

MINISTRY OF DEFENCE SME ACTION PLAN – AUG 2014 – ISSUE 3

Introduction

1. At least 7,000 Small and Medium-sized Enterprises (SMEs) were direct suppliers to MOD in 2013/14 and many more are active within our Supply Chain. MOD values the contributions made by these companies and their ability to respond rapidly to changing military needs and provide innovative value for money solutions that help give our Armed Forces a battle-winning edge.
2. The Government's aspiration, in support of its wider economic growth agenda, is that 25% of public procurement expenditure with third parties should be placed with SMEs by 2015. MOD's contribution to the SME agenda is particularly important to the achievement of the overall Government position as we account for some 45% of the Government's overall £44bn annual procurement spend.
3. This update of MOD's SME Action Plan reflects the progress the department has made since October 2013 in meeting the actions it has committed to in support of SMEs. It also cites the latest official MOD SME statistics for 2013/14.

Governance

4. This Action Plan is governed and managed by the following:
 - Minister(DEST) has Ministerial responsibility for MOD's SME policy and delivery, as lead Minister on behalf of the Secretary of State for Defence.
 - MOD's SME Champion, the Defence Commercial Director.
 - Implementation of this Action Plan is subject to regular senior review by the Defence Commercial Director.
 - Dedicated resource for co-ordination of the implementation of this Action Plan resides in MOD's Supplier Relations Team; other subject matter experts support this effort across MOD.

Challenges faced by SMEs in the defence sector

5. As part of our consultation on the National Security through Technology White Paper published in 2012, and in discussions since then with SMEs and Trade Associations, we have listened to SMEs to understand ways in which our procurement practices hamper small businesses or make it difficult for them to access work.
6. We were told that SMEs often find it difficult to engage with MOD. This is usually linked to time and cost: SMEs do not have the resources to engage successfully with MOD procurement processes or the financial clout to wait for a concept to become a programme or to sustain them during programme changes. Making MOD's processes more transparent, simpler and faster were seen as particularly important to SMEs.

How defence is different

7. The nature of MOD procurement means that a significant proportion of our contracts relate to procurements of large platform and weapon system projects where systems integration is often a key factor – contracts which are usually beyond the scope of SMEs. Around half of our contracts (by spend) are valued at more than £100M and therefore not easy for SMEs to access. Splitting work packages for contracts for military equipment is not practical. MOD has also increasingly adopted prime contracting for both acquisition and support rather than placing a multiplicity of sub-system contracts and then integrating the platform or system itself; this has enabled risk to be transferred to the prime where it can be managed most effectively. The bulk of MOD's expenditure with SMEs will therefore lie at Tier 2 of the supply chain or below, rather than in direct contracts. The Government values the role that SMEs play in the supply chains on these programmes and looks to its suppliers to contribute to increasing the proportion of Government work, by value, which goes to SMEs each year.

8. MOD does not wish to interfere unreasonably in the business procedures of our major suppliers nor to create bureaucracy or impediments to their business operations. Neither do we intend to deviate from our prime aim of best value for money in all of our commercial transactions. Our intention is to understand better the current supply chain; to encourage regular refreshing of the participants in that supply chain; and to remind our suppliers of the benefits of optimising SME involvement.

9. MOD's SME commitments are organised into the following key themes:

- Changing MOD processes to make it easier for SMEs to engage with the MOD.
- Improving the MOD's relationship with SMEs (ensuring our procurement practices are as SME-friendly as possible, whilst remaining legal and achieving best value for money).
- Measures to strengthen the SMEs' relationships with prime contractors.

10. MOD is seeking above all to ensure a level playing-field, a fair chance for SMEs – neither preferential treatment nor discriminatory barriers.

MOD's SME statistics

Direct SME Spend

11. The number and value of new contracts let in-year with SMEs in a direct contracting relationship with the department are as follows:

	Number of new contracts placed with SMEs ¹	New SME contracts placed as a percentage of all contracts placed
2010/11	2,160	36%
2011/12	1,580	37%

¹ Number of contracts rounded to the nearest ten.

2012/13	1,060	36%
2013/14	620	31%

	Value of new contracts placed with SMEs ²	Value of new contracts placed with SMEs as a percentage of the value of all contracts placed ³
2010/11	£497M	8%
2011/12	£515M	6%
2012/13	£565M	10%
2013/14	£284M	6%

12. The first key statistic by which the department's SME performance is measured is MOD's annual direct spend with SMEs, as follows:

	MOD spend with SMEs	Spend with SMEs as a Percentage of all procurement spend
2011/12	£1040M	5.2%
2012/13	£1096M	5.4%
2013/14	£916M	4.5%

13. Total annual 3rd party procurement spend has been relatively constant over the past three years (2011/12 – £20.071bn, 2012/13 - £20.369bn and 2013/14 - £20.261bn). The bulk of this expenditure was committed in major programmes, some with expenditure profiles extending over decades, which were started before the Coalition for Government's SME aspiration was announced (and before the new pro-SME measures we have introduced and are introducing take effect). It is also relevant for the direct SME spend figure reported by MOD that there has been a very significant fall in both the number and value of new contracts placed by MOD over the past 7 years as the department has addressed budgetary problems, as indicated in the following table:

	07/08	08/09	09/10	10/11	11/12	12/13	13/14
No of new HQ contracts	8,471	8,083	8,012	6,424	4,598	3,312	2,264
Value of new HQ contracts £M	21769	18319	9372	7235	9214	5730	5709

14. The reduction of our direct SME spend percentage from 5.4% in 2012/13 to 4.5% in 2013/14 has been caused primarily by the combined effect of the bow-wave of expenditure from major programmes committed in the past, mostly on contracts of a size, complexity and value that SMEs are unlikely to be able to address, and the continuing severe squeeze on new contracts – the area, since SME contracts are likely to last 2 years or less, likely to be the most important driver of new SME expenditure.

² Value of contracts rounded to the nearest £ million.

³ Value at current prices, exclusive of VAT

Therefore, notwithstanding the initiatives described in this Action Plan to smooth the path for SMEs participating in new direct contracts placed by MOD, these two restraints are likely to hold back any positive evolution in our direct SME spend percentage.

15. Owing to limitations in the coverage of the statistical base used to designate which firms are SMEs and which are not (only 51% of current MOD contractors have been given a size assessment, considerably less than the comparable statistic in 2012/13), the figure of 7,000 SMEs with which MOD has contracts quoted above is likely to understate the number of such companies. However, the SME expenditure statistic is more accurate because the 51% of firms that have received an assessment receive 93% of procurement expenditure.

Indirect SME Spend

16. Indirect spend by our prime contractors with SMEs in their supply chains is also taken into account in assessing the level of Government expenditure paid to SMEs. This is particularly relevant in MOD given the proportion of equipment expenditure committed on large complex programmes not normally accessible to SMEs and the depth of the supply chain that supports them. To capture at least an element of this data, the Cabinet Office has for two years been undertaking a quarterly survey of the indirect SME spend made by about 130 of Government’s major suppliers at the next tier of the supply chain (ie Tier 2). About 50 of these companies, together receiving about 55% of our procurement spend, are also MOD suppliers. Based on returns provided by these companies for 2013/14, their indirect spend with SMEs at the immediate next tier of the supply chain was, as shown below, £2,080M; this represents a further 10.5% of MOD’s annual procurement expenditure.

	MOD indirect spend with SMEs through primes	Indirect spend with SMEs as a percentage of all procurement spend
2012/13	£1998M	9.8%
2013/14	£2139M	10.6%

17. The trawl of major primes for indirect SME spend data is being extended in 2014/15 from about 80 companies to about 130. MOD and the Cabinet Office will also be trialling in 2014/15 a system that may permit supply chain mapping for major defence contracts and more detailed analysis of SME expenditure below Tier 2 of our prime contractors’ supply chains. Our goal is to extract lower tier SME spend data on our larger contracts covering about half of our 3rd party procurement spend.

Targets for MOD

18. Delivering a significant increase in MOD’s direct expenditure with SMEs represents a challenge for MOD for the reasons outlined in paras 7 and 13-14. However, as explained in para 17, we are targeting an improvement of our coverage of indirect SME spend by both widening and deepening data collection. Whilst MOD remains committed to its target of at least 15% of its procurement expenditure should be with SMEs by March 2015, the Secretary of State for Defence has accepted a challenge to investigate achieving a higher target.

19. Priorities for action in 2014/15 will be:

- Better communication within MOD of the importance of the SME agenda.
- For MOD's direct procurement spend, extending Dun & Bradstreet assessments of company status so that they cover at least 95% by spend.
- Pursuing the widening and deepening of SME data collection (see para 17 above).
- Discussing with MOD's 13 Key Suppliers steps they could take to increase SME participation in the supply chain for Government contracts and, in particular, encouraging their investment on innovation.
- Rolling out in Nov 14 the last of MOD's Standardised Contracting simplified contract templates, for services valued up to £5M.
- Pursuing with BIS, the ADS Trade Association and the British Banking Association the clarification of the rules and conditions applied by High Street banks to lending to companies involved in defence business, so that they can be applied consistently.
- Enhancing the role of DSTL's Centre for Defence Enterprise (CDE), in particular improved facilitation of opportunities for the SMEs it funds to engage with prime contractors, and investigating the provision of funding to help CDE contractors bridge the R&D "valley of death".
- Once the Defence Reform Act 2014 comes into effect, simplifying single source procurement processes for smaller contracts and suppliers, and requiring our larger suppliers receiving significant elements of single source work to generate an annual SME report describing their subcontractor procurement processes and outlining how they have encouraged SMEs.
- Following up and incorporating into MOD's processes any new legal requirements emerging in the procurement section of the Small Business, Enterprise and Employment Bill currently at the legislative stage.

20. Our detailed plan for these actions, together with the status of other actions taken by MOD relating to promoting the SME agenda in previous years, is set out in Annex A.

Ministry of Defence
Aug 2014

Annex A

1. CHANGES TO MOD'S PROCESSES

Action	Target Completion Date	Task	Progress
a. Reduce the volume and complexity of contract paperwork.	Phase 1 Dec 2012 Phase 2 Nov 2014	<ol style="list-style-type: none"> 1. Introduce mandatory Standardised Contracting Template for low-risk, commercial off-the-shelf requirements under £250K. 2. Implement low risk standardised contract for requirements under £250k on MOD e-procurement system. 3. Introduce an automated system (Dynamic PQQ) which will populate PQQ responses from previous PQQ. 4. Introduce mandatory Standardised Contracting Template for low to medium risk Goods and Associated Services contracts under £5M. 5. Introduce mandatory Standardised Contracting Template for low to medium risk service based contracts under £5M. 	Task 1 - Completed April 2012. Task 2 – Completed September 2012 Task 3 – Completed September 2013 Task 4 – Completed October 2013 Task 5 – Ongoing - Task 5 planned for delivery in November 2014
b. Speed up invoicing and billing: Process 85% of all contracts on e-procurement system. (note: 85% is 100% capacity of contracts suitable for e-procurement system).	Jul 2013	<ol style="list-style-type: none"> 1. Develop & expand utilisation of MOD e-procurement system. 2. Provide training to all staff expected to use e-procurement system. 3. Mandate new system for all invoicing & billing. 4. Encourage/require MOD's suppliers to pay promptly. 5. Flow down prompt payment requirement throughout supply chain. 6. Introduce new MOD-wide Contract, Payment and Finance System. 	Tasks 1-3 – Completed July 2013. Migration and exploitation activities completed. Ongoing compliance management will embed business change. Task 4 – Completed - DEFCON 534 (Prompt Payment (Sub Contractors)) is included in all contracts. Task 5 – Ongoing - when Small Business Act operationalised (expected H1/2015) Task 6 – Ongoing - CP&F go live April 2016
c. Maximise the potential for SME participation at prime or subcontract level.	Jul 2013	<ol style="list-style-type: none"> 1. Introduce facility in DCB/DCO for MOD or prime contractors to advertise sub-contract opportunities. 2. Create role of SME champion with responsibility to ensure procurement practices are as SME-friendly as possible; and as part of the investment approval process, to ensure procurement strategies maximise the potential for SME participation at prime and subcontract level. 3. Launch communications strategy designed to increase MOD awareness & engagement with SMEs. 	Task 1 – Completed 2011. In 2013 over 80 such notices were published in DCB/DCO. Task 2- Completed : SME Champion named March 2012. Relevant processes reflected into Business Case Review Board scrutiny provisions. Task 3 – Ongoing – MOD Commercial Director instructions for treatment of SMEs in procurement strategies published Sep 2012. SRT staff conducting continuing SME education presentations with MOD Delivery Teams.
d. Promote departmental policy on interim payments.	Dec 2012	Update the Interim Payments commercial policy statement, including a model narrative Interim Payment clause for use in MOD contracts.	Completed - May 2012

e. Implement reforms to Framework for Technical Support (FATS).	May 2014	<ol style="list-style-type: none"> 1. Clarify customer guidance on FATS stating its use is for short term technical support. 2. Split FATS into 2 parts general & specific support to allow firms to precisely match their capabilities to MOD's requirements. 3. Increase proportion of FATS work which is competed. 4. Investigate potential for a web-based bulletin board to increase visibility of all FATS requirements. 5. Stimulate the formation of SME consortia to bid for FATS Design and Engineering tasks. 	<p>Task 1 – Completed April 2012 (in FATS4). Task 2 – Completed September 2012 Task 3 – Completed. Under FATS 4, competition is available in almost all categories. A proportion of new tasks and all single source proposals are completely scrutinised. Task 4 – Ongoing. A bespoke MOD portal for FATS is too costly. Opportunity being addressed within Cabinet office CCS Technology and Managed Services workstreams. Task 5 – Ongoing - FATS D&E launch in Sep 14 and go-live date in April 2015</p>
f. Promote use of G-Cloud for ICT procurements.	Jun 2013	Mandate use of G-Cloud for unclassified non-operational ICT contracts.	Completed – Policy of “G-Cloud First” adopted May 2013.
g. Improve processes for collection of data from primes about SME involvement in their supply chains.	Oct 2014	<ol style="list-style-type: none"> 1. Work with the Cabinet Office SME team to extend indirect SME spend data collection from major MOD suppliers to cover >70% of our procurement spend from non-SME companies. 2. Examine with Cabinet Office SME team scope for collecting from major MOD suppliers indirect SME spend data at Tier 3 and below. 	<p>Task 1 – Initiated April 2014 and ongoing Task 2 – Ongoing – discussions with Cabinet Office initiated, targeting approval to proceed in Oct and, if approved, availability of data from December 2014.</p>

2. MOD'S RELATIONSHIP WITH SMEs

Action	Target Completion Date	Task	Progress
a. Improve training & guidance for MOD procurement staff.	Dec 2013	<ol style="list-style-type: none"> 1. Incorporate SME content into (mandatory) procurement training programmes. 2. Review procurement training programme content & insert SME content where suitable. 3. Increase visibility of guidance on relevant procurement sources (e.g. AOF). 4. Identify areas within the CMT where SME agenda can be woven into existing policy to ensure this becomes part of every day business. 	<p>Task 1 – Completed November 2012; and Ongoing - Awareness incorporated in Defence Strategic Commercial course. Task 2 – Completed and ongoing [bespoke SME course] Task 3 – Completed December 2013. A new SME section available on the Commercial Manager's Toolkit. Task 4 - Completed Commercial Strategies, Lean Procurement and Tendering Commercial Policy Statements update April and June 2013 to include policy on SMEs</p>
b. Promote use of tools such as factoring or invoice discounting and the 'More Effective Contracting' procedures.	Jun 2012	<ol style="list-style-type: none"> 1. Develop and promulgate Debt Factoring commercial policy statement. 2. Re-emphasise 'More Effective Contracting' procedures. 	<p>Task 1 – Completed May 2012; published in Defence Contracts Bulletin Task 2 – Completed September 2012</p>
c. Encourage more approaches from consortia.	Jan 2014	<ol style="list-style-type: none"> 1. Ensure policy clearly states MOD will consider bids from consortia. 2. Encourage consortia bids in outreach presentations & communication content. 	<p>Task 1 – Completed May 2013. Task 2 – Completed May 2012 and ongoing. Task 3 – Ongoing - Supporting Cabinet Office-led effort.</p>

		3. Support cross Government pilot approaches to review how SMEs can form successful consortia. 4. Explore new model for Extra-Mural Research consortia contracting.	Task 4 – Completed November 2013. MOD developed an approach in consultation with Industry and passed the model to the Cabinet Office to roll out within their guidance.
d. Expand & sustain the MOD outreach service for new defence suppliers.	Mar 2014	1. Publish Key Supplier contact details. 2. Establish & recommend liaisons between UK exports & science gateways for defence related SMEs. 3. Recruit technical expert in MOD Defence Suppliers Service (DSS) to provide more effective links for suppliers. 4. Improve links with LEPs.	Task 1 – Completed June 2012. Task 2 – Completed March 2012. Task 3 – Abandoned – post taken as a savings measure. Task 4 – Ongoing – all LEPs were contacted in June 2012. Pursuing individual LEP discussions and outreach events
e. Engage with SMEs and relevant Trade Associations to better understand blockers and potential improvements.	Dec 2013	1. Present MOD policy, improvements made and improvements planned at suitable exhibitions etc.; and seek improvement ideas. 2. Meet directly/individually with relevant trade associations to review progress, opportunities and solutions: ADS, FSB, Intellect, NDI.	Task 1 – Ongoing through DSS Task 2 – Ongoing through DSF SME Forum and as part of normal business.
f. Facilitate opportunities for SMEs to engage with established Defence primes.	Dec 2012	1. Enhance the role of the Centre for Defence Enterprise (CDE) to provide more support & funding towards the most innovative products relevant to defence needs. 2. Identify route to UK MOD market for potential new defence & security products. 3. Evolve CDE model to deliver additional activities & resources to focus on SMEs. 4. Recruit more staff within CDE to support CDE's SME programme. 5. Publish in Defence Contracts Bulletin & Selling to the MOD brochure Key Supplier contact points for SME opportunities.	Tasks 1-4 – Completed December 2012. Ongoing long term facilitation and support . Task 5 – Completed June 2012
g. Specify defence and security requirements as far as possible in terms of capabilities and outputs.	Dec 2012	Re-emphasise required approaches including not specifying technology solutions, working with industry to specify broad parameters and use of output and outcome based specifications.	Completed – by letter from D Commercial to Commercial Heads in September 2012 and new 'Request for Contract Action' Commercial Policy Statement published October 2012.
h. Enhance the role of CDE.	Oct 2012	1. Employ additional manpower resources in order to provide more support for SMEs in identifying 'routes to market' for potential new defence and security products. 2. Enhance outreach service.	Task 1 - Completed October 2012. Support ongoing . Task 2 – Completed and ongoing . Additional service began December 2012 with the CDE Marketplace event.
i. Publish MOD's pipeline spend, to enable SMEs to tailor their own business strategies.	Mar 2013	1. Publish MOD's 10-year Equipment Plan and update annually. 2. Publish lower-level pipeline for Defence Infrastructure projects. 3. Consider extending lower-level pipelines into other defence sectors.	Task 1 - Completed – January 2013 & January 2014. Task 2 – Ongoing – planned for Defence Infrastructure projects from October 2014 Task 3 – Ongoing – decisions by April 2015
j. Compliance Checks.	Dec 2012	Introduce additional compliance checks to ensure that the new processes and guidance relating to doing business with SMEs are properly understood and adhered to; and adjust guidance/training as necessary.	Ongoing from December 2012.

3. SMEs' RELATIONSHIP WITH PRIME CONTRACTORS

Action	Target Completion Date	Task	Progress
a. Engage with primes to encourage an increase of SME participation in supply chains.	Jul 2013	<ol style="list-style-type: none"> 1. Encourage primes to advertise sub-contract opportunities on Defence contracts online advertisement systems. 2. Work with Key primes to establish & develop methods to increase SME participation in supply chain. 3. Publish prime contractor details in defence procurement publications. 4. Investigate level of indirect spend with SMEs & assess how to increase this spend. 5. Amend DEFFORM 47 to encourage Prime Contractors to utilise SMEs in the supply chain. 	Task 1 – Completed May 2011. Task 2 – Ongoing . Task 3 - Completed June 2012. Task 4 – Completed - ongoing (managed by Cabinet Office with support from MOD). Task 5 – Completed May 2013.
b. Require primes to report the volume of SME subcontract work within new contracts.	Apr 2014	<ol style="list-style-type: none"> 1. Review and prepare new policy on requirement for Primes to identify volume of work to be sub-contracted to SMEs. 2. Discuss proposed changes with Industry. 3. Review and revise processes – amend contract documentation (Defforms) to require this data capture and update tools to capture/analyse it. 	Task 1 – Completed February 2013. Task 2 – Completed December 2013. Task 3 – Completed with amended DEFFORM 47 December 2013.
c. Increase confidence amongst SMEs that their IPR will be respected.	Mar 2015	<ol style="list-style-type: none"> 1. Develop a Code of Conduct stipulating the protection of IP within supply chains. 2. Amend contracts to ensure primes recognise & respect IPR (at pre-contractual & after contracts awarded) of their subcontractors. 3. Raise awareness of licensed technology transfer as alternative avenue for participation. 	Tasks 1 and 2 – Ongoing - Text of draft code agreed through joint MOD/IPR working group and with ADS Small Companies Committee. Revised target publication date January 2015. Task 3 – Ongoing . Opportunities to raise awareness exploited as part of the IPR team's regular outreach work.
d. In support of encouraging the use of SMEs the Currie Report on Single Source procurement and pricing has recommended simplified single source procurement processes for smaller contracts and suppliers.	Oct 2014	<ol style="list-style-type: none"> 1. Exempt SMEs from full application of Single Source Procurement Regulations. 2. Require contractors with significant elements of single source work to explain how relationships with SMEs are managed and how they support and foster SMEs in their role as subcontractors. 	Task 1 – October 2014 - Contract reporting under the SSPRs will apply in full only for contracts above £50m. For contracts between £5m and £50m, reports will be minimised and simplified. For contracts below £5m, no SSPR reports will be required. Task 2 - October 2014 - Contractors receiving over £50M of single source work will be required to provide a specific SME report.