

Making Procurement Work for SaaS Startups

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About Coadec

The Coalition for a Digital Economy (Coadec) is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scale ups.

Coadec was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Executive Chairman and Co-Founder of online investment platform Seedrs.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 3000 startups in our network and have been instrumental in building proactive coalitions of businesses and investors on issues that are integral to the health of the UK's startup ecosystem. Our work has seen many successes, from the establishment of the Future Fund and the expansion of the Tier 1 Exceptional Talent Visa, to the delivery of the UK's Patient Capital Fund.

We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international group, Allied for Startups.



Executive Summary

The advent of cloud computing revolutionised business, and led to an explosion of Software as a Service (SaaS) providers. SaaS solutions use the cloud to provide businesses with software on-demand, taking responsibility for management, maintenance and upgrades.

Yet despite its ubiquity in the private sector, SaaS has yet to be fully embraced by the UK public sector.

Instead, the public sector continues to procure bespoke solutions that require ongoing attention at ongoing cost (UK Government spends £2.3bn a year patching old IT systems)¹ before inevitably falling into obsolescence. These bespoke builds often are handed to large incumbents who have served the public sector's IT needs for decades, their success in large part due to their ability to navigate complex procurement processes, speak the language of government and leverage existing relationships with commercial teams.

Government is now focused on waste and efficiency. SaaS products and solutions could support the next phase of digital transformation across government – offering scalability, security and flexibility while saving taxpayer money.

In earlier work, the SaaS market has expressed to us a frustration with procurement processes that leave them out in the cold. At Coadec, we know this is bad for start-ups and bad for government. Allowing SaaS vendors to fairly bid for public sector contracts means the state can keep pace with the latest innovations while also helping innovative British companies scale.

This report is based on a survey of 50 SaaS founders and executives on their experiences with UK public sector procurement processes and interviews with senior technical leaders within the civil service both past and present. This new research confirmed what we have heard anecdotally:

- **The public sector often doesn't know what is out there:** successful technology procurement and digital transformation requires a knowledge of what is available on the market. Given how rapidly technology changes, this requires constant communication and engagement with the market, but 54% of SaaS founders and executives we surveyed were not confident that civil servants had an understanding of digital trends and emerging technologies. Unfortunately, this lack of understanding in commercial teams is compounded by little to no effective pre-market engagement. 78% of those we surveyed did not know who to approach with a question about Government procurement. The result: tenders which are written in a way that locks out the most innovative vendors through narrow or over-bearing specifications.
- **Public sector procurements are slow and outdated:** Traditional public sector procurement approaches are slow and favour large incumbents. Traditional weighting systems and funding models prioritise capital over operational expenditure, which locks out SaaS solutions. So does a focus on initial over lifetime costs. Similarly, procurement processes are too slow and big - it is not uncommon that by the time a capability goes live the technology is already outdated. Piloting and testing would let a start-up compete. Huge and long procurements are impossible for a small company with fewer resources to dedicate to the process and more pressing cashflow requirements – 42% of the SaaS companies we spoke to didn't feel their business was geared towards selling to Government.
- **A cultural aversion to SaaS:** this is neither the first nor the last report that laments the UK civil service's cultural aversion to risk. Despite evidence to the contrary, public sector buyers' cultural aversion to innovation means that often the status quo wins out due baseless perceptions of risk. This aversion is recognised by the sector, with 64% of those we spoke to in the SaaS community agreeing that public sector agents lacked the desire to change the status quo. Given the poor record of bespoke builds, this is clearly absurd. A few innovative procurement models exist, such as the Govtech Catalyst, but these are standalone and marginal initiatives. Those few leaders willing to challenge the status quo and buy innovative solutions are not recognised or rewarded in any established way when they deliver.

These perceptions and experiences have informed our recommendations. Taken together, we believe doing the following would enable Government to make the most of the products available on the market:

1. Make pre-market engagement mandatory

Pre-market engagement should be used by all Government buyers and should be made mandatory. Early engagement with potential suppliers can help shape requirements and avoid putting up unnecessary barriers. It also keeps government abreast of innovation.

This will require greater use of novel market engagement strategies - roadshows, pitch days, Unconferences and hack days. This will help officials avoid bias towards traditional, large incumbents who speak and look like the civil service.

The Government's introduction of a cloud-first policy in 2013 has supported greater adoption of cloud and supported the public sector to take advantage of cloud-enabled technologies. In doing so it has lowered barriers to entry for SMEs and newcomers to the public sector. The next iteration of this policy would be to introduce a broader market-first approach. This would encourage and give confidence to buyers to properly explore and document options available on the market before considering bespoke solutions.

2. Extend the existing cloud-first policy to a commercial-first approach

The upcoming Procurement Bill is an opportunity to expand the cloud-first policy to introduce a requirement that contracting authorities procuring ICT solutions with a value estimated in excess of £100,000 must consider and fully evaluate the potential market solutions before considering any other option.

This commercial preference is becoming commonplace in a number of jurisdictions plagued with the same issues. In Canada, for example, the Guide to Management of Materiel - published to assist managers in implementing the government's Policy on Management of Materiel, directs managers to "Acquire commercially available items unless custom-made items are essential to operational requirements"² while in the US the Federal Acquisition Regulations (FAR) have mandated government agencies to determine availability of COTS solutions and to acquire COTS items where they exist and meet the needs of the agency.

To spark a meaningful change in culture and approach this must go beyond a check-box requirement. Instead, officials should have to produce a written explanation of why a bespoke solution was ultimately selected and the steps taken before that decision was reached. This would also support meaningful pre-market engagement.

² <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14671§ion=html>

3. Create an Expert Advisory Bench to review best practice and identify areas of improvement

The Cabinet Office cannot dictate every procurement. Nor can the government ever attract the most well-paid private sector technology leaders. But central government – and specifically the CCS and the CDDO – could use the most experienced private-sector leaders to regularly review and set better rules on timing of procurements; forms of pre-market engagement; value for money; and standards. This group should also be able to directly reward teams and officials who demonstrate great outcomes with innovative approaches – even if they have subsequently moved roles.

4. Reforming Funding Models

Longer term, the Government must reform its classification of capital expenditure, which is appallingly designed for technology. Cloud and SaaS both remove the need for expensive up-front capital purchases. Today, Accounting Officers can only relocate operational expenditure to capital expenditure but not the reverse – this must change. Business cases which prioritise piloting and experiments should be prioritised, not least because they provide a small cash-flow for start-ups and scale-ups.

Introduction

SaaS companies have attracted nearly 15% of all VC funds raised in the UK since 2011, making it an important part of the UK's thriving tech ecosystem.³ For the private sector these SaaS companies have already delivered enormous benefits, allowing businesses to move remote seamlessly, scale quickly all while remaining secure and low-cost. Yet to date, the public sector has not capitalised sufficiently on these innovations. Estimates suggest that of 1,200 SMEs on G-Cloud 11, only 12.5% have had any sales.⁴

With Government now focused on cutting waste and increasing efficiency, departments are being asked to spend less, do more and deliver digitally. Now is the time to ask why government isn't making use of the innovations on its doorstep, instead choosing to build bespoke systems that are poor replicas of their commercial equivalents, known as **Commercial Off-the-Shelf** (COTS) products.

To understand why this flawed model persists despite the countless failures and spiralling costs of building bespoke Coadec took a deep dive into the issue. We spoke to senior civil servants, both current and former, with first-hand experience of the public procurement processes that decide where government spends taxpayer pounds, as well as surveying 50 SaaS founders and executives about their experiences when interacting with the UK's public sector.

What we found was alarming but fixable. In fact, the most commonly identified barriers were not necessarily in the procurement rules themselves but the processes and ways in which those rules were applied, which lack consistency or coherence.

The findings in this report were reconfirmed to us recently with the publication of the Government's response to the Transforming Public Procurement consultation. Paragraph 110 of that response captured much of what we heard from those we spoke to:

- **early market engagement** - the need to promote and encourage timely market engagement to co-design the solution through guidance, training, sharing best practice/lessons learned, whilst also maintaining flexibility in the approach;
- **regulatory challenges stifling innovation** - the need to address the burdens and restrictiveness of the procurement regulations to encourage and enable innovation;
- **innovation events and tools** - greater encouragement of and access to innovation events, tools and resources (guidance, virtual/face-to-face demonstration days, workshops, innovation portal to showcase ideas, supplier portal) and mechanisms for incorporating pilots and testing services early into the commercial strategy;
- **measures for incentivising innovation investment** - driving innovation through incentivisation measures to support R&D and reduce supply side investment risks through funding, grants, gainshare and IPR treatment/protection

3 [The-SaaS-Brief.pdf \(beauregard.com\)](#)

4 <https://diginomica.com/private-sector-born-smes-struggle-appeal-g-cloud-buyers>

While we agree to some extent with Government's assessment that "many of the responses to these questions were about behavioural rather than regulatory practice", Coadec believes – based on the evidence we heard, that there are changes that could be made at all levels from primary legislation through to guidance that would support officials make the best decisions to embed innovation at the core of public service delivery and deliver better results for citizens. The upcoming debate on public sector procurement both around the Procurement Bill and Digital and Data Playbook provides the perfect opportunity to ensure public procurement process are fit for the 21st century and can maximise the potential offered by commercially available solutions.

What is SaaS

Software as a service (SaaS) is a delivery and licensing model in which software is accessed on the web via a subscription rather than installed on local computers.

With SaaS, companies need not manage applications or invest in hardware to run their applications. Instead, a provider hosts and manages the infrastructure to support software, which enables updates and patches to be applied automatically and universally and reduces the burden on a company's IT team.

The benefits of SaaS

Research suggests that by the end of 2021, 99% of organisations will have used one or more SaaS solutions and almost 78% of small businesses will have invested in at least one SaaS option.⁵ A recent Cisco report found that 75% of all cloud workloads and computing instances would come from SaaS operations in 2021.⁶

Why has the private sector switched to SaaS over building bespoke? The table below brings out some key points of difference:

	Bespoke	SaaS
Time	Bespoke solutions are just that - they require building from scratch, this can take months and can require considerable trial and error. This is often only discovered after the tender has been awarded causing further delays to implementation.	SaaS solutions are ready out of the box to plug in and play. As commercial products they have been tried and tested in real world scenarios and are the product of intensive R&D.
Cost	A bespoke solution can be resource intensive throughout its lifecycle resulting in higher lifetime costs. Similarly, at a certain point the technology itself will likely be redundant resulting in the buyer having to go back to the drawing board and re-invest from scratch as technology changes.	The cost of a SaaS product is shared by all its eventual users so initial investment is low. The subscription model of SaaS lowers these costs further as does the fact that technical support is built in not a bolt on.
Adaptability	A bespoke software solution is designed for the precise needs of the buyer at the time of procurement. Even if these needs change in the period between purchase and implementation the buyer may be locked in. Bespoke software development projects are frequently overtaken by the release of new technology.	Cloud solutions, bought off the shelf are kept updated and patched, remaining more secure and relevant in a fast-moving market.
Scalability	Bespoke solutions tend to have limited bandwidth making them both difficult to scale and integrate. While more sophisticated bespoke builds are now available the cost of this sophistication comes in at a premium.	SaaS solutions reside in the cloud, making them extremely versatile - this gives the user the ability to scale its SaaS use up and down based on specific needs or surges in demand.

5 <https://www.bmc.com/blogs/saas-growth-trends/#>

6 <https://www.techtarget.com/searchnetworking/news/252434734/Cisco-Cloud-computing-workloads-to-sky-rocket-by-2021>

In theory, at least, these benefits are recognised by the government. In 2013, the Government introduced a Cloud First policy for all new technology investments. This mandated central government contracting agents to *"consider Software as a Service models, particularly for their enterprise IT and back office functions."*⁷

However, for a variety of reasons, which we explore in the report, these benefits are yet to be fully realised. The UK has a strong SaaS ecosystem and pipeline - nearly 40% of SaaS businesses are still at the seed-stage.⁸ Now is the time to ensure the public sector is able to use SaaS to its full potential.

Methodology

This report is based on three sources:

- An extensive survey of 50 SaaS founders and executives
- Anonymous interviews with very senior current and former civil servants who are technical leaders.
- A report by Beauhurst for Coadec on the size, scale, and focus of the SaaS sector in the UK.

⁷ <https://www.gov.uk/guidance/government-cloud-first-policy>

⁸ [The-SaaS-Brief.pdf \(beauhurst.com\)](#)

The public sector often doesn't know what is out there

Successful technology procurement and digital transformation requires a knowledge of what is available on the market. Given how rapidly technology changes, this requires constant communication and engagement with the market. Unfortunately, this lack of understanding in commercial teams is compounded by little to no effective pre-market engagement. The result, tenders which are written in a way that locks out the most innovative vendors through narrow or over-bearing specifications.

Pre-market engagement

Both our public sector interviewees and the SaaS vendors we spoke to identified 'pre-market engagement' (where procurers spend time talking to, and understanding, the nature of the market and solutions before launching a tender) as essential for good purchasing.

"[proper pre-market engagement is] critical to the success of procurement"

If done well, it helps refine what is needed, demonstrate what is possible and engages the market in advance of a tender being issued. However, too often, when it is done – which is not always the case, it acts as a checkbox and fails to target and engage with the SaaS community at all.

A survey from the London Office for Technology and Innovation revealed that 56% of their innovative suppliers had never taken part in a market engagement activity with a London borough, of which 79% weren't aware of events and 58% said they were not invited.⁹

"It's worse than dangerous how much the government doesn't understand the market...[too many] only understand the layer of slogans on top of the industry, and that is the part that [some companies] exploit"

Purchasers were, according to those we spoke to, often worried about going out explicitly and extensively to the market in case it created unwitting bias. Instead of securing fairness, impartiality, transparency and non-discrimination, principles underpinning The World Trade Organisation's Agreement on Government Procurement (GPA), the UK's narrow application of these principles creates *more bias*. The view of what should be procured, and in what form, is subconsciously affected by pre-existing supplier relationships.

This lack of thorough market engagement means that all too often SaaS vendors who might otherwise be perfectly suited to deliver public sector work are simply unaware of the opportunities to serve the public sector. 74% of respondents to our survey did not market to the UK Government regularly and the majority (78%) wouldn't know who to approach with a question about Government procurement (see case study 1).

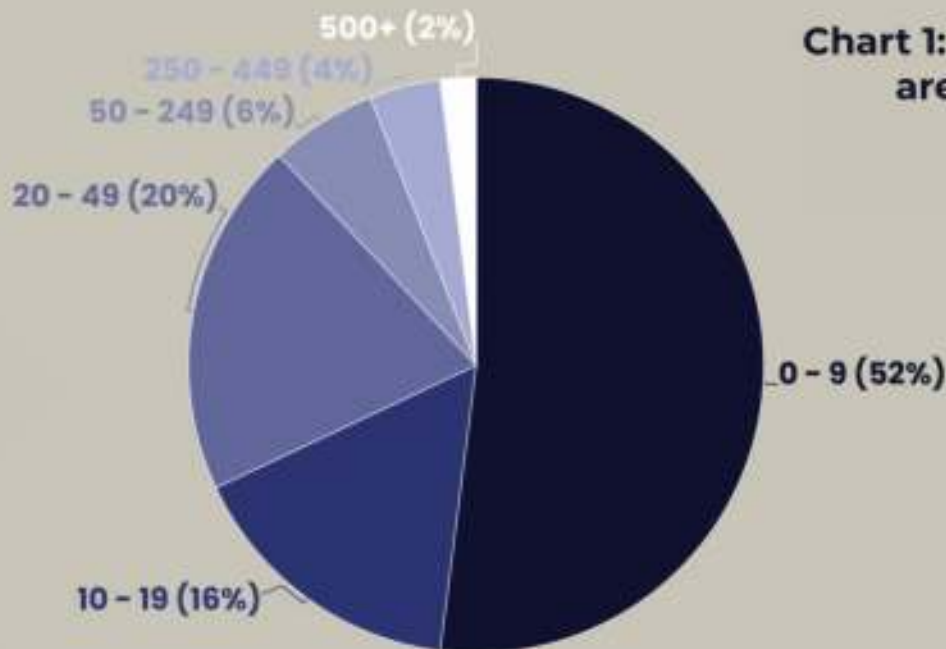
⁹ <https://london.london/toolkit/innovation-in-procurement-toolkit/guide-to-market-engagement/pre-procurement-engagement/>

Case study one: a UK based data startup

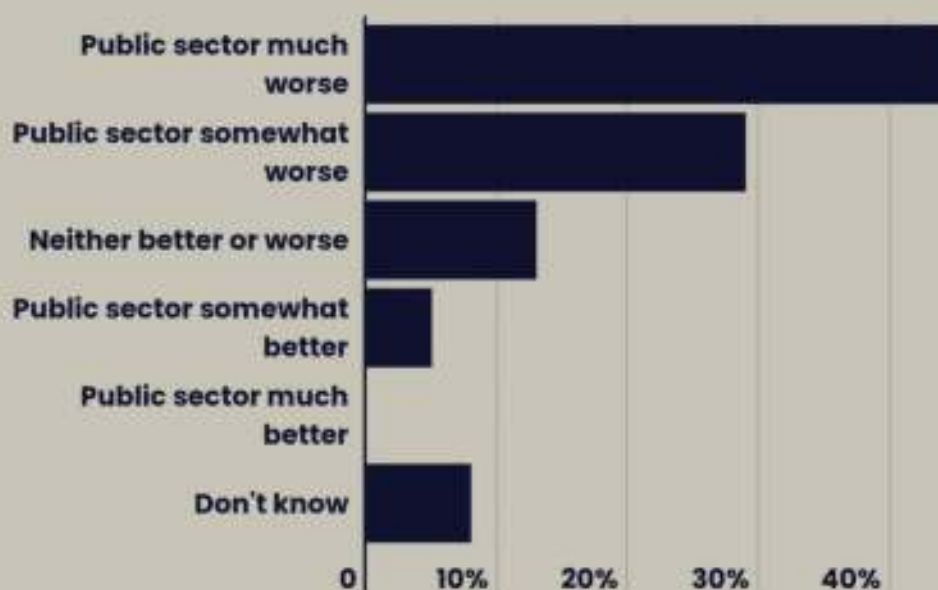
The raison d'être for this startup is to make data FAIR - findable, accessible, interoperable and reusable. Public sector bodies were a clear target given the vast amounts of data they collect and hold - and their product was met with enthusiasm by those they spoke to. However, timelines left the team frustrated - "it's a very opaque process with lots of different barriers to contend with. It can be challenging when you're a startup at seed round and you are facing a 9 to 18 months procurement cycle. You might be out of business before you've got your first sale".

Having experience of private sector procurement has given them the ability to contrast and compare - "it isn't that these multibillion-dollar organisations don't have processes, they do - you still need to have the business case approved. But there is a clear process, they tell us what's going on throughout the process. Going into it you know how long it is going to take, who you need to talk to and how it will all get signed off. That just isn't comparable to what you get from the public sector."

While large ICT consultancies and Systems Integrators (SIs) have entire teams dedicated to supporting the business identify and win tenders, the average SaaS company has little dedicated resource to navigate the public sector marketplace (chart 1). In order for public sector contracts to receive bids the best bids far more must be done to make these processes as visible and easy to navigate as possible.



This is far from the case today. Almost a quarter (24%) of SaaS founders we spoke to gave UK public sector procurement the lowest available score on our scale (1 - very poor) in terms of ease of navigation and 58% of respondents labelled the public sector procurement process as 'hard'. 45% of respondents said that public sector procurement processes were far worse than those in the private sector and a further 29% told us it was somewhat worse (chart 2).



Innovation remains at the margins

The Government has a broader policy goal of spending £1 in every £3 with SMEs by 2022 (originally 2020) but to achieve this the government must go to where SMEs are - particularly innovative SaaS companies who can support government's digital transformation. Yet research suggests that Government spending with SMEs (there is no specific carve-out for startups) is falling in real-terms.¹⁰

Unless the government improves its ability to reach into the startup ecosystem effectively, it risks failing to deliver on its ambition to spend £1 in every £3 with SMEs while missing out on innovations that could improve public sector delivery and support digital transformation.

The government also has a secondary goal of becoming the best place in the world to start and scale a business - with the technology sector a priority area of interest. Government's buying power is one of the most powerful levers it has at its disposal, but it must be properly targeted if it is to stimulate the right outcomes. While recent years have seen an explosion of initiatives to support startups to bid for public sector work (Box 2) they fall short of what is needed to truly make the UK's public procurement systems start-up friendly.

Firstly, these initiatives mean that practices that allow startups to compete and win government work remain at the fringes. Offering startups an opportunity to pilot their work or get a flavour of the process is of course beneficial, particularly for those startups who are testing the waters. However, without real reform of the process that would allow SaaS startups and scale ups to plot a path to ongoing public sector revenue through 'real-world' contracts.

Secondly, while the Government's Innovation Strategy sets the right course - setting out how it will "use the weight of public sector procurement to drive innovation,"¹¹ all too often Government's priority is holding on to IP rights - one of the most valuable assets a SaaS startup has. This desire often means the decision to build bespoke is taken over the one to buy. The National Procurement Policy Statement seeks to rectify this, setting out innovation as a key strategic national priority which all contracting authorities should consider when undertaking procurement. Although it is yet to be seen whether this will move the needle enough.¹²

Finally, where they don't make the decision to build in-house to retain intellectual property rights at the outset, that doesn't mean they don't further down the line after much time and resources have been committed from the contractor. Damaging reputationally for the public sector as a whole. For example, in one GDS blog entitled What we learnt from the first phase of the GovTech Catalyst the author states:

"One team at the Home Office finished at the end of Phase 1. Findings suggested that development could continue in-house. The team decided to take this approach rather than progress to Phase 2. Continuing development in-house meant government could keep the intellectual property rights from a technical, security and commercial perspective."¹³

10 <https://www.convivia.com/blog/analysis-of-latest-data-for-government-spend-with-smes/>

11 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1009577/uk-innovation-strategy.pdf

12 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/990288/PPN_05_21-National_Procurement_Policy_Statement.pdf

13 <https://gds.blog.gov.uk/2020/06/18/what-we-learnt-from-the-first-phase-of-the-govtech-catalyst/>

Our survey found that already, 8% of SaaS vendors choose not to sell into the public sector because they worry that the public sector would try to replicate their product in-house. As the SaaS sector grows and more startups mature this could turn into a worrying trend that may prevent the public sector making the most of technology that is commercially available, even if it fixed issues with processes and culture.

Box 2: The GovTech Catalyst

The GovTech Catalyst is a £20m programme to solve specific public sector problems with innovative digital technology. GovTech Catalyst funding is available to all public sector bodies - from central government to local public sector organisations - who can describe an existing public sector service problem with no current solution.

The public sector team applying for GovTech Catalyst funding must describe the problem rather than the solution they want. Funding is only awarded to solve problems which are clearly described and which must be solved through innovation - solutions to the problem cannot already be available on the market.

So far, 15 public sector problems have received GovTech Catalyst funding. Phase 1 exceeded expectations, with 100% of the 75 supplier teams delivering prototypes within 3 months - by comparison, the 2019 UK average for startups in accelerators was 91%.

What's more, over 90% of phase 1 funding was awarded to SMEs, compared to just 26% of contracts awarded to SMEs by central government in 2018-19. Many of these SMEs had no previous public sector experience, and 60% of them were based outside London and the South East.

Public sector requirements are slow and outdated

Long lead in times

Public sector procurements are notoriously slow. One interviewee, who was generally more positive than others, pointed to the unnecessary length of public procurement. This is fine for large suppliers, but it is problematic for startups with tight cashflow. The complexity also requires resourcing - and few startups can afford to hire bespoke procurement teams (see case study 2). Large consultancies can,

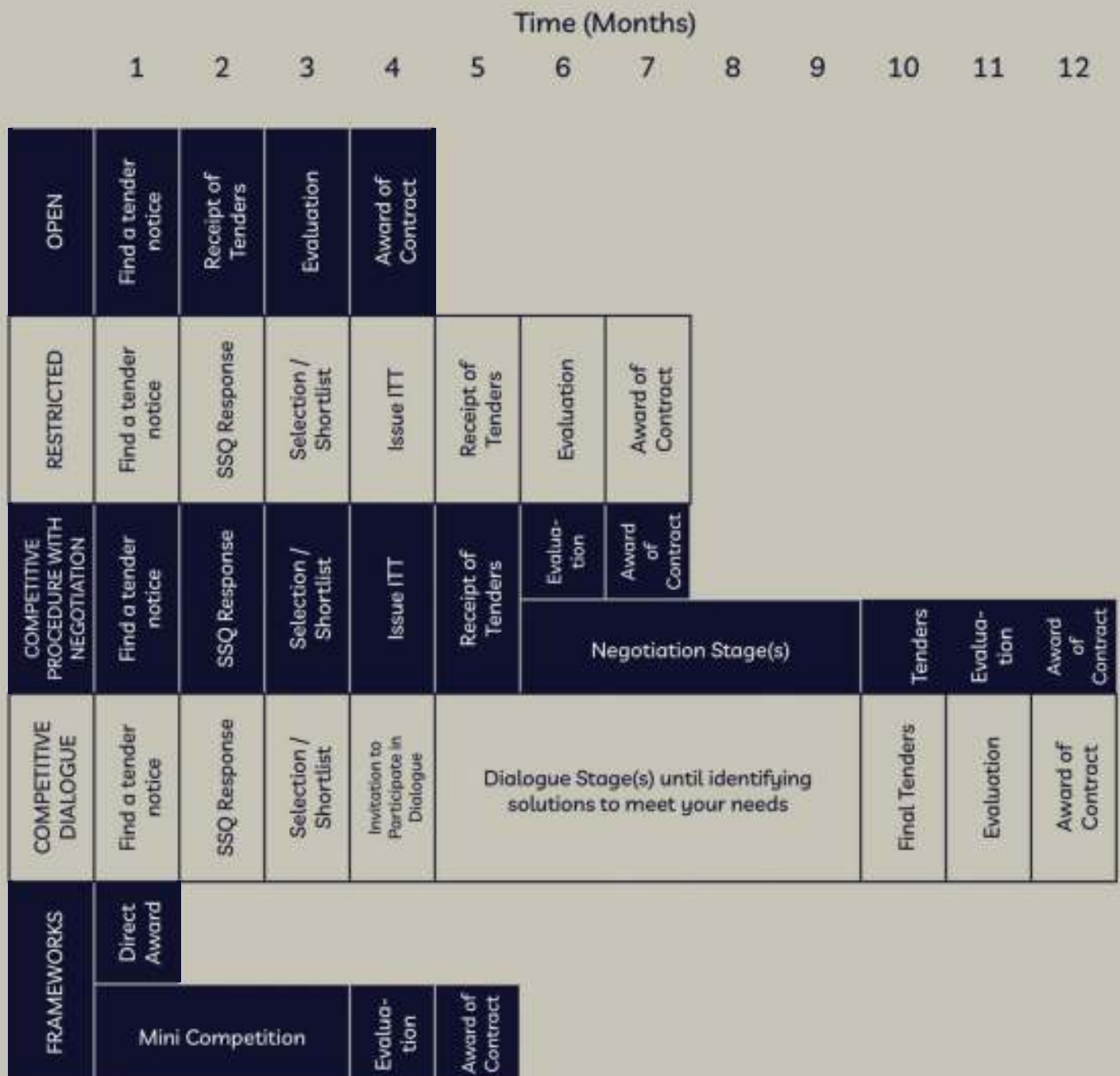
Case study 2: London headquartered, public-sector facing startup

This startup has built an engagement platform that helps governments collaborate with communities on ambitious urban planning schemes. It has a wide-ranging portfolio and, over a number of years, built a formidable reputation. However, the journey to building that reputational trust with governments has not always been smooth sailing and reflected many of the issues highlighted in this report.

Early success came through an accelerator programme that eventually opened the door to a contract with a Government team. Speaking about the standard procurement process the founder told us, "as soon as you are labelled a start-up Government sees you as risky - whereas coming through the accelerator programme supported by Government we had a bit of leverage".

Public sector procurement timescales have also presented a challenge - "timescales are extremely fluid and subject to change with the political winds - that is a huge issue for startups. We don't have the luxury of having a big business development team that can follow a hundred leads at once".

While startups fail fast and iterate, contract agents are simultaneously risk-averse while trying to approach procurement with a 'get it right' first time mindset (the use of piloting, for example, is still extremely low). And while the public sector in theory is a startup's ideal customer given its reliability, credibility and prestige, in practice a young company with cash flow issues is unlikely to be able to spend the time required to complete a public sector procurement that can take anywhere from 4 to 12 months.¹⁴



These multi-year procurement processes also mean the government inevitably falls behind the latest innovations.

¹⁴ <https://www.bestpracticegroup.com/how-long-does-each-procurement-route-take-for-public-sector-procurements/>

Excessive requirements and over-specification

Interviewees also identified excessively rigid and often outdated requirements (one example of the latter was the requirement to have a data centre, which is completely unnecessary in the cloud era) as a barrier to SaaS vendors bidding for government work.

Rigidity meant that only highly bespoke solutions - which almost invariably meant one of the large consultancies - could succeed. And given the revolving door between the civil service and management consultancies all too often consultancies bid apes the language of the civil service closely.

In his recent [review of the cross-cutting functions and the operation of spend controls](#), Lord Maude lamented the fact that "in far too many places consultants were becoming so embedded in departments and officials were rotated so frequently, that the consultants had become the indispensable institutional memory".¹⁵

Particularly worrying is the number of contracts that have been awarded to incumbents who have had a hand in the design of the bid itself. For example, the Department for Transport, when looking to upgrade its information management systems to keep pace with the expansion of the Aviation Security Division, contracted Deloitte to carry out the 'discovery phase' including determining specific user requirements and creating a product specification/solution package.¹⁶ The same consultancy that worked to draft the specification were then awarded the contract to build the system less than a year later.¹⁷

This is obviously bad for SMEs with innovative products. But it is also bad for public service cost and delivery - some of our interviewees said that these kinds of intensive, bespoke systems consistently cost more in the long run. This is partly because they cannot rely on the R&D being invested in products with more than one application, but it is also because their rigidity rarely stands the test of time. Requirements change, and there are always unforeseen circumstances and issues - being able to rapidly adapt software to new situations is paramount.

15 <https://www.gov.uk/government/publications/review-of-the-cross-cutting-functions-and-the-operation-of-spend-controls/review-of-the-cross-cutting-functions-and-the-operation-of-spend-controls-the-rt-hon-lord-maude-of-horsham>

16 <https://www.digitalmarketplace.service.gov.uk/digital-outcomes-and-specialists/opportunities/5026>

17 <https://www.digitalmarketplace.service.gov.uk/digital-outcomes-and-specialists/opportunities/6191>

Telling vs Showing

Even without this inherent bias, traditional processes of procurement may also prevent SaaS vendors from showcasing their solutions. 89% of those we surveyed told us that they used live demos as part of their 'pitch', but 38% of those who did use live demos were prevented from doing so in the course of a public sector procurement (chart 3).

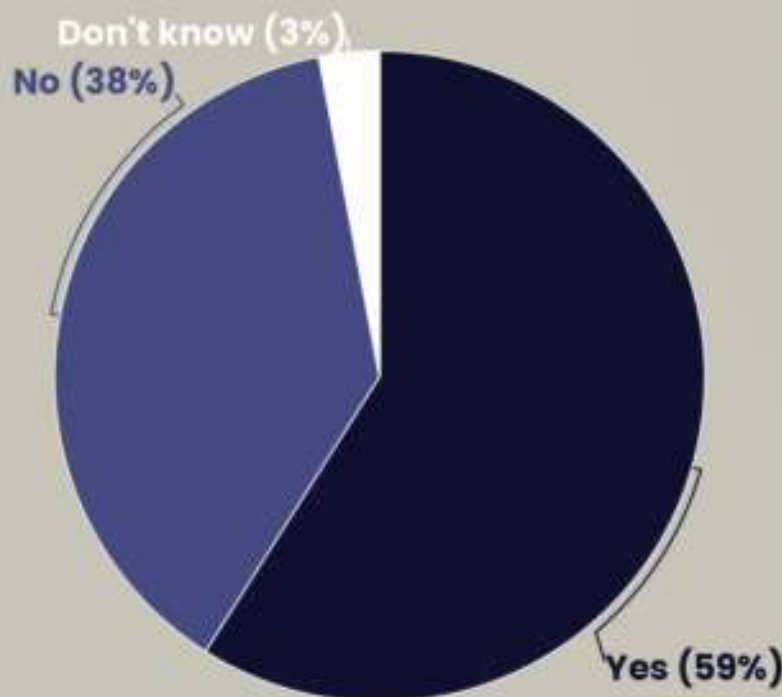


Chart 3: You said your business makes use of live demos. Were you able to live demo your service as part of the procurement process?

The tendency is still to rely on the evaluation of a detailed proposal that operates in the abstract rather than the real-world, again advantaging incumbents who are well-versed in 'telling' rather than 'showing'. A shift to more tenders run on a demonstration-based competition rather than proposal-based competition would help level the playing field allowing SaaS vendors to demo their product and crucially giving the buyer an opportunity to make decisions on demonstrated technical merit.

This would have two positive effects.

Firstly, it would allow smaller companies with a commercial product readily available to compete in a process that they might otherwise be ill-equipped to do (if it is based on submitting proposals that are long and complex).

Secondly, it would give larger incumbents the impetus to prototype the solution they are proposing, fixing any bugs earlier in the process rather than waiting to hit bumps in the road later in the journey.

Cultural Barriers

"There's a constant fear of being challenged...in any normal [private sector] environment you'd spend a lot of time talking to the market, but departments are scared of doing it so [tenders] end up going out a bit blind."

This is not the first paper to point to risk-aversion in government, and it will not be the last. Our interviewees, who came from the technological side of government, often felt they were on a limb culturally. They were open that policies and frameworks were secondary issues to culture.

"There's a lot of...this is just how we do things"

If lack of failure continues to be seen as more important than success, then procurement will end up being risk-averse on the surface, while actually causing higher delivery risk because of poor technological solutions.

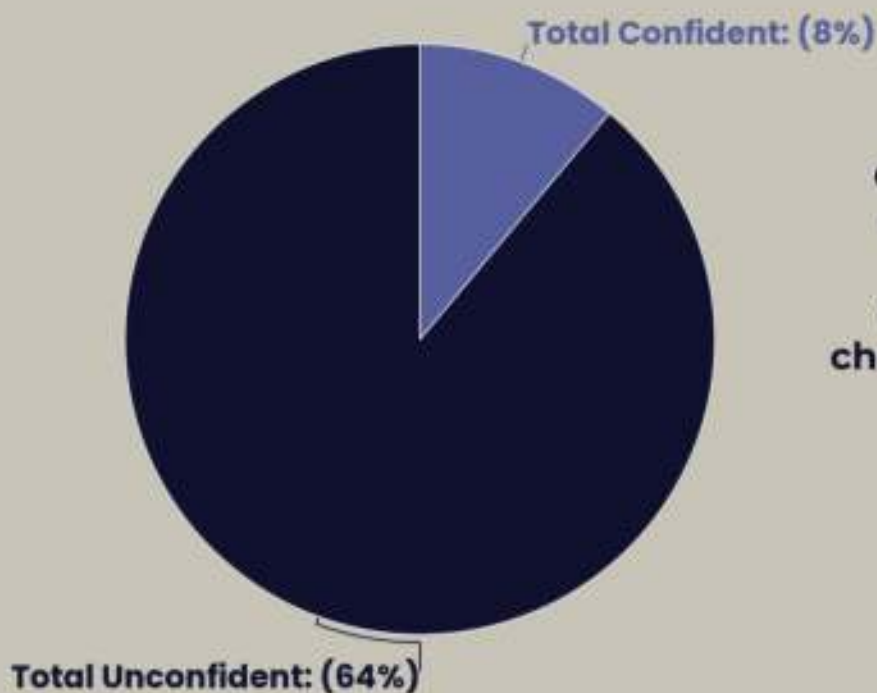


Chart 4: How confident or unconfident are you that civil servants in the UK have a desire to change the status quo on procurement?

This culture has already been marked by the SaaS community. Our survey found that 64% believed that public sector contracting agents lacked the desire to change the status quo and 66% of respondents disagreed with the statement that 'UK public sector procurement is innovative'.

This perception will be hugely damaging to the sector's ability to attract companies that can offer solutions desperately needed in the public sector.

Another example emerging from our interviews of this cultural mismatch acting as a barrier for greater collaboration between the public sector and SaaS vendors was a reluctance in the public sector to pilot and change course when things went wrong. Procurements rarely allow for experiments or fast feedback cycles - a staple of the private sector. There were exceptions named - including in the NHS and TfL (Box 4).

Box 4: TfL Road Lab

Working in partnership with Plexal, the innovation centre based at Here East and utility companies, suppliers were invited to pitch ideas for tackling some of the biggest problems caused by roadworks last year. Nine innovative solutions were shortlisted and awarded £20,000 each.

They joined a ten week programme and worked closely with subject matter experts across TfL, London Councils and the utilities to further develop products that could have a positive impact right across the capital.

Following the ten week programme, four products have been chosen to be taken through to the contract negotiations stage with a total value of up to £2m.

The London RoadLab programme is the first time TfL has used an innovation partnership procedure, a new way of working with the private sector which allows TfL to find ways of tackling some of the biggest challenges facing the capital.

Our recommendations

There is no silver-bullet to transforming Government procurement to allow for greater use of innovative solutions that are already readily available on the market in lieu of excessive custom-building in-house or an over-reliance on large incumbents and consultancies.

Moreover, we believe extreme overhaul is unnecessary. The rules already allow for innovation within the public sector to flourish. To reach the potential however, the rules actually need to be applied. To do that there should be greater encouragement and guidance from central government to support commercial teams to identify and pursue innovative solutions and greater awareness built about the capabilities available on the market.

In the wake of excessive spending on consultants throughout the pandemic and a renewed desire to offer digital public services, now is the time to redouble efforts to ensure the UK's healthy SaaS start-up ecosystem is enabled and encouraged to help solve public sector challenges.

To do this we recommend the following:

1. Make pre-market engagement mandatory

Pre-market engagement should be used by all Government buyers and should be made mandatory. Early engagement with potential suppliers can help shape requirements and avoid putting up unnecessary barriers. It also keeps government abreast of innovation.

This will require greater use of novel market engagement strategies - roadshows, pitch days, Unconferences and hack days. This will help officials avoid bias towards traditional, large incumbents who speak and look like the civil service.

The Government's introduction of a cloud-first policy in 2013 has supported greater adoption of cloud and supported the public sector to take advantage of cloud-enabled technologies. In doing so it has lowered barriers to entry for SMEs and newcomers to the public sector. The next iteration of this policy would be to introduce a broader market-first approach. This would encourage and give confidence to buyers to properly explore and document options available on the market before considering bespoke solutions.

2. Extend the existing cloud-first policy to a commercial-first approach

The upcoming Procurement Bill is an opportunity to expand the cloud-first policy to introduce a requirement that contracting authorities, procuring ICT solutions with a value estimated in excess of £100,000, must consider and fully evaluate the potential market solutions before considering any other option.

This commercial preference is becoming commonplace in a number of jurisdictions plagued with the same issues. In Canada, for example, the Guide to Management of Materiel - published to assist managers in implementing the government's Policy on Management of Materiel, directs managers to "Acquire commercially available items unless custom-made items are essential to operational requirements"¹⁸ while in the US the Federal Acquisition Regulations (FAR) have mandated government agencies to determine availability of COTS solutions and to acquire COTS items where they exist and meet the needs of the agency.

To spark a meaningful change in culture and approach this must go beyond a check-box requirement. Instead, officials should have to produce a written explanation of why a bespoke solution was ultimately selected and the steps taken before that decision was reached. This would also support meaningful pre-market engagement.

3. Create an Expert Advisory Bench to review best practice and identify areas of improvement

The Cabinet Office cannot dictate every procurement. Nor can the government ever attract the most well-paid private sector technology leaders. But central government – and specifically the CCS and the CDDO - could use the most experienced private-sector leaders to regularly review and set better rules on timing of procurements; forms of pre-market engagement; value for money; and standards. This group should also be able to directly reward teams and officials who demonstrate great outcomes with innovative approaches – even if they have subsequently moved roles.

4. Reforming Funding Models

Longer term, the Government must reform its classification of capital expenditure, which is appallingly designed for technology. Cloud and SaaS both remove the need for expensive up-front capital purchases. Today, Accounting Officers can only relocate operational expenditure to capital expenditure but not the reverse – this must change. Business cases which prioritise piloting and experiments should be prioritised, not least because they provide a small cash-flow for start-ups and scale-ups.

¹⁸ <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=14671>

