



Department
for Transport

Department for Transport

Small and Medium Enterprise Action Plan

Updated: June 2018

Objective

This action plan outlines how the Department for Transport (DfT) will meet the Government's aspiration of ensuring that 33% of all procurement spend will be with small and medium enterprises (SMEs) by the end of this Parliament, either directly or indirectly through the supply chain. Departments were asked to prepare action plans to meet this target, which would be reflected in the Single Departmental Plan. This action plan covers Department for Transport (DfT(c)), its Executive Agencies (EAs) and Arm Length Bodies (ALBs).

The majority of the DfT Group spend is through its EAs and ALBs. Accordingly, this plan focuses on initiatives to grow SME spend undertaken by EAs and ALBs with DfT(c) coordinating, supporting and advising to ensure the SME Agenda is embedded throughout the DfT Group.

SME Policy

As chair of the Growth and Enterprise Board, John Manzoni (CEO Cabinet Office) wrote to all departments in November 2017 to set out measures to support the SME Agenda.

In response, the DfT Group are working with cross government colleagues and Tier 1 suppliers, to ensure a consistent and value adding approach to the measures. The actions undertaken are described below:

Transparency to Tier 2

- Analysing the DfT Group procurement spend for FY 2016-17, the DfT SME Lead identified suppliers responsible for the top 80% of spend within DfT Group. These details were sent to the relevant organisations, who have contacted the suppliers to make them aware of the new measures and their responsibilities. These suppliers will provide information on how much they spent with SMEs during FY 2017-18. These figures are used to calculate the DfT Group indirect SME spend. It has been agreed that our EAs and ALBs will implement robust processes to review supplier returns, to ensure accuracy and deadlines are met.

Improve visibility of opportunities

- Contracts Finder is a digital notification platform, where contracting opportunities can be advertised. For smaller businesses, it provides an easy way of viewing procurement specifications. For Tier 1 suppliers it provides a simple means of advertising sub-contracting opportunities. DfT Group have been fully engaged with Crown Commercial Service (CCS) around the Contracts Finder sub-contracting pilot from the start and have supplier participation. High Speed2 (HS2) mandate their suppliers to utilise CompeteFor, which is also a digital notification platform, where contracting opportunities can be advertised. An application processing interface (API) will link CompeteFor opportunities to Contracts Finder. All relevant organisations are collaborating with suppliers to ensure, where appropriate, opportunities are advertised on Contracts Finder or a similar system.
- DfT Group worked closely with the CCS Contracts Finder policy lead on the development of the Supply Chain Visibility Procurement Policy Notice (PPN-0118). The new measures increase the visibility of subcontracting opportunities within Government supply chains, thus assisting suppliers, including SMEs, in bidding for work.

Make prompt payment part of the selection process for larger suppliers

- DfT Group have been actively involved with the prompt payment consultation, working with the CCS Payment Policy Lead to share feedback.

- DfT(c) have reviewed their Terms and Conditions to ensure they support the SME Agenda, including prompt payment, and found they contained the relevant context to support the SME Agenda, therefore no amendments were required.

DfT Group 6% ahead of the 16/17 SME Target

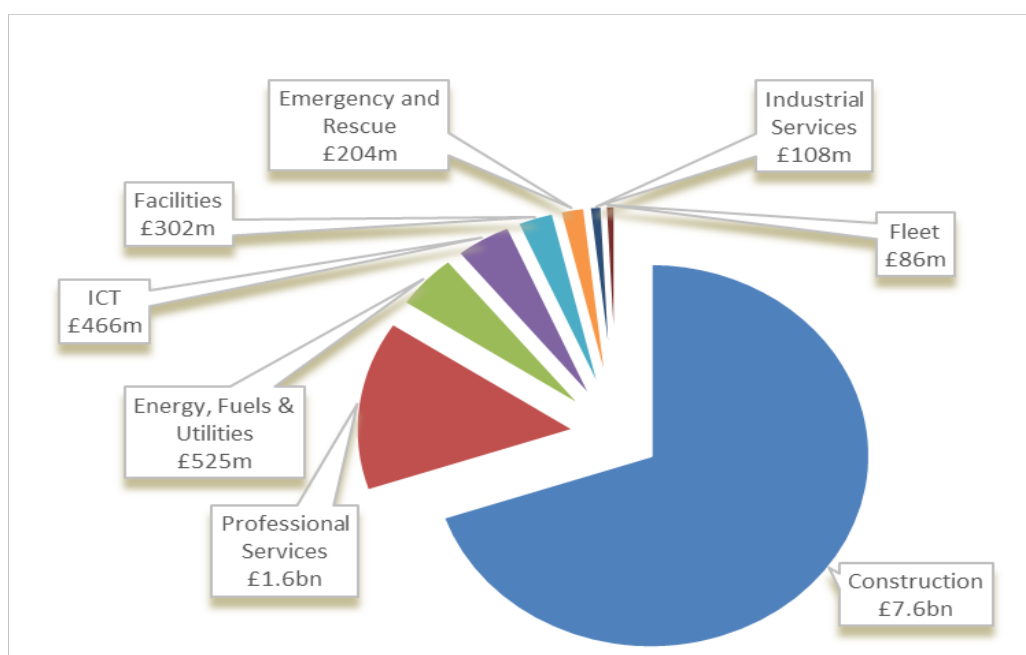
DfT have made substantive progress towards achieving the 33% aspiration by end of Parliament (percentage spend with SMEs for 2016-17 was 29.9% against an in-year target of 24%) and to ensure continuous improvement across the Group, systematic in-year targets have been set, **see Table 1.**

Over the course of this Parliament the Department’s spending profile will grow significantly to c £15bn per annum, as the level of investment in transport increases by 50% from 2015 to 2020, in part due to the increase in investment for Highways England through the Road Investment Strategy RIS2, Network Rail Control Period 6 and the beginning of HS2 major construction projects¹.

Category Analysis

During FY 2016-17, DfT Group procurement expenditure (including Network Rail) totalled c £11.3bn, of which £7.6bn was construction (Figure 1). Construction spend is focussed on complex capital projects in the roads and rail construction and maintenance sector, where there are fewer direct opportunities for SMEs, therefore focus across the DfT Group will need to be primarily concentrated on identifying SME opportunities within the supply chains of the main Tier 1 contractors.

Figure 1 – DfT Group Procurement Expenditure 2016/17



¹ <https://www.gov.uk/government/publications/dft-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020> [Accessed on 8th May 2018]

DfT's total percentage targets for procurement spend with SMEs, either directly to SMEs or indirectly through the supply chain are set out in Table 1² below.

Table 1 – DfT Group SME Spend Targets to 2021/2022³

Financial Year	SME Spend Target %	SME Actual Performance %	Direct Spend Target %	Direct Spend Actual/Forecast	Indirect Spend Target %	Indirect Spend Actual/Forecast
2015/16	22%	24%	11.00%	£1.3bn	12.80%	£1.5bn
2016/17	24%	30%	11.00%	£1.2bn	19.00%	£2.1bn
2017/18	26%		11.00%	£1.4bn (approx)	15.00%	£1.8bn (approx)
2018/19	29%		10.75%	£1.4bn (approx)	18.25%	£2.4bn (approx)
2019/20	31%		10.50%	£1.5bn (approx)	20.50%	£2.9bn (approx)
2020/21	32%		10.75%	£1.6bn (approx)	21.25%	£3.2bn (approx)
2021/22	33%		11.00%	£1.7bn (approx)	22.00%	£3.3bn (approx)

Our targets take into account periods where the total number of contracts awarded may reduce, which affects SMEs. This is primarily due to the expiry of Network Rail's control period 5 (2019) and the expiry of the first Highways England road investment strategy (2020). The table above illustrates a drop in direct SME procurement spend from 2018 to 2020.

To ensure that DfT Group continues to exceed targets a number of initiatives are in progress

1. DfT(c) has recruited a SME Lead to work across the DfT Group to ensure the SME Agenda is embedded, ensuring the work organisations have introduced to meet the SME target is shared across the DfT Group.

The SME Lead works across the DfT Group in a variety of functions;

- a. Analyses categorisation of spend to identify areas of SME spend, liaises with suppliers, organisations and the DfT Group to establish good working practices, and ascertain reasons why certain categories have high SME spend and others low SME spend.
- b. Works with suppliers, policy teams, legal teams, assurance teams and cross government teams to introduce policy to support the SME take up across the DfT Group. The SME Lead also works with EAs, ALBs, suppliers and other government departments to share good working practices and resolve issues to eliminate barriers to SME take up.
- c. Delivers workshops on the tools available to the DfT Group, which assists departments to identify capability and capacity to meet the demands of their pipelines.

² Please note – FY 2016-17 - Where suppliers did not respond an extrapolation of their associated Indirect SME spend using category averages calculated from responding suppliers from the same category was applied. This methodology was approved by CCS Excluding the extrapolation, the overall DfT SME spend percentage is 26.5%. DfT forecast figures exclude the extrapolation process.

³ The expectation is that DfT Group procurement spend will increase to c 15bn, in 2020 (figure sourced from DfT Group Finance). Although the direct percentage spend with SME dips from 2018 to 2021, we have modelled increases from indirect spend based on current trends and ongoing work across the group in conjunction with the supply chain.

- d. Ensures ALBs and EAs in the DfT Group adhere to advertising their contracts and pipelines on Contracts Finder, where opportunities are easily accessible to SMEs.
- e. Works with the DfT Group, suppliers and CCS to increase transparency within their supply chains, and ensure prompt payment.

2. Where possible, DfT Group disaggregate contracts into smaller lots to make them more accessible to SMEs. For those contracts where disaggregation is not possible the DfT Group encourages SME involvement within the supply chain. For example, through the inclusion of a SME weighting in the evaluations process for a procurement.

The SME Lead will use the measures above to ensure SMEs have accessibility to opportunities, either directly or indirectly through the supply chains. Below are some examples of frameworks and contracts where there are significant direct and indirect opportunities for SMEs.

Direct Procurement Opportunities		Supply Chain Indirect Opportunities	
STARTwo Framework (2019)	£110m	DfT Total Facilities Management (2018-2023)	£11.7bn
Local Transport Surveys (2018)	£100k	Euston Master Development Partner (2018 - TBC)	£4bn
Category Management Pavements Framework (2018-2022)	£3.5bn	South Stations Construction Partner (2018 -TBC)	£2.3bn
		Category Management Pavements Framework (2018-2022)	£3.5bn
		Rolling Stock and Depots (2019)	£2.75bn

3. The SME Lead is working with Group Commercial Directorate, DfT(c), Executive Agencies and Arm’s Length Bodies to review pipeline information to ensure SME engagement and collaboration is considered. Analysing management information, the SME Lead will measure compliance by organisations and suppliers to advertise opportunities on Contracts Finder or CompeteFor and will report non-compliance through the DfT Head of Procurement Board.

4. Late payment and payment retention has a detrimental effect on the livelihoods of businesses, to negate this the SME Lead will work across the DfT Group, utilising payment term information, to ensure poor payment terms are identified and escalated for discussions at review meetings.

Department for Transport Central

DfT(c) have embedded the SME Agenda in a number of ways, and below illustrates a number of examples;

- The £40-80m Specialist Technical Advice for Rail (STAR) Framework, allows DfT to procure specialist railway technical and commercial advisory services for rail. The framework has opened up opportunities for SMEs, with 15 SME suppliers so far winning direct contracts (there are 42

suppliers on the framework in total). In addition, larger suppliers on the framework are expected to deliver 40% of their awarded work packages through SMEs.

- The DfT Group Facilities Management contract went live Feb 2018 and there is an expectation 33% of contract spend will be with SMEs, c £33m per annum. Performance against targets will be reported at Quarterly Board meetings.
- DfT(c) are reviewing the commercial case guidance, with the SME Lead, to ensure SMEs are considered each stage of a business case and it supports transparency, visibility of opportunities and prompt payment.
- Centrally negotiated CCS contractual vehicles and tools such as the Digital Marketplace are available and accessible to the SME supply chain. The way in which DfT has a disaggregated approach to IT, disaggregating contracts into smaller lots, provides greater opportunities for SME suppliers to provide goods or services in their niche area. The total number of suppliers on the Digital Marketplace is now 3,974, of which 93% are SMEs.

DfT(c), through the SME Lead, continues to work across DfT Group to ensure the SME Agenda is prioritised. For the financial year 2016-17 c 68% of DfT Group procurement spend was construction and the Department's majority of construction spend is with Network Rail and Highways England. In February 2017 HS2 received Royal Assent and spend on construction will increase significantly over the remainder of this parliament. Across the DfT Group each organisation is prioritising growing spend with SMEs through a number of initiatives.

Network Rail

The examples below illustrate some of the work Network Rail has undertaken to grow the SME spend:

- Actively encouraging Tier 1 suppliers to embrace the SME Agenda by implementing regional conferences with their SME/Tier 2 suppliers. Initial feedback since implementing this approach has been positive and has brought renewed focus on the issues that the SME/Tier 2 community would like to address.
- Continuing to increase engagement with SMEs through Network Rail run roadshows and attendance at meet the buyer/trade events, as well as improving pipeline visibility through their transparency website and promoting greater consistency in performance measures.
- Developing capability within NR to enable better understanding of indirect expenditure with SMEs. NR have set up their own indirect survey for the top 65 suppliers with the most spend with them. NR are significantly DfT Group highest spend organisation and this will provide greater visibility of indirect SME spend throughout the supply chain.

Highways England (HE)

The examples below illustrate some of the initiatives HE have undertaken to grow SME spend;

- Project Bank Accounts (PBAs) are in use for all current major projects. PBAs are ring-fenced bank accounts whose sole purpose is to act as a channel for payment on construction projects to ensure that contractors, key subcontractors and key members of the supply chain are paid on the contractually agreed dates.
- Holding "Meet the Buyer" events (on average SMEs represent 70% of the attendees). Feedback captured during these events is considered when determining procurement strategies. A future "Meet the Buyer" event is scheduled to take place in London, 20th September 2018.

- HE continue to work closely with SMEs during the development of the “Pavement Category Management Framework” to ensure opportunities are available for SMEs to bid for work. The new framework arrangement will utilise a regional lot structure with some contracts pitched at a level more accessible to SMEs. The framework structure is accessible to SMEs as it creates opportunities for key strategic suppliers with the ‘major’ greater than £1m lots, but also the regional SME suppliers with the minor, less than £1m lots which fully support of the SME Agenda.

High Speed 2 (HS2)

A further area of considerable construction expenditure, especially in future years, will be through the delivery of HS2. HS2 Ltd. is also committed to working with SMEs and has developed an outline procurement strategy that has been shared with stakeholders and suppliers, with the aim of supporting businesses understanding of HS2’s strategic goals and the aspects required to be part of the HS2 supply chain. As this is a major infrastructure programme, the supply chain required will include a relatively small number of large Tier 1 suppliers, with substantial indirect opportunities for SMEs. In addition, over the next few years HS2 will award a large number of smaller value corporate contracts, typically using government frameworks that encourage the use of SMEs and/or through competitive tenders managed by HS2 Ltd. Key actions being undertaken by HS2 include:

- Mandating that all Tier 1 suppliers advertise all appropriate supply chain opportunities on the electronic brokerage system CompeteFor, and participate in an annual “Meet the Contractor” event to facilitate face-to-face meetings between larger Tier 1 suppliers and SMEs.
- HS2’s 3 Enabling Works Contract (EWC) Joint Ventures are actively using the CompeteFor portal to advertise contract opportunities. To date, 139 opportunities relating to HS2 EWC have been posted on CompeteFor, with an approximate total value of £170m; 844 different organisations have expressed interest in these opportunities, of which 72% are SMEs.
- The latest HS2 “Meet the Contractor” event was held in Birmingham, May 2018. The event, held over the course of 1 day, was attended by c 719 representatives, from 445 businesses (69% from SME organisations). The feedback from the event was overwhelmingly positive.

Across the rest of the DfT Group there are many examples illustrating engagement and collaboration with SMEs.

For example, the Driver and Vehicle Standards Agency (DVSA), through its main contractor, utilised one of its supply chain SME suppliers, to develop specification for two sets of vehicles. They examined the current vehicles and made recommendations, based on DVSA conducted research, for improvements to the current specification as well as the positioning and installation of ancillary equipment.

The SME was involved with vehicle user groups in a real working environment to gain a full understanding of the vehicle requirements and have based their costed proposal on that knowledge.

Upon DVSA approval, they have built a First of Type vehicle which has been trialled in a ‘live’ situation across many users, and have sought feedback and have made further final tweaks to their design before presenting a final costed proposal to the main contractor for DVSA’s inspection. The SME will be building c 70 of these vehicles for DVSA over the next three years.

Risks to delivering SME Agenda

Risk	Mitigation	Action Owner
<p>The Government understands the importance of prompt, fair and effective payment in all businesses, and that it is particularly important for small and start-up companies. Being paid promptly for work done ensures businesses have a healthy cash flow. This is especially important for small and medium sized enterprises (SMEs) who may not have the reserves of larger companies.</p>	<p>The CCS Mystery Shopper scheme, which provides a route for suppliers to raise concerns about public procurement practice, giving suppliers the opportunity to escalate payment concerns directly to central government.</p> <p>At present, Government are holding a prompt payment consultation, seeking views on whether it would be appropriate to exclude suppliers from major government procurements if they cannot demonstrate a fair, effective and responsible approach to payment in their supply chain management. The SME Lead to work with DfT Group, policy and cross government to have a consistent approach embedding the outcome of the prompt payment consultation, which closed on the 5th June 2018.</p>	<p>Supplier</p> <p>Contract Managers</p> <p>Capability Manager</p>
<p>SMEs may be impacted by BREXIT, due to the uncertainty in the supply chain it may cause,</p>	<p>Monitoring of market forces to establish the impact of BREXIT. Where issues are identified the SME Lead is to work with across government teams, Tier 1 suppliers and SMEs to mitigate any issues</p>	<p>Robert Vaughan</p>
<p>Network Rail's spend is currently not in the CCS spend analytics system, therefore there's a possibility of inconsistency with spend data.</p>	<p>Network Rail provide a spend extract from their finance system. SME Lead works with Network Rail and Crown Commercial Service colleagues to ensure accuracy of data.</p>	<p>Robert Vaughan</p>
<p>DfT Group is vast and diverse, there is a requirement to ensure a consistent approach from all EAs and ALBs</p>	<p>The introduction of the SME Lead will ensure continuity throughout the DfT Group, with working relationships already in place. The SME Lead is to host workshops with EAs, ALBs and Crown Commercial Services around the SME Agenda to ensure a consistent approach.</p>	<p>Robert Vaughan</p>

Conclusion

The procurement landscape in DfT Group is complex, with limited potential for direct SME awards. It is imperative the DfT Group continues to evaluate its supply chains to identify indirect opportunities within them. When compiling this plan we have explored a number of opportunities across the Department and developed a strategy which has the greatest potential for success.

The role of the SME Lead is vital in bringing the EAs, ALBs, other government Departments and suppliers together, determining areas for improvement, sharing good working practices, creating and introducing policy which supports SME take up, thus achieving the 33% target

The DfT's aim is to continue to think creatively about challenges faced, and ensure the DfT Group continues to strive at every opportunity to maximise SME involvement. It is imperative the DfT Group work as one to embed the SME Agenda, thus supporting the wider Growth Agenda.

The strategy underpinning this Action Plan has been approved by the following:

- Baroness Sugg –Parliamentary Under Secretary of State
- Paul Rodgers – Interim Group Commercial Services Director
- Pam Badhan – Deputy Director Assurance and Supply Chain

Department for Transport

June 2018