The Manufacturers' Organisation

BRIEFING: PROCUREMENT POLICY

August 2026

SUMMARY

- The Government Procurement Policy Note 026 (August 2026), simplifies rules for procurement contract bids, up to £1m, to allow smaller businesses to showcase their innovation and create social value
- The score for bringing benefits to the local community will be raised from 10% to 20% for contracts worth £5m or more to help support communities
- The Government's Procurement Policy Note 025 (June 2026) issues guidance to all government departments to use existing powers under the Procurement Act 2023 to support critical UK capabilities in steel, shipbuilding, artificial intelligence, and energy infrastructure
- The Procurement Policy Notes 024, 025, and 026 highlight the importance of social value, national security, and secure supply chains to develop British innovation and domestic industrial resilience.
- Make UK supports these approaches, but there remains an opportunity to extend these principles across defence procurement, strengthen support for SMEs and improve the definition of what constitutes a British-based business
- The objective should not be to restrict competition or exclude international suppliers. The UK benefits from open markets and strong industrial partnerships with allies, such as European partners.
- Procurement policy should instead reduce strategic dependence on high-risk suppliers while ensuring UK capability is appropriately recognised where national security and industrial resilience are at stake.

WHAT THE GOVERNMENT HAS ANNOUNCED

- The August announcement of PPN 026 makes clear that from 1 January 2027, contracts worth up to £1m will have simplified rules to make it easier for SMEs to bid[1]

- Bidders can get extra credit by creating jobs that pay above the legal minimum, and jobs for NEETs

- Bidders will also be assessed on their commitment to backing British jobs, skills, and opportunities

- The announcement detailing PPN 025, in June 20262 (under Starmer Government)[2] is designed to ensure public procurement better supports national security, industrial resilience and secure supply chains. The guidance applies to all central government departments, while private utilities are strongly encouraged to follow the new guidance.

- This PPN applies to all central government departments with immediate effect.

- The PPN allows contracts to go to British businesses when procuring in strategically important sectors.

- The policy reflects the Government's view that resilient domestic industrial capability is increasingly important in an uncertain geopolitical environment, as recent global disruptions have shown. Procurement is intended to support critical industries, with focus on four key sectors:
  - **Steel**
  - **Shipbuilding**
  - **Artificial intelligence**
  - **Energy infrastructure**

[1]UK Government, June 2026. Guidance: PPN 025 - Protecting the UK's national security through public procurement.

[2]UK Government, August 2026. Government orders that public spending must back British jobs and skills in every postcode.

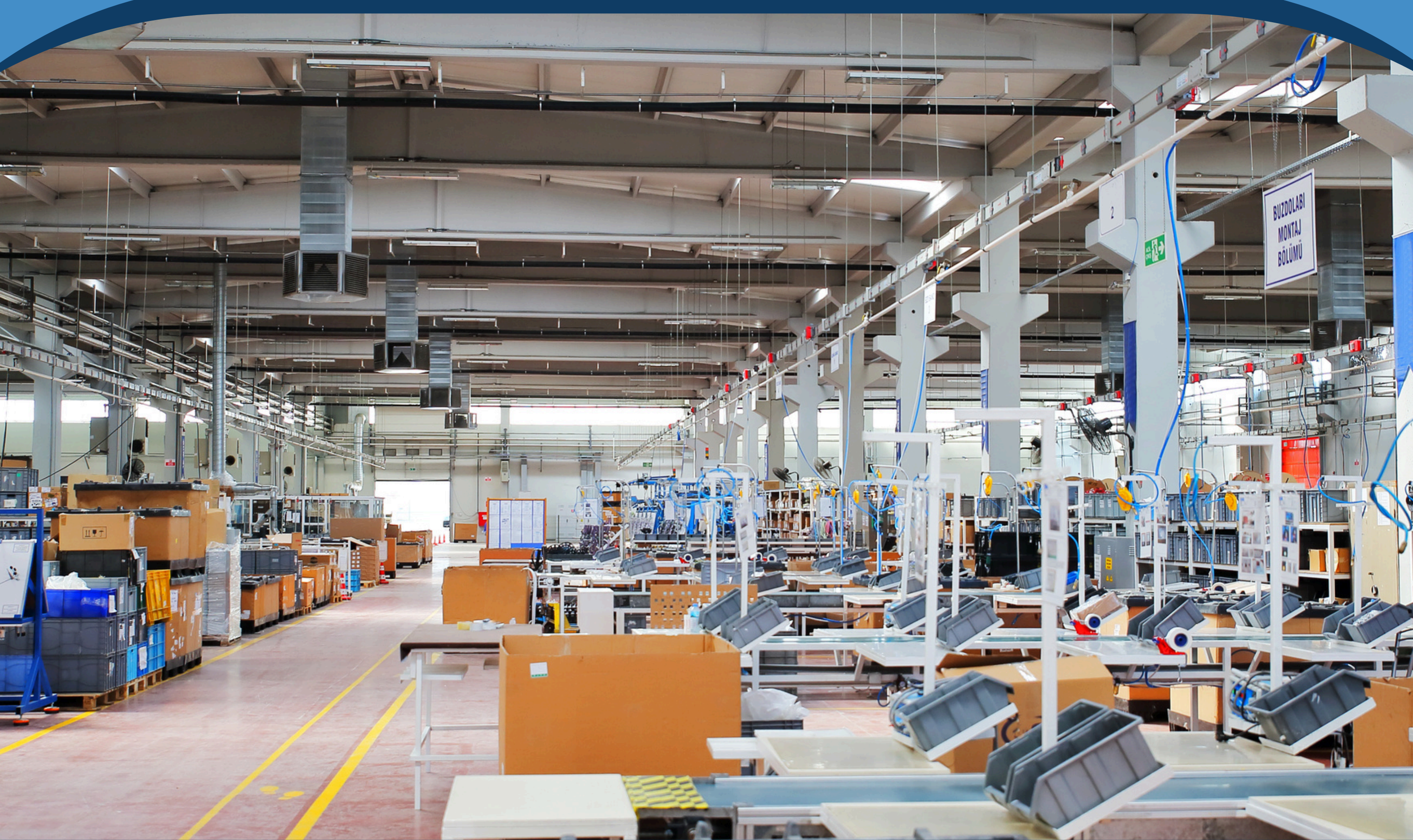
Departments are expected to:

- Identify procurements that are relevant to national security
- Engage early with the relevant departmental sector lead
- Consider the national security exemptions available under the Procurement Act 2023 where appropriate
- Ensure that procurement decisions contribute to strengthening resilience UK supply chains

- The Government has also announced wider procurement reforms (also in June 2026), including stronger support for SMEs and voluntary, community, and social enterprises (VCSEs) and greater insourcing where appropriate.

- In June 2026, PPN 024 announced the development of a ‘public interest test’ to ensure procurement delivers.

- This announcement aims to deliver such Public Interest Tests with effect from 1 April 2027



WHY IT MATTERS:

- Public procurement currently accounts for approximately £395 billion annually (2024/25), about 35% of public sector spending. [3]
- Government contracts are a market worth £90bn per year[4]
- The Procurement Act 2023 introduced replacing the concept of the "Most Economically Advantageous Tender" (MEAT) with the "Most Advantageous Tender" (MAT).
- This enables contracting authorities to consider wider factors including resilience, innovation, sustainability, and social value alongside cost, while maintaining value for money as the overarching objective.
- Recent reforms have also promoted earlier market engagement through Early Contractor Involvement (ECI), helping authorities reduce project risk, encourage innovation and improve long-term delivery.
- Despite these reforms, SME participation remains uneven across government. 21% of procurement spending reaches SMEs overall, with the proportion of spending with SMEs is highest for local government (34%), followed by NHS (16%) and central government (10%).[5]
- Participation is lower in sectors such as defence (3%) and utilities (3%).
- Procurement going to SMEs in construction and engineering was at 11%.
- There is also increasing recognition that industrial resilience should form part of procurement decision making, as procurement can support long-term industrial resilience by considering supply chain security and long-term national capabilities.
- Finally, there remains a question around how the Government defines a "UK-based business". The current reliance on Companies House registration does not distinguish between firms making substantial long-term investments in UK job, manufacturing, R&D or IP, and those with only a limited operational presence where decision-making and IP is created elsewhere.

[3] House of Commons Library, July 2026. Procurement statistics: a short guide.
[4] UK Government, August 2026. Government orders that public spending must back British jobs and skills in every postcode.
[5] BCC, Tussell, May 2026. SME Procurement Tracker 2026.

A more robust definition would ensure procurement better rewards genuine investment in UK capabilities. However, it is important to continue welcoming international companies that contribute meaningfully to the UK economy.

- It is important to recognise current successful trading partnerships, such as with the EU, which provide necessary goods into the UK, and buy from UK-based companies. For example, in 2025, UK exports of goods and services to the EU were £384 billion (41% of all UK exports). Imports from the EU were £472 billion (50% of the UK total).[6] It is key to get the balance right so the UK can maintain a successful trading relationship with other trading blocs, such as the EU.

- A system reflecting contributions by foreign-based companies, such as rating companies on a scale of Bronze, Silver, or Gold, for their investment in the UK has been suggested as a way to recognise and reward these companies.

- Contracts can be let by MOD to a UK based business that outsources work overseas – undermining the very aim of the DIS to back UK-based businesses.

- For example, Contracts worth approximately £77 million were awarded to a Northern Ireland–based textiles company to deliver combat garments under the £6.7bn LCST programme run by Leidos. Subsequently, this work was outsourced to Chinese weavers, despite the contract technically going to a UK based prime contractor.

- As a result, there is no consistent mechanism to verify whether a company classified as 'UK-based' is delivering meaningful economic activity, such as employment, production, or R&D, within the UK.

[6] House of Commons Library, June 2026. Statistics on UK-EU trade.

RECOMMENDATIONS

1. **Embed industrial resilience within procurement policy**

   Revise the National Procurement Policy Statement (2025) to make industrial resilience a mandatory consideration in procurement decisions alongside value for money and social value. Contracting authorities should recognise the strategic importance of secure domestic capability and resilient supply chains when awarding contracts. Government should continue moving beyond lowest-cost procurement priorities by placing greater emphasis on whole-life value, sustainability and long-term economic benefit. Procurement policy should continue to support open competition with international partners, including European allies, while reducing strategic dependence on high-risk suppliers in critical sectors. This would better reflect the strategic role procurement plays in supporting growth, productivity, national security and supply chain resilience across the UK.

2. **Expand the Procurement Policy Note**

   Extend the principles contained within the current PPN beyond the initial four key sectors to include wider defence procurement for military equipment and other strategic capabilities where supply chain resilience is critical to national security.

3. **Strengthen the definition of a UK-based business**

   Develop a more robust definition of a UK based business that considers factors such as employment, manufacturing activity, R&D, tax contribution, operational footprint and IP creation in the UK. This should distinguish long term investment from purely administrative presence while continuing to encourage investment from multinational firms that contribute to the UK economy.

4. **Increase opportunities for SMEs**

   Government should explore greater use of SME-focused procurement where appropriate to improve competition, innovation and resilience across supply chains. For example, the US Department of Defence allocates 23% of its prime contracts to small businesses through official small business set-aside programmes, helping to foster innovation and build resilient supply chains.

Make UK will set out further, in-depth analysis in due course.

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