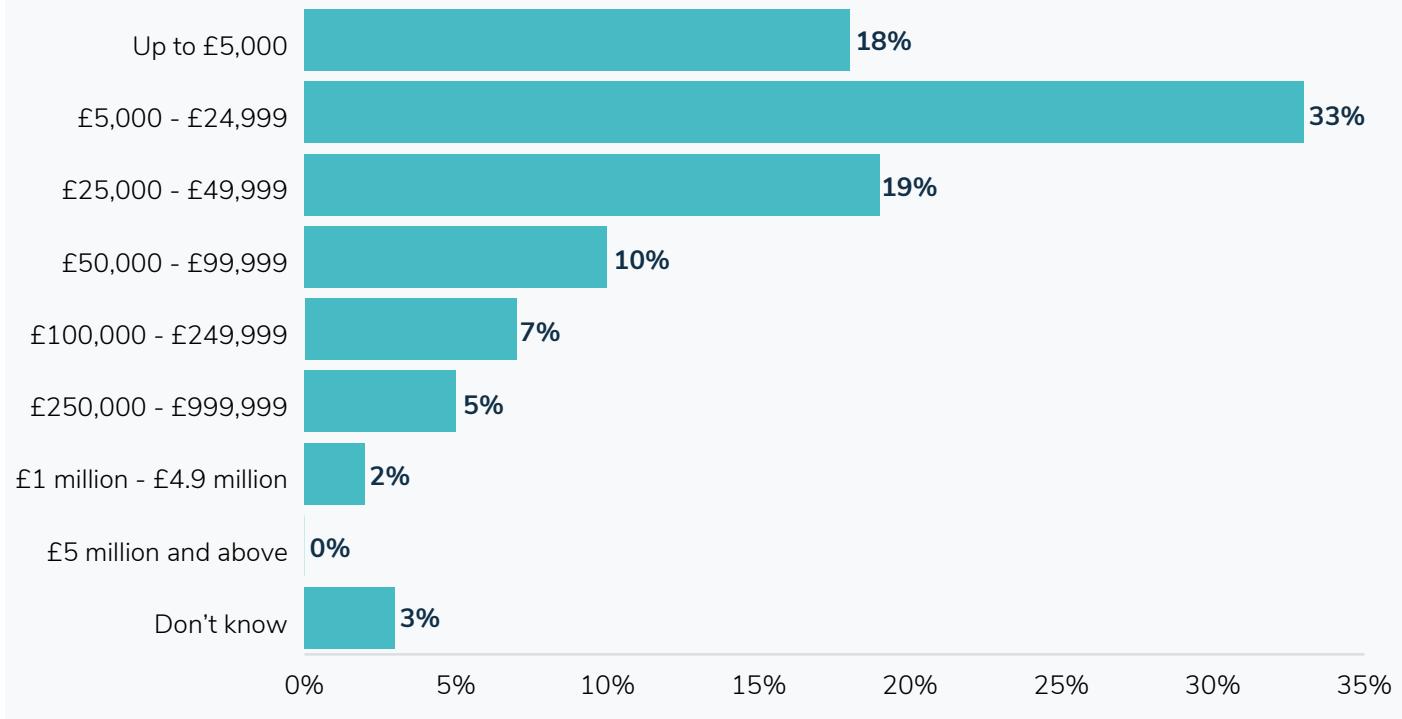
Creating partnerships for bids and breaking down large contracts

The difficulty arising from public contracts being too large in scope is a significant barrier, cited by 33 per cent of small businesses who bid for public sector contracts in FSB’s procurement survey. This challenge is rooted in the scale of major public contracts, which often exceed the financial and resource capacity of individual SMEs. This is compounded by a culture of risk aversion among commissioners, who often seek to transfer financial risk to the provider, therefore favouring larger firms and reinforcing the dominance of major providers.

FSB research shows a clear tendency for small public sector suppliers to focus on lower-value work, which aligns with their operational capacity and appetite for risk. Our research finds over two-thirds (71%) of small businesses typically bid for contracts worth less than £50,000, with the median contract value calculated at £24,200. This highlights the critical importance of ensuring a steady pipeline of smaller, accessible contract opportunities to enable SME participation in the public sector supply chain.

**Figure 6: Average public sector contract size bid on by small businesses**

Source: FSB 2025 Procurement Survey



Recent policy changes, such as the Procurement Act and the National Procurement Policy Statement (NPPS), provide a welcome starting point for addressing this issue. The Act's new legal duty on contracting authorities to have regard to the barriers faced by SMEs is a crucial first step. However, legislative intent alone is not enough; success will depend on the practical implementation of two primary solutions: fostering SME collaboration and the systematic disaggregation of large contracts.

One of the most effective ways to overcome the scale barrier is to create successful consortia and partnerships, allowing SMEs to collectively tackle larger projects by combining resources and skills. Interviews conducted for this research highlighted that the key to successful collaboration is defining

the remits, deadlines, and expectations of each party, to build the necessary trust. Partnerships thrive when this trust is in place, with many businesses preferring to work with partners they know well.

For new partnerships, running a small-scale pilot scheme first is recommended to test the working relationship before committing to a high-value contract. Contracting authorities can also play a crucial role by providing clear guidance on consortia bidding to help groups navigate the process. A more strategic proposal is the creation of a sub-framework, or an "Annex to the main framework", specifically for compliant small businesses, which would provide larger prime contractors with a vetted, low-friction route to find subcontractors.



The second major solution, breaking down large contracts into smaller lots (disaggregation), is consistently advocated to encourage SME access. To do this effectively, contracting authorities should undertake an early review of pipeline opportunities to identify where contracts can be structured for increased SME participation. This strategy also helps local authorities identify relevant local suppliers, directly linking procurement to local economic growth goals.

Best practice for lotting includes setting practical size limitations; for example, Highways England previously limited the lot size for some construction contracts to £25 million to ensure they were accessible to smaller businesses. While the Procurement Act now formalises a duty to consider smaller lots and provide reasons when not doing so, this must be balanced with the duty to achieve Value for Money. Where aggregation is deemed necessary, an alternative is to structure the contract to specifically require a Tier One supplier to appoint one or more SMEs as key subcontractors.²⁵

RECOMMENDATIONS

The Cabinet Office should:

- Mandate the use of Dynamic Markets for all framework agreements likely to last longer than four years.** This policy would restrict the use of long-term static or “open” frameworks, which can lock out new entrants, and instead promote the “always open” model of Dynamic Markets. The initial process of getting onto a framework is a major barrier for SMEs. By making Dynamic Markets (which are more flexible and accessible) the default for any long-term arrangement, this change would ensure that small businesses are not at risk of being shut out of public sector supply chains for up to eight years, while fostering a more competitive and innovative marketplace. All new or updated Dynamic Markets should also include a published description of the steps taken to ensure that it is accessible to SMEs, so that accessibility is built in by design.

- Implement the ‘Tell Us Once’ principle by accelerating the full implementation of the Central Digital Platform, and mandate its use by all Tier 1 and Strategic Suppliers for their supply chain procurement.** Once a small business uploads its core compliance and financial details, it should be automatically accepted everywhere, from direct government bids to subcontracting opportunities. This policy would drastically reduce the administrative burden that 57 per cent of small businesses find too complex. The full implementation of the Central Digital Platform should be used by 90 per cent of direct public procurement by the end of 2027.



- **Bring in a legal cap on the turnover levels that companies are required to have in order to bid for public contracts, limiting them to no more than 1.5 times the contract's estimated value.** This would be implemented through new statutory guidance under the Procurement Act 2023. FSB research shows that "unreasonable eligibility requirements" are a key barrier for 43 per cent of small business bidders. This policy would replace an arbitrary and damaging practice with a clear, proportionate rule, opening the market to a wider range of capable SMEs that are currently being barred from competing.

- **Create and require a new training course for everyone who works on buying goods or services in the public sector on 'Modern Risk Assessment and SME Value'.** This training would focus on how to assess risk in a fair, modern way, how to recognise the value small businesses can bring, and the resilience benefits of a diverse supply chain. Risk aversion from commissioners currently drives behaviours that favour large firms. This would tackle the cultural root of the problem, equipping buyers with the skills to assess suppliers based on capability, not just size, thereby building their confidence in working with SMEs. This could be combined with the buyer training on delivering effective supplier feedback recommended in Chapter 4.

The Crown Commercial Service should:

- **Introduce a 'Mid-Point Health Check' for all frameworks lasting longer than three years.** This review would assess the framework's performance on value for money, SME participation levels, and overall market competition, with a summary of findings made public. Our research shows that frameworks

can become outdated and reinforce incumbent relationships. A mandatory health check would introduce a crucial accountability mechanism, allowing for underperforming frameworks to be reformed or terminated early, preventing lock-in and ensuring they continue to deliver value for the taxpayer, providing opportunities for a diverse range of businesses.

- **Develop and pilot a 'Vetted SME Subcontractor Directory' for its major frameworks and Dynamic Markets.** This would create a pre-approved list of compliant small businesses that Tier 1 contractors can easily and confidently subcontract work to, acting as the "Annex to the main framework" suggested above. Building trusted partnerships is essential, but difficult for new entrants. This directory would reduce friction and risk for large suppliers looking for new SME partners, while providing a clear and accessible route for small businesses to get a 'foot in the door' on major government projects.

All contracting authorities should:

- **Bring in a 'Break it down by default' rule for all public contracts worth more than £5 million.** Under this policy, contracting authorities would have to split large projects into smaller, clearly defined parts. Currently, many framework lots are too large for SMEs to bid for, while our survey and interview evidence shows small businesses thrive on smaller pieces of work. This principle would reverse the current incentive to bundle contracts, which often results in higher intermediary costs, and would instead create a structure that is naturally more accessible to the specialist SMEs who are currently excluded, allowing them to compete.



Chapter 3: The bidding process

Hunting for opportunities

Our research shows that to find public sector opportunities, small businesses are most likely to rely on their existing networks rather than formal procurement channels. The most common methods used are searching through existing customer relationships (37% of SMEs) and through word of mouth (32%).

This reliance on established connections was a common theme in our qualitative research. Many small businesses indicated that having an existing relationship is the best way to find opportunities, and that many of their customers, whether public or private sector, would seek them out directly if they had bought their goods or services before. It is not the instinct of many small businesses to “go in cold”, which is why greater transparency and awareness of formal opportunities is key to increasing participation.

Official government platforms are not the primary tool used by most SMEs. FSB research shows that only 28 per cent of small businesses say they search for opportunities on Government or public sector platforms.

The use of paid-for private tendering platforms reveals a clear divide based on business size, with the ability to pay being a significant factor. A total of 24 per cent of small businesses with at least 10 employees said they search for public sector opportunities on private tendering platforms, compared to only 12 per cent of sole traders or micro businesses who employ up to nine people.

When comparing different types of official information sources, our research found that active platforms are preferred over fixed documents. Public procurement platforms are used by 28 per cent of small businesses, compared to only 13 per cent who use pipeline documentation and notifications.

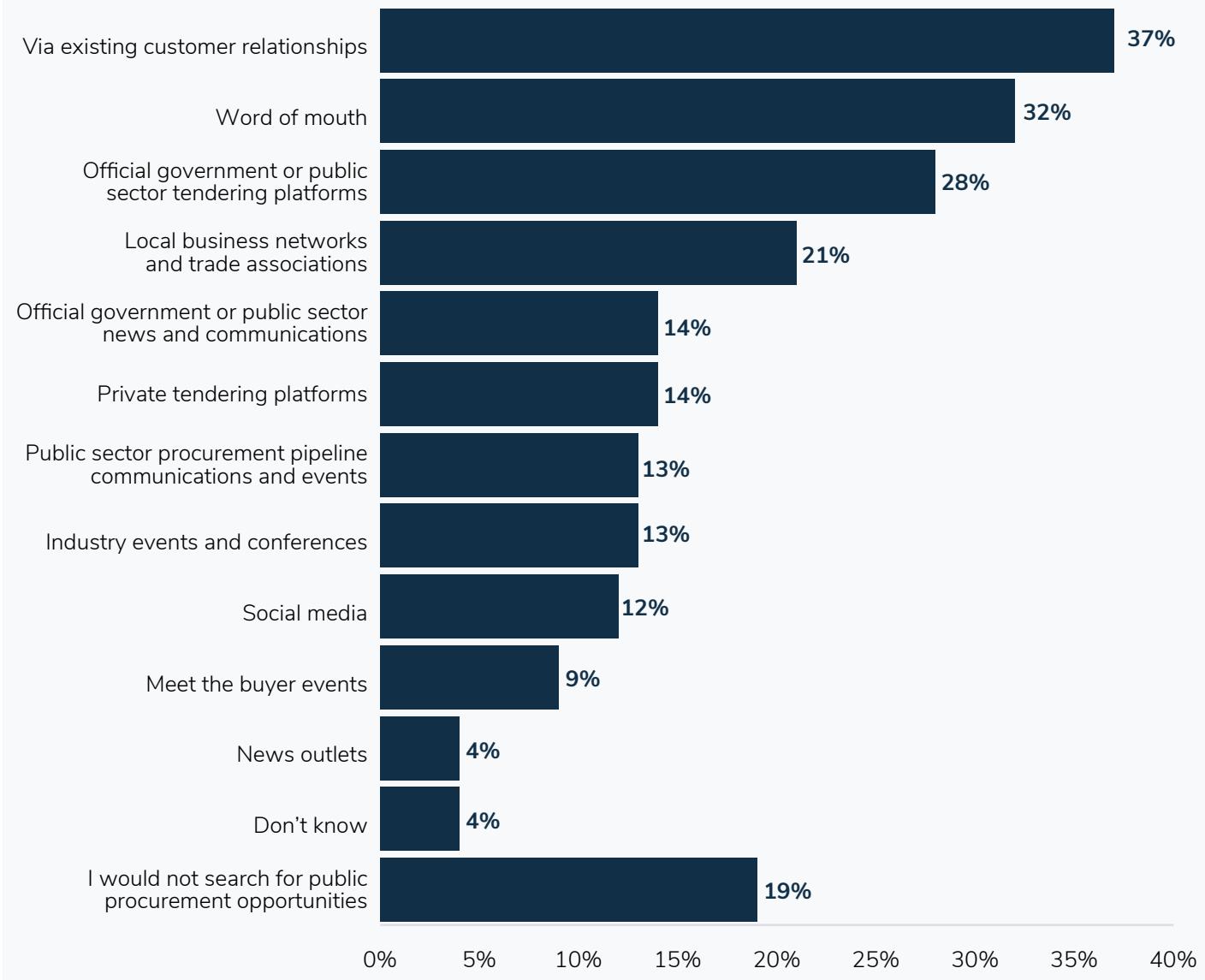
“Why would I waste hours trolling through public portals on cold bids that have a near-zero success rate? For me, the opportunity cost is too high. If a trusted buyer reaches out and encourages us, my success rate is much higher, making the effort commercially sound. We focus on established relationships because that’s where we are making our money.”

Strategy Consultancy, South East



Figure 7: Methods used by small businesses to find public sector procurement opportunities

Source: FSB 2025 Procurement Survey



FSB research found that the initial stage of identifying opportunities is a significant barrier for the majority of small businesses. Over three-fifths (62%) of small businesses looking for public sector contracts say it is difficult to do so. For a substantial portion, this challenge is acute, with 27 per cent of small businesses describing it as very difficult.

The challenge of finding contracts also varies significantly by industry sector. Information and

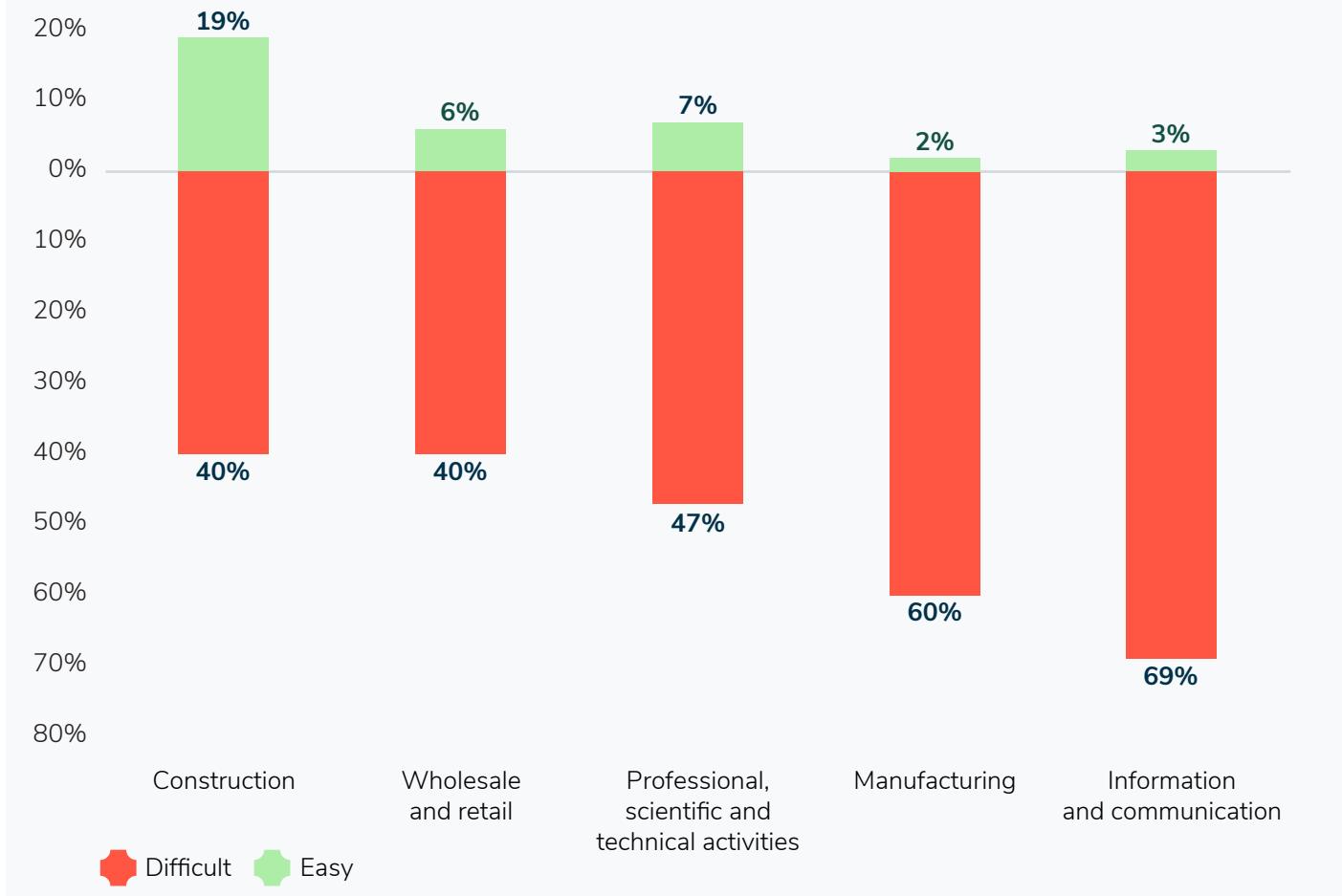
technology small businesses are most likely to say looking for public contracts is difficult (69%), though they are also more likely to bid for public tenders anyway compared to other sectors. The difficulty is also prevalent in other key industries, with over half (60%) of manufacturing small businesses stating it is difficult to look for a public contract. These findings indicate a systemic issue with the visibility and accessibility of public sector opportunities.



Figure 8: Proportion of small businesses in each sector finding it difficult vs easy to find suitable public sector opportunities

Note: industries with sample size below 50 have been excluded

Source: FSB 2025 Procurement Survey





Preparing bids for contracts

FSB research shows that 81 per cent of small businesses bidding for public contracts do so using in-house resources. For 62 per cent of small businesses the task falls on a single individual, for instance the sole trader, to draft proposals alongside all their other business responsibilities.

“For a one-person business like mine, the sheer complexity of the system is an instant barrier. Having to navigate government portals and register, then deal with layers of complicated requirements – the sheer number of hoops is just too much to tackle. I don’t have the time or resources to waste my energy chasing opportunities that I am very unlikely to be selected for or that seem to be designed only for large organisations.”

Communications Trainer, London

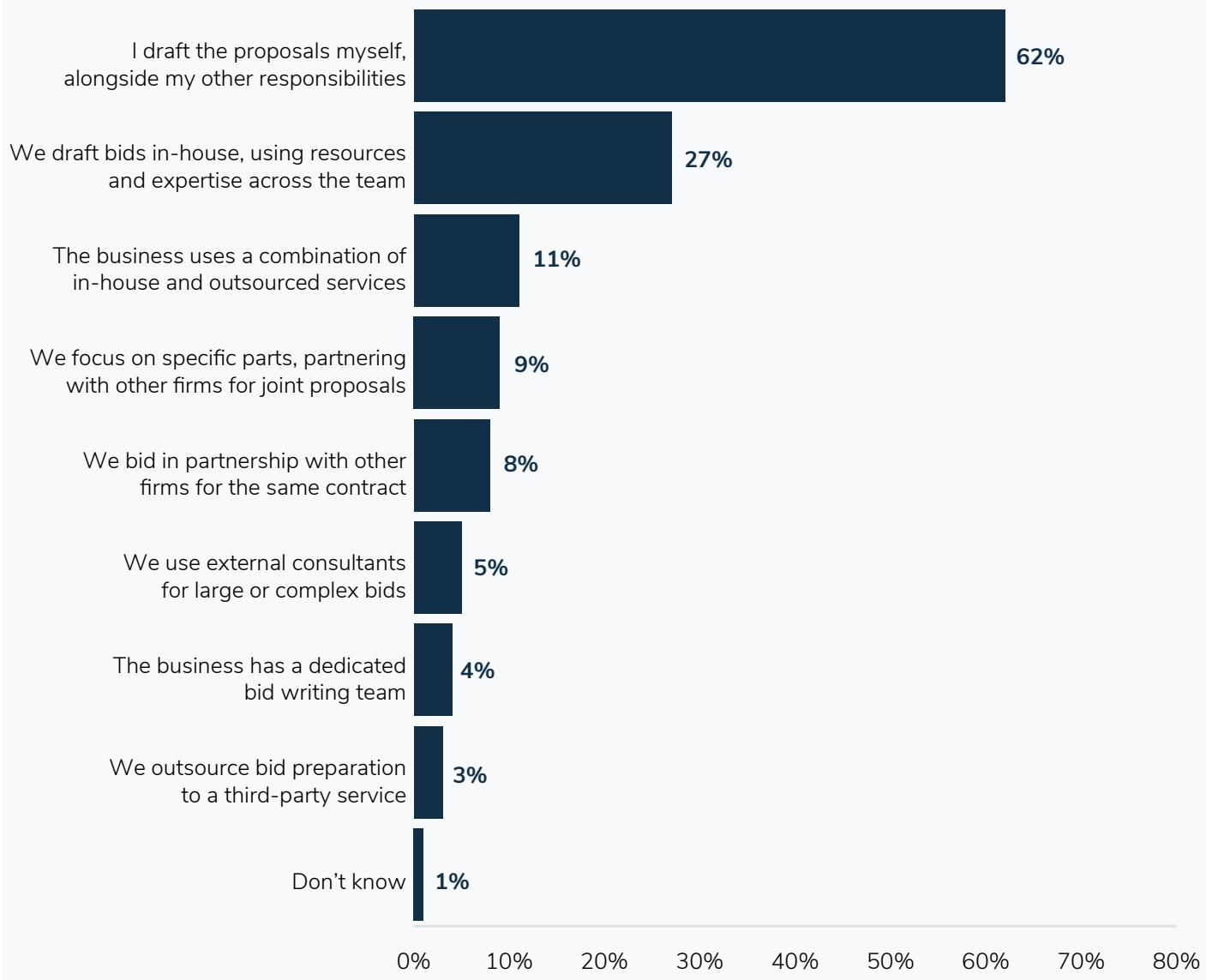
While outsourcing bid preparation is an option, our research shows it is only utilised by a small minority and reveals a clear divide based on business size. Overall, 7 per cent say they outsourced the preparation of bids to third parties, either partly or completely, but just 3 per cent of sole traders outsource, compared to 16 per cent of small businesses with at least 10 employees.

A mixed approach of using both in-house and external support is used by 22 per cent of small businesses, with notable variations by sector. Construction small businesses were the most likely to mix their resourcing (41%). By contrast, firms in the information and communication, and manufacturing sectors were the most likely to prepare bids entirely in-house, at 94 and 83 per cent respectively. This suggests that the capacity and culture around bid preparation differ significantly across key industries.



Figure 9: Configuration of the teams that small businesses use to prepare bids for contracts

Source: FSB 2025 Procurement Survey





Time taken preparing bids

The time and effort SMEs spend preparing public sector bids varies significantly, creating a disproportionate impact on their limited resources. While the complexity of procurement broadly defines the investment of effort required, this expenditure of time represents a significant drain on capacity for the majority of small firms, where typically one person is charged with drafting proposals alongside their other responsibilities.

FSB research found that for most small businesses bidding for public sector contracts, the process takes a considerable amount of time. The mean average effort typically allocated to a preparing a public sector bid by small businesses is calculated as 5.1 working days. While this is driven up by a long tail, the median average is still substantial, at 2.7 working days, and interviews suggest this figure masks the administrative overhead involved, where a sole trader or small business can spend a considerable amount of time simply completing convoluted compliance documentation.

In specialised fields, the demands are far greater and can represent a significant upfront investment of unpaid work. Interviews conducted for this research highlighted that businesses specializing in creative or design services, such as commercial interior design, report that the tender process frequently requires them to submit extensive design schemes or prototypes.

This massive investment of time has a severe impact on SME resources, particularly given the uncertainty of the outcome. For micro-businesses and sole traders, dedicating significant time to tender preparation forces them to pull resources away from guaranteed, profitable work, incurring high opportunity costs.

“The moment we engage with large tendering processes, we are immediately confronted with demands that are completely prohibitive: submitting highly detailed design schemes and concepts that equate to weeks, or even a full month’s worth of free labour. This requirement only works if you are a major corporate entity playing a ‘numbers game’. For a small, specialized business like mine, we cannot absorb that financial risk. We are being asked to provide a core deliverable of the job – unpaid – just for the chance to win, which forces us to abandon potentially viable contracts.”

Commercial Interior Design Business, South West

“When a major government contract requires us to spend a month ‘writing a book’ of paperwork, only to have them ask for more information, that’s an immediate loss we cannot sustain. For a small business like ours, that time could have secured us revenue from ten other private clients. We simply cannot afford to gamble guaranteed income for an uncertain tender.”

Wholesaler, South West

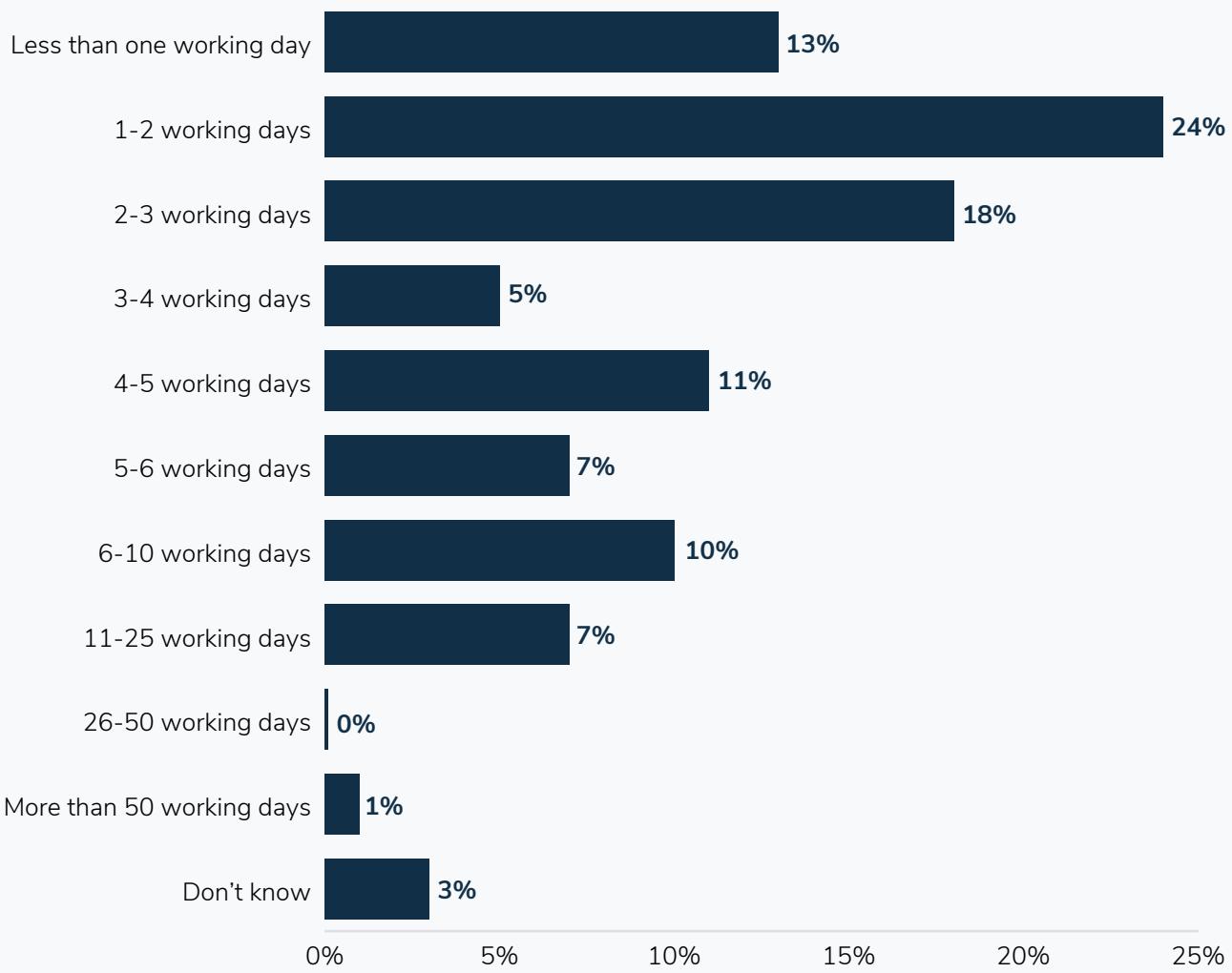


The tendering process is widely reported by small businesses to be prohibitively bureaucratic, time-consuming, and expensive. These substantial costs are incurred even if the eventual likelihood of success

is remote, a calculation that drives many SMEs away from the public sector market and towards more reliable, established private client relationships.

Figure 10: Time spent by small businesses in preparing public sector bids

Source: FSB 2025 Procurement Survey





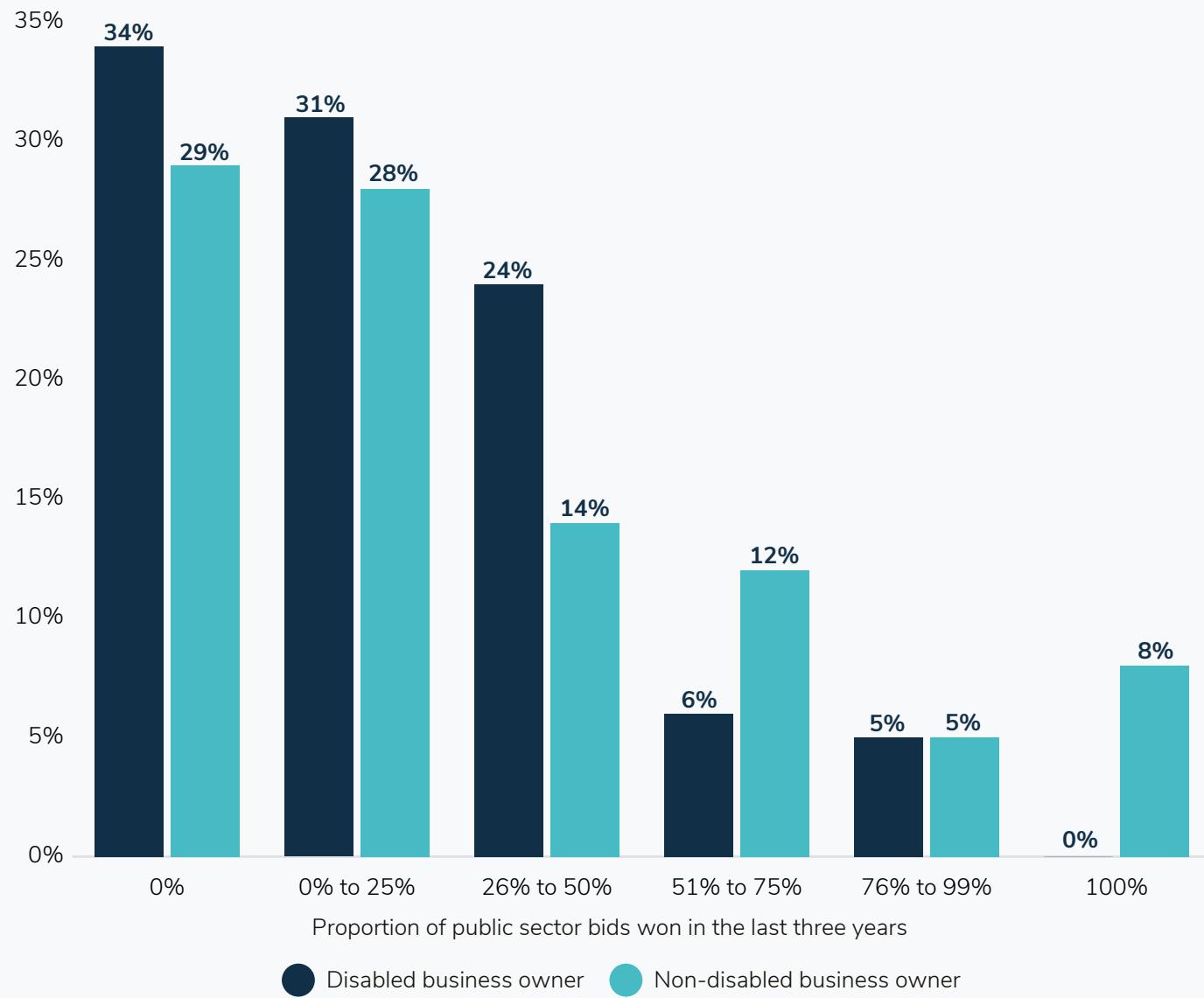
Accessibility of public sector bids

Respondents to the FSB survey were asked if their day-to-day activities were limited because of a health problem or disability which had lasted, or was expected to last, at least 12 months. The answers given by business owners with health conditions or disabilities were broadly in line with the answers overall, with a few specific exceptions.

In particular, the win rates reported by small businesses led by disabled people were typically worse than those led by people with no health conditions or disabilities, with 89 per cent of disabled business owners winning fewer than half the total number of bids they had submitted over the last three years, compared to 72 per cent for non-disabled respondents, a difference of 17 percentage points.

Figure 11: Average win rate for disabled business owners

Source: FSB 2025 Procurement Survey





In addition, when disabled business owners were asked what tools or software they used to assist in preparing bids, they were less likely to use general AI or text generation tools such as ChatGPT (16% compared to 24%) but were much more likely to use automation tools for tasks like formatting or data entry (16% compared to 5%). This is likely a reflection of disabled business owners using the tools that best accommodate their specific needs, rather than more generic AI tools.

When asked what barriers they had faced when bidding for public sector contracts, disabled business owners were more likely than other SMEs to highlight geographically broad contract areas limiting their ability to bid (29% compared to 12%) and specific employment and payment requirements for staff (e.g. apprenticeships) (27% compared to 11%).

The positive takeaway from this is that the complaints of disabled business owners are broadly the same as those of non-disabled business owners, suggesting no great additional barriers, although the differences in the win rates suggest that there is still more that should be done to ensure accessibility for disabled bidders.

Use of outsourcing

The decision to use bid writers, consultants, or specialised tools is a direct market response to the pervasive issues of resource constraints, technical complexity, and the time-intensive nature of public procurement. For many SMEs, particularly the smallest firms, dedicating the necessary internal capacity needed to navigate this landscape is prohibitive, making external support a costly necessity.

A primary driver for engaging these services is severe capacity constraints. Preparing a detailed public sector bid can take up to the equivalent of a month's worth of work for a small business, a significant investment of time. This is a critical issue given that, as FSB research shows, for 62 per cent of small businesses, a single person drafts proposals alongside all their other responsibilities. Utilising bid writers allows business owners to manage this high opportunity cost, freeing them to focus on guaranteed, profitable work.

Beyond capacity, businesses hire experts to ensure their proposals are strong enough to meet often highly prescriptive evaluation criteria. This relates to technical compliance and presentation; for example, one landscaping firm used a bid writing company to check their bid for overall presentation, spelling, grammar, figures, and layouts. These experts ensure the proposal accurately answers the specific question asked by the procurer, helping small organizations articulate their unique value effectively to level the playing field against larger competitors. The use of experts and consultants is a valuable secondary market, many of the suppliers being small businesses themselves, but it is important that using this additional support should be a choice, not a market-driven necessity.



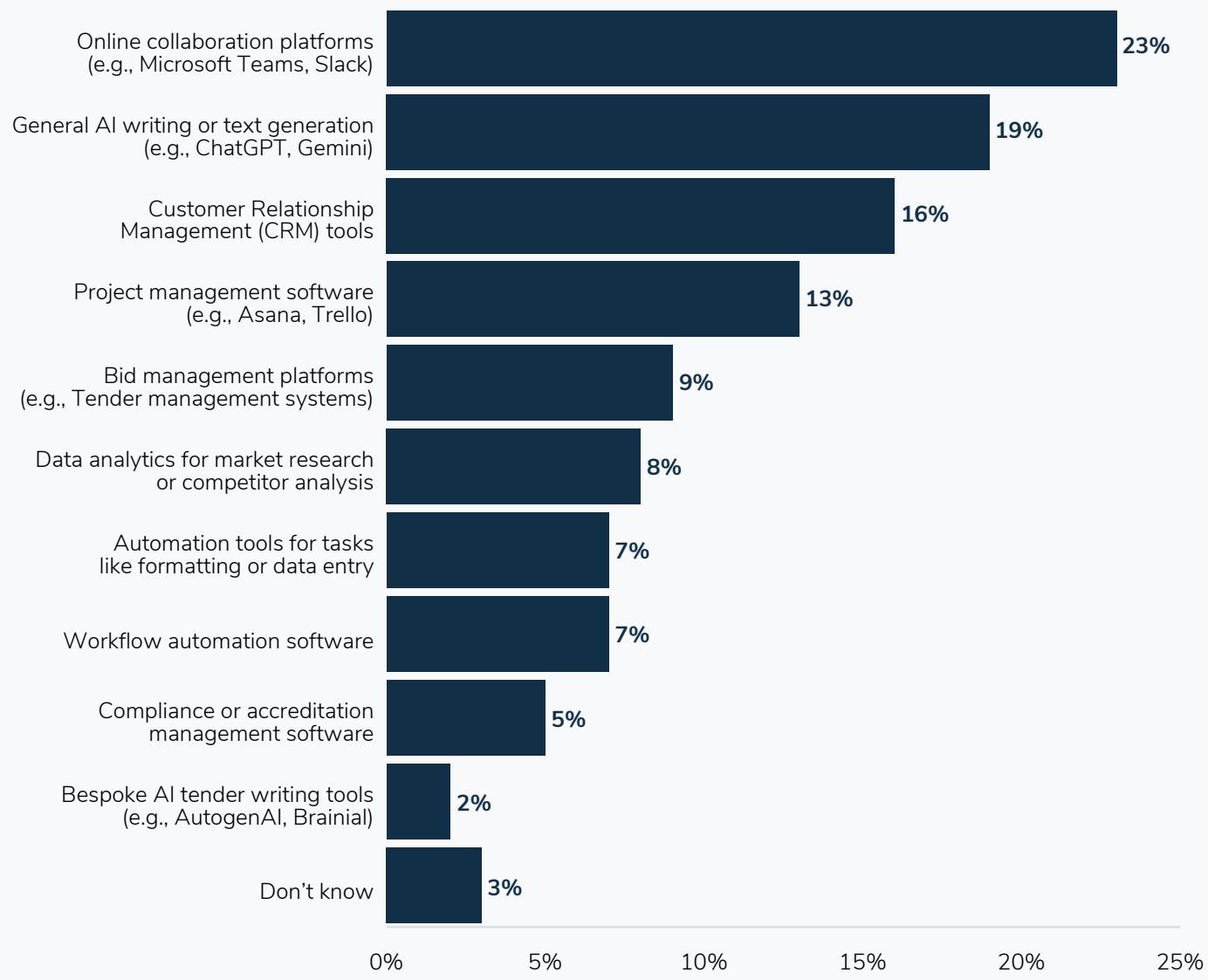
Use of technology in bid writing

In the face of the significant resource constraints small businesses face, technology is increasingly being used as a tool to more efficiently prepare bids for public contracts. FSB research found that a notable portion of small businesses are already leveraging new technologies; 19 per cent of those preparing bids say they use general AI or text generation tools to help them, while 9 per cent use bid management platforms.

However, our research also reveals a significant tech adoption gap. A substantial proportion of sole traders and micro businesses (47% of all businesses with fewer than 10 employees, compared to 25 per cent of those with 10 or more employees) say they do not use these types of technology to prepare for bids. This high proportion of non-users among the smallest businesses is a major concern, placing them most at risk of being competitively disadvantaged by the rise of these new technologies.

Figure 12: Tools used by small businesses in preparing public sector bids

Source: FSB 2025 Procurement Survey





For many SMEs, the primary struggle is the complexity of the procurement process itself, rather than a lack of capability or expertise. There is therefore significant potential for technology to address these systemic challenges by helping smaller organisations articulate their value more effectively, thereby levelling the playing field against larger competitors.

Technology can also deliver major gains in efficiency, helping to ease the severe capacity constraints faced by small firms. Using AI efficiently for compliance-heavy sections of a bid can free up this limited resource, enabling them to concentrate on the key questions where their core expertise lies. Indeed, some AI bid writing engines such as AutogenAI, capable of generating a compliant first draft in under five minutes, are intended to increase bid team efficiency and ultimately improve win-rates.

Despite these benefits, a significant concern is that the market for these advanced technologies could become prohibitively expensive, creating a new form of inequality where only larger businesses can afford them. It is vital that the market for this technology remains competitive, encouraging innovation and keeping prices at an affordable level.

While technology is part of the answer, it is not enough to solve the market access problem on its own. A critical part of the solution must be the fundamental simplification of procurement processes to foster genuine inclusivity and competition.

AI use in public procurement decisions

The government and related bodies are actively exploring the integration of Artificial Intelligence (AI) into procurement, focusing on data analysis, efficiency, and platform functionality. A primary focus is on enhancing internal capability; the enhanced Find a Tender Service (FTS), acting as the Central Digital Platform (CDP), is designed to capture procurement data for internal analysis. This aligns with the Crown Commercial Service's (CCS) strategic priority on Technology & Digital Capability, which aims to leverage digital transformation for enhanced insights.

This internal focus is complemented by a welcome emphasis on transparency in the wider market. The Cabinet Office has been proactive in setting policy around AI usage in the public sector, introducing a Procurement Policy Note (PPN) on Improving Transparency of AI use in Procurement in March 2024²⁶. Furthermore, ongoing policy development in Northern Ireland has included discussions about requiring tendering organizations to disclose any software used to develop their bid.

There is also a risk of misuse by public sector buyers themselves. If Artificial Intelligence is used by procurement teams as either a tender drafting tool, or a tender scoring tool, or even both, it could lead to a situation where suppliers were able to submit the “perfect answer”. This would undermine competitive processes and make genuine differentiation between bids more difficult for public bodies.



This dynamic could risk implicitly re-emphasising cost over quality, negating the new 'Most Advantageous Tender' (MAT) principle. If firms use AI to create highly compliant, technically perfect bids that reduce marginal scoring differences, even human evaluators may struggle to discern genuine innovation, and default to price as the key differentiator. This would not only undermine the competitive processes, but could lead to poorer public service outcomes, as contracts are awarded based on algorithmically generated text rather than genuine capability.

The fundamental goal of technology should be to function as an inclusive tool. AI should serve as a solution to the complexity barrier faced by SMEs, helping smaller organizations articulate their value more effectively, therefore levelling the playing field. However, technology alone is insufficient and must be paired with the simplification of procurement processes to avoid reinforcing barriers or creating new ones.

A more productive application of AI would be to improve market visibility for SMEs. For example, technology could analyse procurement opportunities and match them with the registered skill sets of potential suppliers, sending personalized notifications to SMEs and sole traders. Ultimately, the ideal process must preserve informed human judgment. The concern about AI generating uniform "perfect answers" underscores the need for human evaluators to exercise critical judgment and reward genuine specialisation and innovative approaches. Policies that encourage dialogue, such as Preliminary Market Engagement (PME) notices which we will discuss in the next chapter, are therefore more crucial than ever.



RECOMMENDATIONS

The Cabinet Office should:

- **Create one free UK-wide online portal where all public sector contracts are advertised.** This platform must consolidate all opportunities from central government, local government, the NHS, and the wider public sector, which are currently spread across multiple competing platforms. It should also enable Tier 1 and strategic suppliers to advertise subcontracting opportunities. FSB research shows official platforms are underused (28% of SMEs), with businesses instead relying on informal networks. A single, comprehensive, and user-friendly portal with features like email alerts would simplify the process of finding work, which 62 per cent of small businesses find difficult, and create the transparent marketplace needed to encourage disengaged firms to participate.
- **End the ‘work for free’ culture by stopping contracting authorities from demanding unpaid work before the contract is awarded.** If a contracting authority requires the creation of original concept designs, prototypes, or other unique material, it must be structured as a multi-stage competition where a shortlist of firms are each paid a fair stipend for this development work. Our research highlights that currently businesses can be asked to develop bespoke work to pitch their bids, in some cases the equivalent of “a month’s worth of work for free”. This practice is exploitative and creates an insurmountable barrier for small firms that cannot afford to gamble such significant resources. Banning it would level the playing field and ensure businesses are valued for their expertise.

- **Establish guardrails for AI use by public sector buyers through a new Procurement Policy Note (PPN).** This guidance must ensure that AI is used to simplify tenders and that evaluation criteria are designed to reward genuine expertise rather than algorithmically “perfect” but generic answers. There is a clear risk that if buyers use AI to draft and judge tenders, it could undermine competitive processes and negate the ‘Most Advantageous Tender’ principle by making it harder to differentiate bids on terms other than purely financial ones. Alternative methods to differentiate bids will be needed, such as an increased emphasis on meeting bidders directly. These guardrails are needed to preserve the importance of informed human judgment and prevent a race to the bottom on cost, which normally comes at the expense of quality.

The Department for Business and Trade should:

- **Create a dedicated ‘Tech for Tendering’ support programme within the Business Growth Service.** This would provide online training modules for small business owners on how to use AI and digital tools effectively and ethically to prepare bids. With 48 per cent of the smallest firms currently not using these technologies, this programme would address the capability gap, building the digital fluency needed for SMEs to remain competitive in a rapidly evolving procurement landscape.



The Cabinet Office should:

- **Enhance the Central Digital Platform with an AI-powered ‘Opportunity Matching’ service.**

This service would allow small businesses to create a detailed profile of their capabilities, with the platform then proactively notifying them of relevant contract opportunities across the public sector. Rather than leaving SMEs to navigate a complex market, this turns AI into an inclusive tool that improves market visibility, directly helping smaller firms find the opportunities that they are best suited to deliver.

All contracting authorities should:

- **Require all Tier 1 and Strategic Suppliers to advertise all subcontracting opportunities over £25,000 on the same single, mandatory, and free-to-use UK-wide public procurement portal.** This would address the opaque supply chains that develop within large frameworks, which the National Audit Office has flagged as a significant issue. The lack of transparency allows poor practices like late payment to spread and makes it harder for new SMEs to find opportunities. This requirement would help create a level playing field for subcontracting, increasing competition, and giving government the visibility it needs to track whether its SME spending ambitions are being delivered.



Chapter 4: Feedback, engagement, and procurement culture

Success in bidding for public contracts

As we have seen, finding public procurement opportunities and then dedicating the time and resources to bid for them are both significant challenges for small businesses. For those that overcome these initial barriers, FSB research shows that success is still far from guaranteed, with many firms investing significant effort for no return.

A striking finding from our research is the high proportion of small businesses that are consistently unsuccessful in their bidding efforts. Almost a third (31%) of small businesses bidding for public contracts have not won any of their tenders in the last three years. This represents a substantial waste of time and resource for a large portion of the SME community attempting to enter the public sector supply chain.

For those that do achieve some success, the win rates vary, as shown in the figure below. Interestingly, the success scores highlight some well-targeted bids from those who are the most resource-tight. Our research finds that 29 per cent of sole traders have won at least half of their bids, compared to 23 per cent of small businesses employing staff.

This higher success rate among sole traders indicates that they are choosing the opportunities they go after with greater selectivity. This is likely because they have less ability to risk time and effort on speculative bids and may be more conscious of the high opportunity cost involved in the procurement process.

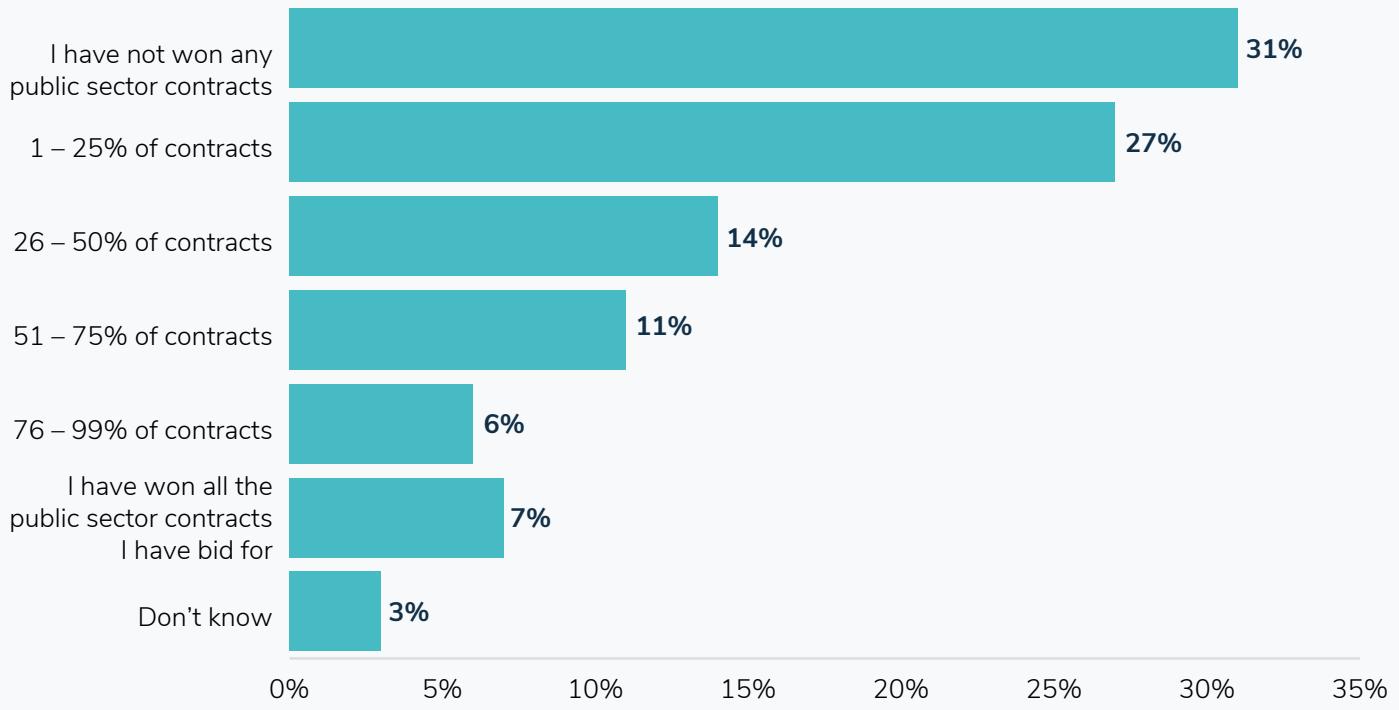
“We actively avoid formal tendering because the hard work required is disproportionate to the potential reward. As a business owner, I calculate the commercial cost of our time versus the slim chance of success, and the answer is always the same: we simply cannot afford to chase opportunities when the required effort is so immense and the return is so uncertain.”

**Management Consultancy,
South West**



Figure 13: Average win rate for small businesses bidding for public sector contracts

Source: FSB 2025 Procurement Survey



Importance of useful feedback

The simplest way to encourage small businesses to re-engage with public procurement is through clear and actionable feedback that ensures lost bids are not completely wasted effort, increasing their chances of a successful bid in the future. However, small businesses are often not receiving adequate feedback on their public sector bids.

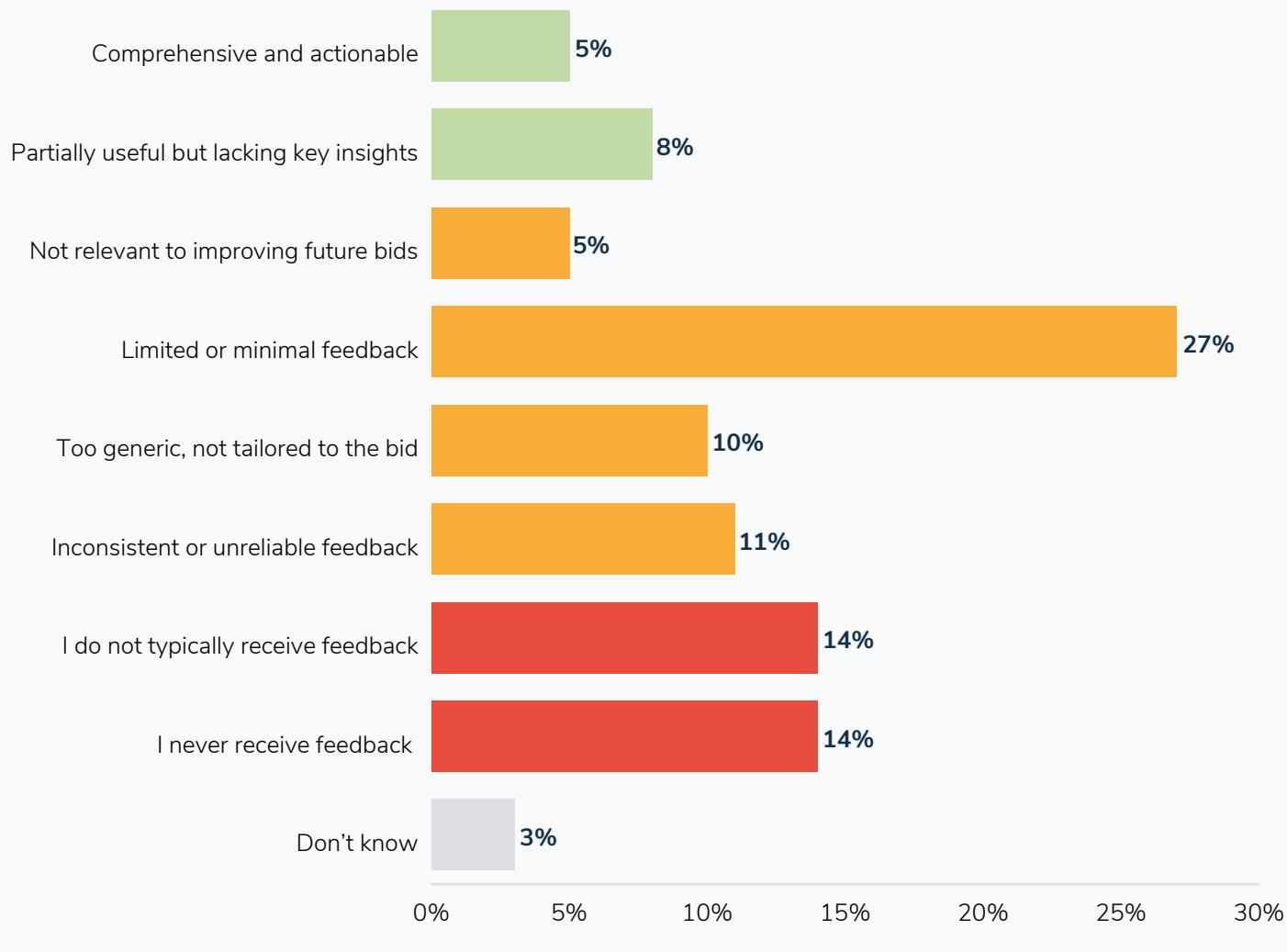
“The failure to provide meaningful feedback confirms the system’s lack of respect and transparency. We invest weeks preparing a detailed submission, and when we lose, we are often met with silence, or at best, a single, unhelpful sentence. Worse, we are penalised on criteria that were never requested in the tender - like arbitrary location requirements or unstated governance processes - making it impossible to learn how to improve or confirm the fundamental fairness of the evaluation.”

Marketing Agency, East Midlands



Figure 14: Quantity and quality of feedback received for unsuccessful bids on public sector contracts

Source: FSB 2025 Procurement Survey



The primary negative effect of this lack of good feedback is that unsuccessful firms are unable to learn from the process in order to adapt their approach for future submissions. Without clarity on why a bid has failed - whether due to pricing, a weak technical response, or non-compliance with unstated criteria - SMEs are left to guess why they lost. This lack of transparency means businesses can waste valuable time and resources pursuing future bids for which they might be ineligible.

The lack of feedback also undermines the fairness and transparency of the entire system, fostering a perception of bias. When scores are not disclosed, suppliers are often left to believe that contracts were awarded to the lowest bidder or to a firm with an existing relationship, damaging trust in the competitive process. This culture of silence among those in awarding roles is often driven by a fear of "legal comeback" within public bodies, a form of bureaucratic self-protection that limits valuable market insight for suppliers and creates an accountability gap.



“The persistent lack of meaningful feedback after a tender is deeply frustrating. It’s either operational laziness, or worse, it’s driven by a fear within the buying organisation that transparency will create a legal ‘comeback.’ We are being deliberately denied the essential information we need to improve our business simply because the system prioritises internal risk avoidance over supplier development.”

**Management Consultancy,
South West**

Seeking to address this, the Procurement Act 2023 requires contracting authorities to provide an ‘Assessment Summary’ to each supplier that submitted a final tender. This summary must include detailed scores, an explanation for those scores against the award criteria, and for unsuccessful bidders, a clear explanation of why the contract was not awarded to them. This new legal requirement is a direct response to the widespread failure of the previous, less formal system and, if properly enforced, has the potential to transform the feedback culture.

However, legislation alone may be insufficient to overcome this legacy behaviour. Ultimately, it must be paired with a cultural shift. Simplifying procurement processes and deploying technology like AI could resolve capacity issues, enabling procurement staff to dedicate more time to providing the meaningful feedback that is required. This should be supported by better training for procurement teams and a greater emphasis on early market engagement to establish a productive dialogue with the supply market.

This collaborative approach can be extended to the creation of feedback groups and networks, connecting local sole traders and small businesses, and supporting them to form local consortia. This not only increases competitiveness of tenders but also creates a forum for collective learning and feedback, allowing groups of businesses to engage more effectively with buyers and understand their requirements, as well as forming relationships that can help them win work in the private sector too.

Technology has a significant role to play in enabling procurement teams to deliver better feedback. The capacity issue, where buyers are often dealing with hundreds of tenders, could be mitigated by deploying AI or automation to generate initial drafts of feedback, making the process more efficient and objective, though some level of human insight and oversight will be needed. The new Central Digital Platform (CDP) will also contribute, by streamlining administration, freeing up buyer time to focus on the qualitative assessment of bids and the provision of detailed, useful feedback.



Finally, accountability is required to ensure these new standards are met. The implementation of public accountability mechanisms, such as league tables or public scoring systems for procuring bodies, would incentivize better feedback practices. This process also benefits the buyer; effective feedback and early engagement provide procurement teams with invaluable market intelligence, helping them to write better, clearer, more effective tenders in the future, and thus avoid firms submitting non-viable bids where they are unable to meet compliance requirements. This virtuous circle can only be achieved with better training for procurement teams on the necessity for clear and honest feedback.

Removing disincentives for feedback

Efforts to improve feedback must also mitigate the powerful disincentives encouraging public contractors to avoid providing it. A primary disincentive is the felt risk of legal action when detailed feedback is provided to unsuccessful bidders, which has led to a culture of opacity. This perceived legal liability directly encourages a practice of risk mitigation, where procuring bodies are reluctant to offer substantive explanations for their decisions. The direct result is that businesses frequently receive “no feedback or only minimal feedback” from risk-averse public sector workers.

“Some things that we pitch on it just disappears into a black hole somewhere. And you follow up, and you might get a sort of polite response, but you don’t get the feedback you need. You might get something very simplistic.”

**Market Research Agency,
East of England**

“If we’re not given meaningful feedback, the entire bidding process is a waste of resources - it’s impossible to learn or improve our participation. When we spend weeks submitting a detailed tender, the bare minimum we expect is transparent scoring. If the awarding body isn’t held accountable for providing useful feedback, or worse, gives out contradictory information, it confirms our suspicion that the whole system is opaque and ultimately unfair to smaller companies.”

**Bid Support Consultancy,
East Midlands**



As discussed above, Section 50 of the Procurement Act 2023 mandates the provision of an 'Assessment Summary', representing a significant shift from the previous regime. However, this increased transparency does nothing to abate the disincentive, pushing contracting authorities into difficult territory. By making detailed scoring and explanation mandatory, the Procurement Act formalises the documentation that an aggrieved bidder could use in civil proceedings.²⁷

The success of the new requirement will depend on whether this mandated transparency can overcome the deep-seated risk aversion within contracting authorities. This highlights the need for a parallel effort to de-risk the provision of honest feedback, perhaps through clearer safe-harbour guidelines for contracting authorities or a more accessible, lower-cost mediation process for disputes.

"When we spend weeks preparing a comprehensive bid, the minimum expectation is that the contracting body will adhere to the law and provide us with our score and feedback. The fact that tender operators repeatedly fail to do their lawful job, leaving us completely in the dark, shows a fundamental lack of accountability. Why would we invest resources in a system where we are legally due information, but it is routinely denied?"

Organic Landscaping Specialists, North East

Market engagement

The importance of market engagement throughout the commercial lifecycle is a key focus of recent government policy, particularly under the Procurement Act and the subsequent National Procurement Policy Statement (NPPS). This engagement is viewed as essential for keeping SMEs informed, for encouraging competition, and for driving innovation.

Early engagement, well before a formal tender is published, is designed to inform suppliers of forthcoming work and to shape the procurement strategy. The Procurement Act introduces mandatory publication of Pipeline Notices for large contracting authorities, providing foresight of all procurement projects planned for the coming financial year. This allows suppliers to map their own strategies and build relationships with buyers accordingly.

The Procurement Act has also formalized Preliminary Market Engagement (PME), requiring authorities to publish a PME notice before a tender. PMEs allow the authority to develop requirements in an informed way, check interest, and identify potential suppliers. For SMEs, participating in a PME is invaluable for getting their voice heard and for helping to shape future frameworks, in collaboration with the market.²⁸

Other pre-procurement tools include 'Meet the Buyer' events, which should be used to introduce suppliers to upcoming tenders and facilitate collaboration, moving beyond a "telling process", to a listening relationship, as detailed further below. This supports the Cabinet Office's commitment to increasing direct engagement with suppliers when shaping requirements, and maximizing SME participation overall.



During the bidding process, engagement ensures clarity and reduces bureaucratic burdens. The new Competitive Flexible Procedure (CFP), introduced by the Procurement Act, is a key tool for doing this. It allows buyers to design bespoke procurement stages that can include dialogue and negotiation, helping to test risks and assumptions and allowing procurers to operate more efficiently.

“As specialists, we are often brought in too late in the design programme - typically after the initial tender stage, once the detailed design has been finalised. At that point, we frequently have to inform the client that what they’ve paid for is either unbuildable or won’t function in the real world. The absence of specialist input early in the process leads to costly redesigns, meaning the client ends up paying us a second time just to fix avoidable issues. It’s a needless waste of public funds, driven by a fundamentally broken system of engagement.”

Mechanical and Electrical Services, Wales

“When we receive a tender demanding an asbestos certificate for a product made purely of polymer plastic, it tells us instantly that the person running the procurement doesn’t understand the materials they are trying to buy. This demonstrates a system built on mindless tick-box exercises, devoid of common sense or product knowledge, and it’s why, even when the contract is right for our product, we choose to walk away.”

Wholesaler, South West

“The greatest structural flaw in tendering is the lack of meaningful engagement from the actual end-user or buyer. When procurement specialists who don’t understand our field rely on generic criteria, prioritising low price or basic certifications, the system inevitably filters out the best actual supplier, resulting in a compromised outcome that sacrifices quality for checklist compliance.”

Management Consultancy, South West



This is also supported by other mechanisms, such as the clarification request functions on tender portals, which are crucial for SMEs navigating complex documentation. In addition, formal engagement should include the sharing of risk registers, set out in a risk allocation matrix, to ensure that suppliers only take on the risks they are best able to manage, leading to optimal pricing.

To ensure fairness, authorities must ensure that tender notices set out how the Competitive Flexible Procedure is to be carried out and what stages are involved, so that suppliers can make an informed decision about whether or not to bid.

The Procurement Act also mandates that authorities set and publish at least three Key Performance Indicators (KPIs) for delivery of contracts over £5 million, and publish performance against those KPIs annually. This formalises accountability, and provides an opportunity to more clearly feature Social Value. Those tracked KPIs also then become a valuable evidence base that the delivering suppliers can use to their competitive advantage in future tenders.²⁹

This end-to-end engagement, from pipeline notices to performance monitoring, is designed to give SMEs a fair chance at winning public contracts. The Cabinet Office also promotes the use of Contracts Finder by Tier 1 suppliers to advertise subcontracting opportunities. The collective result of these measures is to help maximize Public Benefit and foster a “pro-innovation mindset”, allowing authorities to define challenges to solve rather than solutions to buy.

‘Meet the buyer’ events

‘Meet the Buyer’ events are a crucial part of the procurement landscape, designed to bridge the gap between suppliers and public sector buyers. FSB qualitative research shows that these events can demystify the procurement process by offering an informal setting for suppliers to engage directly with public sector staff. They allow SMEs to learn about upcoming contracts, understand evaluation criteria, and network with key decision-makers and potential Tier 1 contractors, as well as feeding valuable expert insight into the bid design.

“The entire procurement process strips out the human relationship that is essential to effective business. Small businesses operate based on trust and confidence, and rigid institutional processes eliminate that crucial factor. We find that the impersonal nature of the system makes us feel small and vulnerable, cutting off any motivation to pursue future opportunities.”

**Marketing Consultancy,
West Midlands**



If run well, such events can be highly effective at breaking down perceived barriers and building SME confidence. They help to formalize the informal interactions and relationship-building that are essential for securing business.

One common issue for these events is that they often attract large suppliers looking for subcontractors rather than focusing on direct opportunities for smaller companies.

Open, accessible, and well-publicized pre-market engagement events should be a mandatory step for all contracts above a defined value, to discuss requirements, receive market feedback, and allow potential bidders to ask questions before a tender is finalized, ensuring the specification is not inadvertently biased against new or innovative solutions. They could also be leveraged to help companies find suitable partners for consortia, provided the sessions are well-focused on specific sectors and opportunities.

Efficiency of onboarding bidders

The complexity of the UK public procurement system is such that businesses are currently required to engage with multiple platforms and portals, leading to burdensome and repetitive administrative work. SMEs seeking public projects must navigate a fragmented landscape that includes Contracts Finder for lower-value contracts, the Find a Tender Service (FTS) for high-value contracts, separate dedicated websites for Scotland, Wales, and Northern Ireland, and various third-party eSender systems used by different buyers. The complexity of this disconnected plethora of platforms is such that some SMEs choose to pay for private subscription services to receive tailored alerts, as official platforms are often perceived as unwieldy.

A major barrier resulting from this fragmentation is the requirement to fill out separate supplier information forms for each bid. FSB research finds that 35 per cent of small businesses struggle with repeatedly submitting separate supplier information. Even when already registered on one government platform, a supplier may be required to register as a “new supplier” for each government department to which they submit a bid.

“As a small company, the constant demand for new compliance documentation - from IR35 evidence to detailed data protection policies - is a massive, non-billable time drain. We don’t have an in-house legal department, which means our senior staff are constantly pulled away from pitching and core service delivery just to chase administrative requirements.”

**Market Research Agency,
East of England**

The government’s new approach under the Procurement Act aims to address this by establishing a Central Digital Platform (CDP). This platform, anchored by an enhanced Find a Tender Service, which went into operation on 24 February 2025, is the mechanism designed to implement the “tell us once” principle.



This consolidation of supplier information aims to slash red tape and complexity for small businesses. Suppliers can register their core business details once on the CDP, including financial information and accreditations, and then share this for multiple bids by using a share code or downloadable file. By reducing the cost and effort of this standardised compliance, the CDP should be effective in encouraging more SMEs to bid for government work.

The centralized platform is also designed to improve efficiency and transparency for contracting authorities, who benefit from standardized data which eases comparison and simplifies due diligence. The platform also captures and stores data over time, and there is an intention in the longer term to create dashboards to analyse historic pricing data, helping authorities gain commercial intelligence and support strategic decision-making.

Crucially, by automating the collection of basic supplier information, the system aims to reduce the administrative workload on procurement staff, freeing up valuable time and capacity within public bodies, which could be redirected to higher-value activities such as pre-tender market engagement and providing meaningful, detailed feedback to unsuccessful bidders, as described above.

While the new Central Digital Platform (CDP) represents a major step forward, FSB qualitative

research shows that for it to truly work, it must become the backbone of all public tendering platforms. The full benefit of the “tell us once” principle can only be realised if the CDP is established as the single, authoritative source of supplier information across the entire public sector, ending the current fragmentation.

This does not mean a single, monolithic portal for all procurement. There is a clear benefit to front-facing pages or portals being tailored to their specific geographies or sectors. These specialized views and structures can provide a more relevant and navigable experience for businesses looking for opportunities in a particular region, such as those using the dedicated portals for Scotland or Wales, or in a particular niche industrial sector.

However, it is vital that the engines that sit behind these portals have access to the CDP, and that any requirements for bidders to provide core information are universal across all systems, so that this information, once entered, can be carried across seamlessly. Regardless of which specialized front-facing platform a business uses to submit a tender, the underlying data for their core company details must be drawn from the single database of the Central Digital Platform. This interoperability is the key to ensuring the “tell us once” promise is delivered in practice.



RECOMMENDATIONS

The Cabinet Office should:

- **Issue a new Procurement Policy Note on ‘Best Practice for SME Feedback’ to supplement the Procurement Act 2023.** This PPN would go beyond the legal minimum of the ‘Assessment Summary’ to establish a ‘gold standard’ for feedback by providing clear templates and examples. Feedback should go beyond simplistic scoring to offer specific, constructive explanations. Crucially, feedback must be based only on the explicitly stated evaluation criteria to avoid subjectivity. While the new Act sets a baseline, a cultural shift is needed to ensure feedback is genuinely constructive. This PPN would provide the practical guidance and a clear statement of intent needed to drive that cultural change across the public sector. This PPN should also set out how departments should evaluate the usefulness of their feedback through surveying bidders.
- **Develop a training module for all commercial staff on ‘Delivering Effective Supplier Feedback’.** This training would cover the legal requirements of the Procurement Act 2023, the principles of providing constructive and actionable advice, and how to use digital tools to provide high-quality feedback efficiently. Legislation alone is insufficient if buyers lack the time or skills to implement it. This initiative would equip procurement teams with the capability to turn feedback from a compliance task into a valuable tool for improved market engagement. This could be combined with the buyer training on ‘Modern Risk Assessment and SME Value’ recommended in Chapter 2.
- **Issue statutory guidance under the Procurement Act 2023 to create a ‘Safe Harbour’ for constructive feedback.** This guidance would advise contracting bodies on how to deliver good-faith, evidence-based feedback in a way that is protected from speculative legal challenges. Fear of legal challenges causes a culture of opacity, meaning 31 per cent of SMEs receive no feedback at all. This policy would help to de-risk the provision of honest feedback through best practice, giving procurement teams the confidence to be transparent, ending the demotivating culture of silence that SMEs face.
- **Mandate that all UK public sector tendering platforms are fully interoperable with the Central Digital Platform (CDP) by the end of 2026.** This would require all systems, including those used by devolved administrations and the wider public sector, to use the CDP as the single, authoritative source for core supplier information. SMEs find the current fragmented landscape soul-destroying due to repetitive data entry, a barrier for 35 per cent of bidders. This policy is the only way to deliver the “tell us once” promise in practice, slashing red tape and creating a seamless digital onboarding experience regardless of which portal a business uses.



All public contracting bodies should:

- **Require Tier 1 and Strategic Suppliers to comply with the same feedback standards as public bodies for their own subcontracting opportunities within the public supply chain.** This requirement should be written into all major government contracts, with performance monitored as a key contractual key performance indicator (KPI). Just as their contracting bodies are required to, Tier 1 contractors should provide high-quality, constructive feedback to the SMEs they engage with on their public sector work, fostering a learning environment throughout the ecosystem.

- **Make 'Meet the Buyer' Events worth small firms' time by adopting a 'Best Practice' Charter.**

This charter, developed by the Cabinet Office, would mandate minimum standards, such as allocating at least 15 minutes for one-to-one discussions, ensuring senior decision-makers are present, and theming events around specific, upcoming contract pipelines. The research highlights that these events are often poorly designed and ineffective, functioning as a “telling rather than listening” exercise. A charter would help to transform them into genuine opportunities for dialogue and relationship-building, as intended by the Procurement Act’s focus on market engagement.

The Procurement Review Unit should be empowered to:

- **Award standard compensation sums to suppliers who do not receive feedback.**

Under the Procurement Act 2023, feedback is a legal requirement, but too often small businesses wait months and hear nothing. A new rule should award £1,000 in compensation to any supplier left without proper feedback within six months, paid by the contracting body at fault. The payment would come with the overdue feedback and not replace it to ensure accountability and respect for the effort small firms put into every bid.



Chapter 5: Subcontracting public work

Risks for small businesses in the supply chain

High-profile corporate failures, from the collapse of Carillion in 2018 to the 2025 Jaguar Land Rover (JLR) cyber-attack, have repeatedly exposed the severe vulnerability of small businesses within public sector and private sector supply chains alike.³⁰ These crises have highlighted a system where SMEs face catastrophic risks ranging from sudden cashflow shortages to bankruptcy, due to failure at the top of the supply chain, and have prompted a series of reforms, including the government's Outsourcing Playbook. However, progress in changing the underlying culture of subcontracting has been patchy, with many SME suppliers still reporting poor practice.

The reliance on Tier 1 contractors carries risks for SMEs, most notably financial exploitation and cashflow strain. The most significant financial risk is the imposition of extended payment terms; SMEs supplying large multinational prime contractors often face 90-day payment terms, meaning they are essentially propping up multinational companies with their own limited cashflow. In construction, prime contractors also often withhold a portion of the payment as "retention", to be released on successful completion, or sometimes after a liability period has passed, and for smaller subcontractors this can often represent their entire potential profit, held hostage to the satisfaction of the larger firm.

These financial risks are compounded by a lack of transparency and a significant administrative burden. Prime contractors often pass down to their subcontractors the same burdensome paperwork required of them by the public sector. This replicates the bureaucratic duplication that 35 per cent of small business bidders already cite as a major barrier in direct procurement. This is happening in a context where, as the National Audit Office (NAO) noted in 2016, the government has limited oversight, or even knowledge, of these supply chains.³¹

"The government's complicated procurement processes force us to stay at arm's length. We sell to the bigger companies who can navigate the bureaucratic hurdles, but the inescapable result is that the taxpayer pays more. By erecting so many obstacles, the system ensures the final product price is unnecessarily inflated by multiple layers of margin."

Wholesaler, South West



Recent government reforms have begun to address these supply chain risks by mandating greater transparency and imposing stricter payment compliance:

- The Crown Commercial Service (CCS) is encouraging Tier 1 contractors to use Contracts Finder to advertise subcontracting opportunities
- The Procurement Act 2023 introduced a mandate for 30-day payment terms to apply throughout the public sector supply chain, directly addressing the historical problem of late payments. This is complemented by stricter rules to exclude suppliers from bidding on major contracts if they cannot demonstrate prompt payment practices throughout their supply chains, with a 45-day average across all contracts, including non-public sector work.

- The new Procurement Review Unit (PRU) provides a route for smaller suppliers to raise concerns, including late payment issues, directly with the Cabinet Office.
- Outside of the public sector, the Small Business Plan, a raft of policies launched in July 2025 by the government after much FSB involvement, announced new late payment laws (yet to be enacted) which will introduce maximum payment terms of 60 days, reducing to 45 days over time.³²

While these are positive steps, their rigorous enforcement is necessary to change the deep-seated culture of risk transfer that has long defined the SME experience in public sector supply chains.



Support needed to bid for public contracts

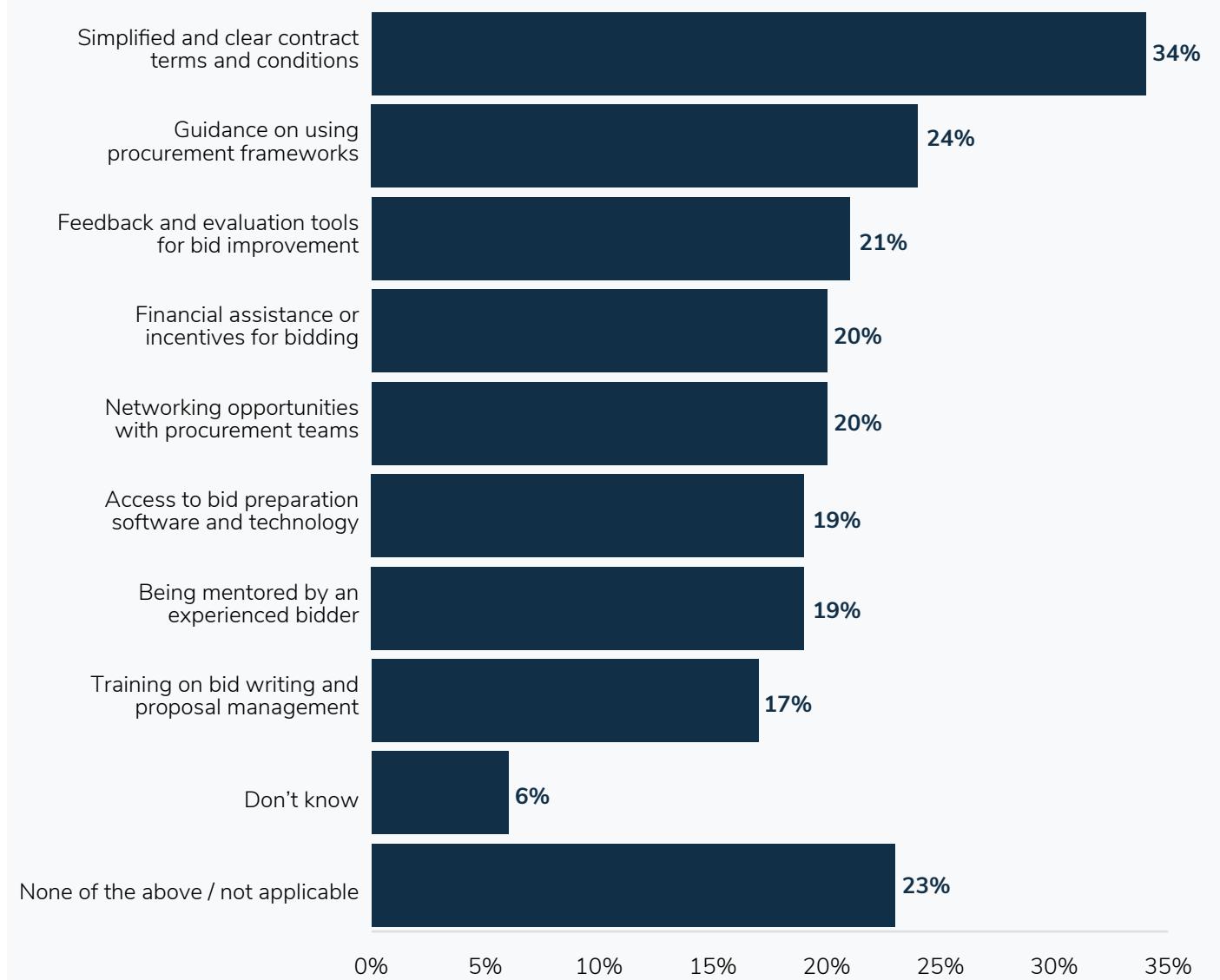
FSB research finds that the most sought-after resource to support SMEs bidding for public contracts is simplified and clear contract terms and conditions, as cited by a third of small businesses (34%). This need is felt most acutely by the smallest firms, with micro businesses (employing 1-9 people) being the most likely to say this would be the most helpful tool.

Beyond simplification, 24 per cent of small businesses say that guidance on using procurement frameworks would be a helpful resource. This is followed closely by a desire for learning tools, with 21 per cent of small businesses wanting feedback and evaluation tools for bid improvement.

It is important to note that for a significant portion of the small business community, the barriers to entry are perceived as being so fundamental that these specific tools and resources alone may not be sufficient.

Figure 15: Tools and resources most desired by small businesses in bidding for public sector contracts

Source: FSB 2025 Procurement Survey





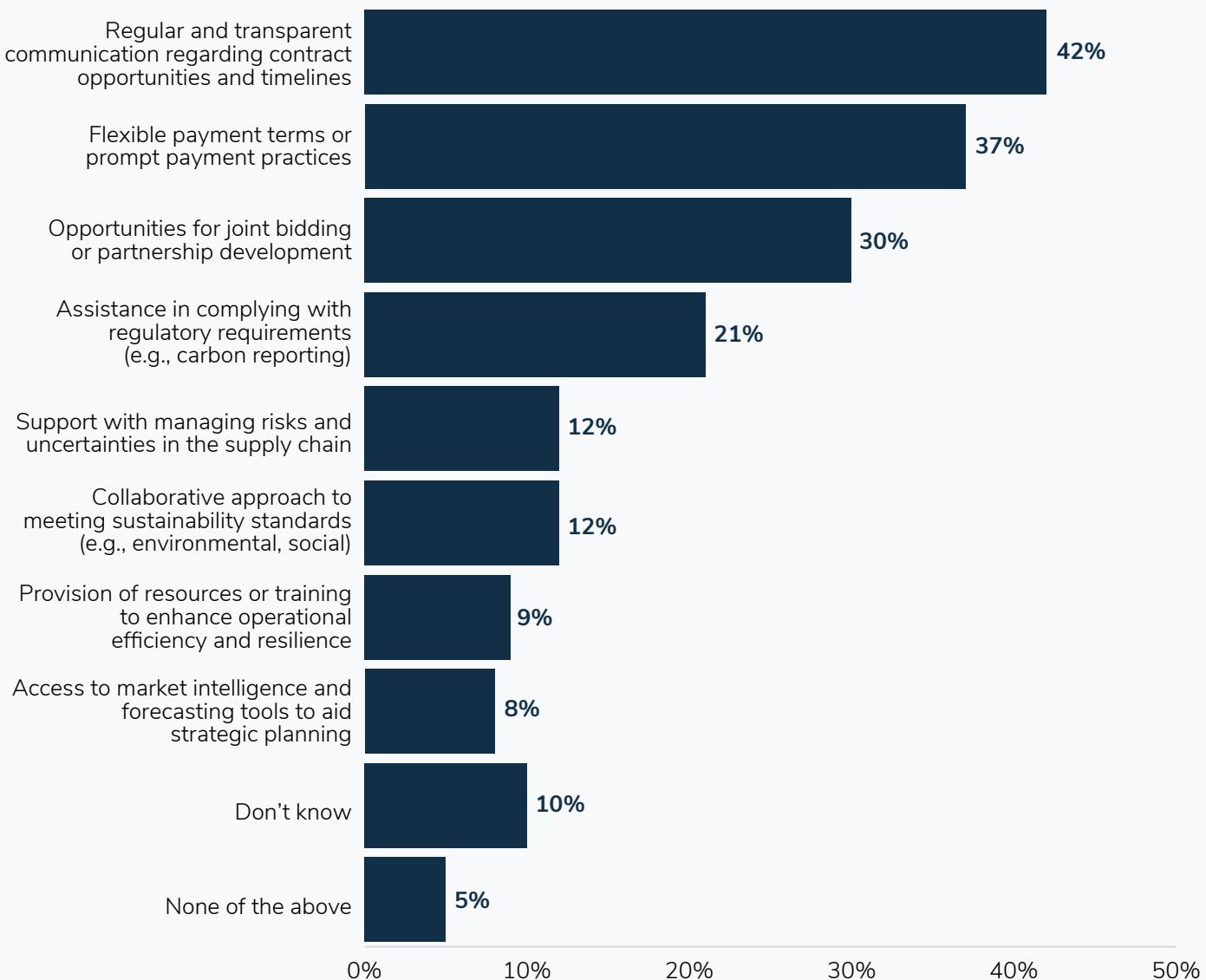
Support through public supply chains

It is important that the burden of complex procurement processes is not simply passed down from prime contractors through the supply chain. Instead, these supply chains should be seen as development opportunities, where large businesses take a role in feeding into and nurturing the capacity of their smaller partners. To encourage this, large firms should be rewarded for properly supporting their smaller suppliers, for example through a higher weighting in the evaluation of their own bids for public contracts.

FSB research on the support most needed by small businesses in supply chains highlights a desire for a more transparent and collaborative relationship. The most cited need is for regular and transparent communication regarding contract opportunities and timelines (42%). This is followed closely by the need for flexible payment terms and payment practices (37%), a critical factor for SME cashflow. In addition, 30 per cent of small businesses are looking for opportunities for joint bidding or partnership development, indicating a desire to move from a basic subcontractor relationship to a more strategic partnership.

Figure 16: Support from other businesses needed by small businesses in public sector supply chains

Source: FSB 2025 Procurement Survey





The success of Tier 1 suppliers in supporting smaller businesses within their supply chains is important for government too. These support mechanisms are not just 'good practice', they are essential for the government to credibly claim it is meeting its SME targets.

A major area of support needed by SMEs is the improvement of subcontracting transparency and a reduction to the administrative burden being passed down the supply chain. Tier 1 contractors should be encouraged to use public platforms like Contracts Finder to advertise their subcontracting opportunities, making them more visible to the wider SME market, and taking advantage of existing CDP profiles. Critically, Tier 1 suppliers must simplify the administrative compliance requirements they impose on their smaller subcontractors.

Structural solutions are needed to ensure fairer and more efficient supply chains. An innovative proposal is for prime contractors to utilize a "sub-framework" or "Annex to the main framework" specifically populated with compliant small businesses. This would provide the Tier 1 firm with a compliant and vetted route to finding reliable subcontractors, without requiring those SMEs to meet the onerous financial thresholds of the main contract.

Prompt payment

Prompt payment rules are critical to protecting the sustainability and cashflow of SMEs. Late payment costs the UK economy almost £11 billion per year, and is linked to the closure of 38 UK businesses every day.³³ In multi-tiered supply chains, large suppliers often use late payment, or long payment periods, as a source of "free finance", imposing lengthy terms such as 90 days on their smaller subcontractors.

"The reality of being trapped beneath a multinational contractor is that they use our cash flow as their own operating capital. We are compelled to accept payment terms stretched to 90 days, essentially forcing UK-based SMEs to prop up some of the world's wealthiest companies. This practice is entirely facilitated by the public sector, and it actively undermines the financial viability of small businesses."

Laboratory Supplies Distributor, East of England

The Procurement Act 2023 now mandates 30-day payment terms for all public sector contracts. Under Section 68 of the Act, any sum due by a contracting authority must be paid before the end of 30 days. Critically, Section 73 of the Act ensures these same 30-day implied payment terms apply to every public sub-contract, meaning the mandate must flow down the supply chain. This also extends to regulated below-threshold contracts (per Section 88 of the Act), and any clause in a subcontract purporting to override these rules is without legal effect.

This legislative baseline is reinforced by administrative policy. For major central government contracts valued over £5 million per annum, Procurement Policy Note (PPN) 08/21 requires suppliers bidding for work to demonstrate that they pay 95 per cent of their own supply chain invoices within 60 days, or risk being excluded from the procurement.³⁴ Whilst welcome, with the Procurement Act now establishing a 30-day legal standard throughout the supply chain, a 60-day benchmark for good practice appears outdated and lacks ambition.



The effectiveness of these rules hinges on transparency and enforcement. The Procurement Act introduces new transparency mechanisms, such as the requirement for contracting authorities to publish a 'Payments Compliance Notice' under Section 69. This is part of a wider push for public authorities and their supply chains to publish performance data on prompt payment in one place, to aid scrutiny.

Dedicated oversight is provided by the Procurement Review Unit (PRU), which incorporates the former Public Procurement Review Service (PPRS) and allows suppliers to escalate payment delays directly to the Cabinet Office.

RECOMMENDATIONS

The Cabinet Office should:

- **Launch a regular Public Sector Market Health Review on the UK's supply chain.** The collapse of Carillion showed what happens when government relies heavily on a handful of major contractors – small firms lose work overnight and vital services are thrown into chaos. The CO should publish a review every three years to flag early warning signs, track where too much power sits with big players and strengthen the role of smaller suppliers.
- **Work with the Net Zero Council to promote a standardised and light-touch carbon accounting framework throughout the economy.** Small businesses are currently facing diverging requests from Government, large businesses, and financial institutions in terms of the carbon data requested, the format of the data, and the period covered. Through adapting its procurement policy, the Government can set realistic carbon reporting standards and promote these throughout supply chains, so small businesses are not unduly burdened or excluded from supply chains. To ensure that costs are minimised, one of the founding principles should be that

after a small business has measured its carbon footprint once in respect of a given year, that information must be re-usable, without needing to be recalculated for future bidding opportunities. This can be reflected in an updated version of PPN06/21

All contracting authorities should:

- **Carry out (and report on) their responsibility to run random spot checks of large suppliers' payment performance.** Late payment drives 38 small businesses to closure each day in the UK. The maximum payment terms enacted by the Procurement Act 2023 are a big step forwards for small businesses in the public procurement supply chain, but will only be effective if large suppliers are held to account through regular checks. Any supplier with a contract worth more than £5m per year should have a random invoice spot checked every six months, as per PPN 021, and any supplier who fails a spot check should be ruled ineligible for future bids until they can show that satisfactory measures have been taken to prevent future late payments.



- **Consider including an evaluation weighting for 'Supply Chain Development and Management' in all contracts over £5million.** Big contractors should be accountable for how they treat their small suppliers, including prompt and flexible payment terms, simplifying their own onboarding processes, and providing transparent communication on future opportunities. This policy would turn supply chain support from a voluntary 'good practice' into a scored, competitive advantage, directly incentivising prime contractors to become better partners.
- **Require all Tier 1 and Strategic Suppliers to use the Central Digital Platform for their own supplier onboarding and advertise subcontracting opportunities on Contracts Finder.** This would be a mandatory condition of all new central government contracts over £5 million. The benefits of transparency and efficiency cannot stop at direct government procurement. This policy would cascade the "tell us once" principle and improved market visibility down the supply chain, tackling the opaque practices that allow issues like late payment to thrive, and creating a fairer system for the 60 per cent of SMEs who access public work indirectly.

The Procurement Review Unit should:

- **Create an anonymous online reporting tool for subcontractors to report non-compliance with 30-day payment terms.** These reports could be used to trigger spot-checks to investigate whether the sub-contracting supplier is complying with their prompt payment requirements or not. Government must ensure that small businesses using this "whistleblowing" tool are guaranteed that their details won't ever be shared publicly, with the Tier 1 supplier in question (even under FOI), otherwise the SMEs will not come forward for fear of reprisals or being 'blacklisted'. Late-paying Tier 1 suppliers must be excluded from public contracts, in line with the requirements of PPN018 and PPN021.



Case Study: The STAR Procurement initiative

In 2022, FSB conducted a regional survey of public sector procurement in the Manchester area, leading in December of that year to the publication of the report "Public Sector Procurement in Greater Manchester". This report revealed a high level of anger from small businesses who felt that they were blocked out of being able to win publicly funded work by a mix of complex application systems and cronyism.

This work, alongside tireless campaigning by the local FSB representative, led to the creation of the STAR initiative. STAR Procurement is a pilot initiative covering Stockport, Trafford, Tameside and Rochdale, using a technology platform provided by Nomia Ltd. As shown in the diagram below, it allows small businesses to register their skills and areas of operation, through a simple, stream-lined process that consists of 13 questions.

Council workers can then upload specific jobs or contracts to the platform, and the in-built AI will identify suitable local specialists, and prioritise them by proximity.

The success of the pilot was dependent upon signing up a sufficient number of small businesses to ensure suitable local candidates were identified for the early contracts, but the response has been overwhelming, with more than 820 small businesses registering, with the result that so

far 15 projects have been awarded through the system, leading to the following success metrics:

- 40 per cent increase in number of bids from SMEs, driving strong price competition
- More than 10 projects awarded to local SMEs
- More than 15 per cent total cost reduction achieved
- Improved levels of compliance, competition, and value for money

More projects are in progress, expected to be awarded soon, and the scope of the pilot has been broadened from projects valued between £25k and £50k, to include all projects up to the threshold value of £213k.

There is interest in joining the scheme from numerous other councils across the country, as this will help towards their Procurement Act goals, and STAR Procurement is planning to advance to a full rollout of the scheme in 2026.

This pilot, driven by the tenacity of FSB's Regional Stakeholder and Business Engagement Manager, Robert Downes, demonstrates that with simplified registration processes and the right outreach, SMEs can deliver public projects at lower costs, and in doing so feed more benefit through to the local economy.

Fig 17: Process diagram showing how the STAR pilot helps buyers identify suitable local SMEs





Methodology

This report is based on the views of FSB members as well as the wider small business and self-employed population across the UK. FSB undertook a mixed research approach, consisting of a quantitative online survey, followed by qualitative focus groups and interviews. The survey was nationwide in its reach and participants were invited to complete the survey via email and social media channels. The survey was administered by the research agency Verve and was in the field from 22 April 2025 to 7 May 2025. The survey was completed by a total of 860 respondents. The survey findings are all weighted according to FSB membership (to reflect the demographic balance of FSB members throughout the UK).

All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not sum perfectly to 100 per cent. Also, many questions allowed respondents to select multiple answers. The focus groups took place in August and September 2025 via Zoom and purposefully drew from a broad variety of regions, sectors and population demographics.



Endnotes

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