



# Cabinet Office

**Making Government business more accessible  
to SMEs**

# Two Years On

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## FOREWORD



Small and Medium Sized Enterprises (SMEs) are a crucial engine for growth in this country. 99.9% of the UK's 4.5 million businesses are SMEs; with an estimated turnover of £1,500bn, they are responsible for over 14 million private sector jobs and account for almost half of the net growth in jobs. Data from the Office of National Statistics Annual Business Survey shows that on average, SMEs create around £33 of gross value added to the UK economy for every £100 of turnover, while large companies create around £26.

Despite this, SMEs have historically been shut out of government business. Smaller firms have found bidding for public sector work excessively bureaucratic, time-consuming and expensive. This meant that the tax payer has not always benefited from some of the best and most cost-effective ideas that SMEs are capable of delivering.

When we came into office only 6.5% of government business was going directly to SMEs. This Government has set an aspiration that 25% of central government procurement spend, by value, flows to SMEs directly and through the supply chain, by 2015. To achieve this we have made our procurement processes much simpler, more open and less bureaucratic – so all businesses, no matter what their size, have a chance of success. There is now much greater visibility of opportunities for SMEs via our Contracts Finder website – a single place to view what is on offer. We have also introduced more accountability. Our Mystery Shopper Service allows suppliers to report instances of poor practice across the public sector which Cabinet Office investigates. 80% of these cases result in a positive outcome.

These reforms are starting to pay off. Overall government has increased its direct spend with SMEs from 6.5% in 2009/10 to 10.5% in 2012/13. Figures from government's largest suppliers have also identified £4bn (9.4%) of indirect spend flowing to SMEs. These figures are encouraging, but clearly more needs to be done to reach our 25% aspiration.

The good news is, at this midway point, we are clearer about the task ahead; we have much better data than in the past, and through our on-going engagement with SMEs a better idea of the 'roadblocks' remaining that we need to tackle. All departments have developed plans for making their contributions to the 25% aspiration, and lead ministers have been appointed to drive their delivery and ensure SME-friendly practices are mainstreamed into their departments. We are also seeing more and more prime contractors recognising the value that SMEs can offer, increasing opportunities for smaller suppliers in their own supply chains.

The UK is competing in a global race. By opening up opportunities for SME suppliers we will stimulate growth and jobs, as well as giving government access to SMEs' creativity and innovation.

We have further to go but by working closely with SMEs this Government will continue to level the playing field and support entrepreneurial businesses to invest and grow.

**Chloe Smith MP, Minister for Political and Constitutional Reform**

## CHAPTER ONE – IMPACT OF THE PROGRAMME

Over the past year the Government has continued its relentless focus on ensuring SMEs are at the forefront of its commercial thinking. The SME spend figures for 2012/13 demonstrates that the Government is on target to deliver its aspiration of 25% being spent with SMEs.

There was a small increase in direct spend flowing to SMEs, £4.4bn in 2011/12 to £4.5bn in 2012/13 representing an additional £137m (or 0.4%) against a backdrop of falling procurement spend. During this period twelve departments have shown an increase in direct spend compared to just seven in 2011/12.

For the same period, an indicative sample of indirect spend showed £4bn (or 9.4%) flowing to SMEs through the supply chain, compared to £2.9bn (or 6.5%) in 2011/12. The Cabinet Office has worked with over a hundred major suppliers to Government to understand in more detail the significant roles that SMEs are playing in supply chains but we do not yet know the full picture, particularly in those departments such as Ministry of Defence (MOD) and Department for Work and Pensions (DWP) with complex, high value contracts.

MOD accounts for 45% central government spend – without MOD figures the data shows direct spend with SMEs would be 15% and total indirect spend would be 8.9%.

Diagram 1 – Breakdown of departmental SME spend data

Department	2011/12 Full Year			2012/13 Full Year						2015 SME Target
	Total Procurement Spend (£m)	Direct Spend with SMEs (£m)	Direct Spend with SMEs as %	Total Procurement Spend (£m)	Direct Spend with SMEs (£m)	Direct Spend with SMEs as %	2012/13 vs. 2011/12	Indirect Spend with SMEs (£m)	Indirect Spend with SMEs as %	
BIS	£1,108	£295	26.6%	£1,490	£422	28.3%	▲	£37	2.5%	42.0%
CO	£93	£11	12.0%	£168	£23	13.5%	▲	£23	14.0%	25.0%
DCLG	£253	£53	21.1%	£269	£67	25.0%	▲	£12	4.3%	27.5%
DCMS	£336	£59	17.5%	£320	£46	14.5%	▼	£49	15.4%	35.0%
DECC	£3,081	£13	0.4%	£1,841	£35	1.9%	▲	£205	11.1%	19.0%
DEFRA	£1,266	£208	16.4%	£1,345	£273	20.3%	▲	£53	3.9%	25.0%
DfE	£267	£48	17.9%	£325	£63	19.5%	▲	£62	19.0%	25.0%
DFID	£652	£202	30.9%	£698	£222	31.9%	▲	£32	4.7%	35.0%
DfT	£2,696	£77	2.9%	£2,791	£137	4.9%	▲	£236	8.5%	18.6%
DH <sup>1</sup>	£1,061	£91	8.6%	£1,206	£161	13.4%	▲	£92	7.6%	18.0%
DWP <sup>2</sup>	£3,407	£378	11.1%	£3,354	£238	7.1%	▼	£299	8.9%	25.0%
FCO <sup>3</sup>	£179	£35	19.5%	£192	£39	20.5%	▲	£28	4.3%	25.0%
HMRC	£1,475	£6	0.4%	£1,410	£91	6.5%	▲	£96	6.8%	16.0%
HMT <sup>4</sup>	£92	£5	5.0%	£80	£4	5.0%	=	£1	1.4%	9.0%
HO	£2,876	£185	6.4%	£2,616	£98	3.8%	▼	£211	8.1%	15.0%
MOD <sup>5</sup>	£20,071	£1,044	5.2%	£20,369	£1,096	5.4%	▲	£1,998	9.8%	15.0%
MOJ	£5,090	£1,728	34.0%	£5,030	£1,560	31.0%	▼	£191	3.8%	38.0%
Other <sup>6</sup>								£442		
<b>Total</b>	<b>£44,002</b>	<b>£4,439</b>	<b>10.1%</b>	<b>£43,503</b>	<b>£4,577</b>	<b>10.5%</b>	<b>▲</b>	<b>£4,068</b>	<b>9.4%</b>	

- Total procurement spend and direct spend with SMEs is reported by departments on a monthly basis. Within these returns to the Cabinet Office, departments are asked to include the core department and its Executive Agencies and Non-Departmental Public Bodies (NDPBs).
- Indirect spend with SMEs is calculated using the results of a quarterly supplier survey set against departments total procurement spend.
- The supplier survey covers 120 key suppliers to Government; therefore only covers a proportion of total procurement spend (56%).

1. The indirect spend figures are taken from the quarterly supplier survey - these figures are indicative and representative of indirect spend for the period October 2012 to March 2013 only.

2. DWP strategy for the Work Programme saw a shift to indirect spend with SMEs through the supply chain.

3. Direct spend is based on UK spend only. Indirect has been calculated against global total procurement spend.

4. HM Treasury Group has revised its figures for 2011/12. On a like-for-like basis the total procurement spend is now recorded for 2011/12 as £91.6m (formerly £93m) and direct spend with SMEs as £4.5m (formerly £5m) which equates to 5%.

5. The total procurement and direct spend figures are for the core department only, therefore exclude its Executive Agencies and NDPB. Indicative indirect figures are taken from the quarterly supplier survey and are limited to expenditure by major prime suppliers with SMEs at the next tier of the supply chain.

6. Data reported by suppliers with no departmental breakdown

## Changes to the procurement landscape

The Government has been working to change the procurement landscape to encourage and support SMEs.

**LEAN procurement:** The average turnaround time between the publication of the Official Journal of the European Union (OJEU) notice and the date of contract award has more than halved, from 208 to 102 working days. This surpasses government's target of 120 working days.

Since the new LEAN Standard Solution was mandated in January 2012, over 1500 cross-government staff have undertaken some form of LEAN sourcing training e.g formal training programmes or e-learning. The Open procedure for goods and services - which favours greater competition and shorter turnaround times - is now the most commonly used procedure by government departments, accounting for 54% of above threshold procurements since LEAN was mandated. This is a significant increase from 19% usage pre January 2012.

*"The procurement processes are now more targeted and informed. Previously, a procurement that could take 4-6 months is taking as little as 4-6 weeks."* Brian Gannon, Director, Kainos

**Pre-Qualification Questionnaires (PQQs):** 2011/12 saw the abolition of the use of PQQs for contracts of goods and services under the £100,000 threshold (except where security is an issue). Evidence suggests that this has been a significant step in speeding up central government procurement processes and levelling the playing field for SMEs.

*"Removal of the PQQ is a positive step in making the marketplace more competitive for SMEs."* Trevor Hinkins, Operations Director, Mokum Change Management

**Contracts Finder:** Since its inception over 6,000 low value opportunities have been advertised. The volume of business available to SMEs is now more visible with 3,027 low value opportunities advertised on Contracts Finder between 30th April 2012 and 30th April 2013.

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★ **92% of low value opportunities flagged as suitable for SMEs**

★ **23% flagged as suitable for voluntary, community and social enterprise organisations**

★ **32% (2280 out of 7100) published contracts have been flagged as awarded to SMEs**

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*"Placing all public sector contracts in one place on Contracts Finder is helpful for small businesses. Not only can they search for current opportunities but they can see exactly what the Government is buying and what is in the pipeline. The challenge now is ensuring those businesses know it is available and where to find it."* Phil Orford, Chief Executive, Forum of Private Business

**Pipelines:** Most recently revised in May 2013, pipelines show business opportunities valued at approximately £79bn. Each notice (issued from Contracts Finder) contains a confidence level allowing suppliers to get an idea of how likely it is that a contract notice will be issued further down the line. A total of 652 different opportunities were published in May, with diverse requirements from waterproof clothing for the police services to Proton Beam Therapy for the University College London Hospital.

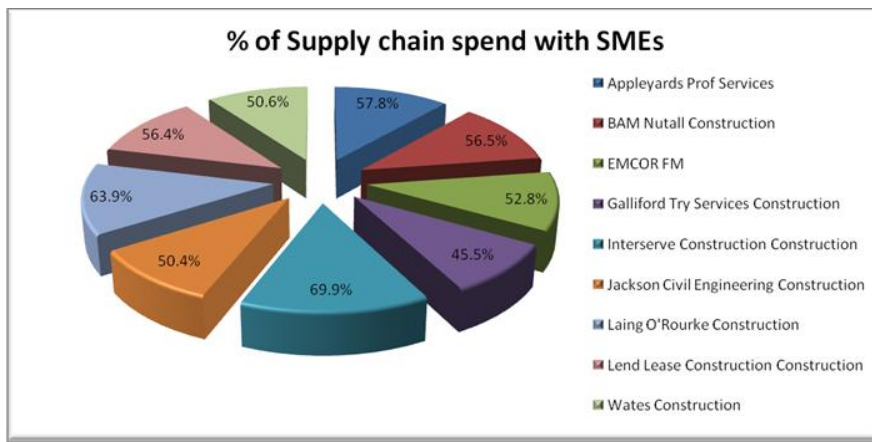
**Cross-government contracts:** SMEs can play a significant role in large, cross-government contracts. A recent example is the mandating of central government to source consultancy between £100k and £2m in value from the new ConsultancyONE framework. The outcome was extremely positive – SMEs accounted for 29 of the 66 suppliers (44%) bidding, including seven SME consortia.

*“Improving relationships with SMEs is vital to delivering innovation either alone or in a consortia, allowing us to provide our customers with a more capable and affordable solution.”* Nigel Cudby, Director – UK Government Relations, BAE systems

The agile route for communications services is now in place for over 200 SME suppliers, providing them with swift access to low value opportunities. This agile route will reduce the cost and time burden on suppliers when competing for Government business.

**Government’s Construction Strategy** seeks to identify the benefits that can flow from greater integration with the supply chain. There has been extensive involvement of SMEs across government’s construction supply chains with Tier 1 suppliers estimating SMEs in the supply chains to be in the order of 50% by value.

**Diagram 2** – Example of % of construction supply chain spend with SMEs



A wide range of measures is also being used to inject liquidity within the supply chains, including supply chain finance, enterprise credit guarantees and Project Bank Accounts (PBAs) - Government has now awarded £2bn of work that makes use of PBAs.

**Mystery Shopper:** The Mystery Shopper team have now received over 440 cases, with over 80% being resolved with a positive outcome. Diagram 3 shows how our interventions have seen significant changes to procurement practices and accounting processes.

**Diagram 3** – Breakdown of Mystery Shopper interventions



Examples include a sub-contractor in the FM/Construction industry that was not being paid promptly by a prime contractor. Our intervention ensured payments were made, resulting in the SME avoiding the need to make a number of redundancies. Another example enabled a small IT supplier to submit electronic invoices for work done under contracts with two Government departments, saving time and money for the SME.

The Mystery Shopper team was also able to support the SME programme by ensuring that policy decisions were followed through in departments, this includes the removal of PQQ on below EU threshold procurements.

*“Staff in the Mystery Shopper Team are knowledgeable, well trained and helpful. Service users are kept informed of progress of their cases.”* Taken from the 2013 Mystery Shopper User Survey

## Government support for SMEs

An ambitious and driven small business sector can steer the economic recovery in the right direction. So for small firms to be as successful and prosperous as possible, it is important that the Government provides the right support and conditions to allow them to thrive.

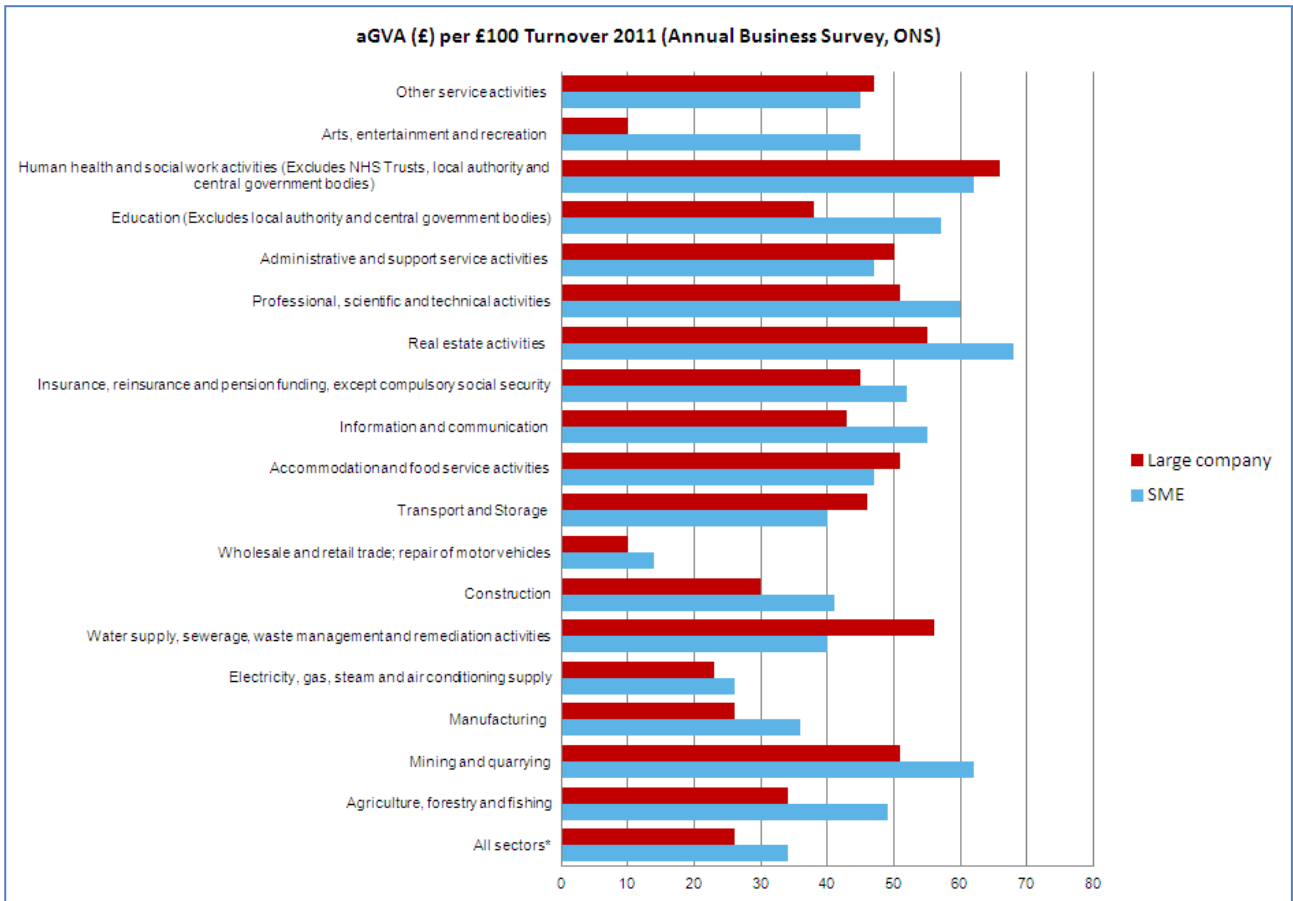
The Government has already taken many steps to support SMEs, including:

- Establishing Growth Accelerator, a scheme solely focused on accelerating SME growth. Over 5,000 businesses have received tailored support to meet their growth potential. The scheme will deliver 75,000 jobs and £2.8bn of economic growth by 2015/16.
- Giving every business and charity a £2,000 allowance towards their National Insurance Contributions bill from 2014, benefitting 1.25 million businesses.
- Introducing a further cut in corporation tax to 20 per cent, making the UK tax system one of the most competitive in the world, the joint lowest in the G20.
- Announcing in April 2013 that the Funding for Lending Scheme (introduced in 2012 to make loans cheaper and more easily available) would be extended and skewed towards SME lending. This will ensure that small businesses fully share in the benefits of cheap funding.
- Working to reduce red tape – the Government has already saved businesses around £1bn to date by reducing red tape.
- Developing a business bank to diversify the choice of lending available to SMEs.

## Growth

**Annual Business Survey:** The Office of National Statistics' (ONS) Annual Business Survey results for 2011 showed that SMEs generate more value to the economy (approximate Gross Value Added, aGVA) per pound of turnover than larger firms. ONS use aGVA as the measure for estimating the value added to the economy by businesses in the UK. The results showed that SMEs generated more than £33 per £100 of turnover on average while large firms generated only £26. This supports the view that switching procurement spend from large enterprises to SMEs generates additional value to the economy. Diagram 4 shows the aGVA/turnover ratio by sector of the economy. The table shows that the value generated by SMEs varies by sector.

Diagram 4 – aGVA (£) per £100 turnover



The 'All Sectors' bars on the table represent aGVA per £100 turnover for the whole UK business economy in 2011. The two lines do not represent "averages" of the values represented by the bars above, but are influenced disproportionately by sectors where turnover and aGVA are high (e.g. wholesale and retail trade.)



## CHAPTER TWO – SMEs IN GOVERNMENT

**New business with government:** New suppliers to government have told us they are now able to compete in markets that they would not have been able to a year ago; existing SME suppliers to government have continued to build their relationships with us and their businesses have grown as a result. Here are some of their stories:



*"I firmly believe that government has committed to SMEs and that the procurement process has improved over the last 2 years mainly due to the readily available information."* Jae-Young Ha, UK Director, Oxbridge Pharma Ltd

Oxbridge Pharma Ltd is a small pharmaceutical company with six office-based staff that specialise in supplying pharmaceutical medicines. Over the past two years their engagement with government as an SME has been predominantly through the NHS. Building on this relationship, they have developed a solid business plan and are looking to grow their organisation across international markets.

Oxbridge Pharma Ltd's first engagement with government was via a framework tender, using it as a practice bid to understand the processes involved. Jae-Young Ha confirmed that, *"over the past 10 months our commitment has paid off."* A successful bid has enabled them to gain a place on a government framework. Jae-Young also said, *"we are delighted to have secured a contract that will enable us to continue to supply our products to the NHS."*

Oxbridge Pharma Ltd would like to see the Government fulfilling its promise to reduce the burden around procurement administration and implement a central control on advertising of NHS contracts through the Contracts Finder website.



*"Working with government is mostly positive, sometimes frustrating but generally rewarding."* Martin Bollers, Managing Director, Big Blue Door

Big Blue Door is a web and digital development agency employing five people. They have worked across the public sector. Big Blue Door predominantly engages with government via frameworks and G-Cloud – a recent example was designing the National Citizen Service website.

Big Blue Door has experienced government making some positive changes to the way it does business with SMEs over the past two years. Martin explained, *"I am particularly impressed with the G-Cloud procurement process, and the support that was offered to suppliers through workshops, focus groups and blogs."* Whilst the use of G-Cloud may have streamlined the procurement process, Martin believes that away from the centre, other parts of central and local government are *"still wedded to long and complex pre-qualification questionnaire (PQQ) processes."*

Big Blue Door would like to see central government continuing to communicate the benefits of working with SMEs and do more to cajole the wider public sector into embracing the new approach.

**Supporting UK growth:** SMEs play a crucial role in generating UK growth and supporting sustainable economic recovery. Here are some of their stories:



*“Engagement with the SME programme has been informed, streamlined and thoroughly professional. As a result Kainos has established a productive and mutually beneficial customer-supplier relationship with central government.”* Brian Gannon, Director, Kainos

Kainos provides Digital Services to the public and private sector and over the past year has worked closely with Government Digital Services (GDS). This relationship has led to Kainos working in other central government departments and agencies, with GDS sponsorship. Kainos currently considers UK central government to be its major engine for growth: for example, over the past year the relationship has been instrumental in helping grow the company’s headcount by over 100 new personnel.

Kainos feels that the public sector procurement process has changed a great deal over the past two years commenting that previously it felt *“cumbersome, slow and inefficient.”* In the past few years there have been vast improvements. The removal of the PQQ for below EU threshold contracts, has been just one of the contributing factors in speeding up central government procurement.

Kainos has found that acting as a sub-contractor, through third parties, can be frustrating. Brian explained, *“It slows commercial interaction and also has increased the length of time before payment is received.”*



*“It is now much easier to engage with government procurements, with a faster response to queries, better clarity and more competitive pricing structures.”* Trevor Hinkins, Operations Director, Mokum Change Management

Established in 1997, Mokum is now the largest consultancy in Europe specialising exclusively in Oracle Applications Consulting, Managed Services and related software. In the past Mokum has found it difficult to get onto central government frameworks and secure contracts. Trevor explained *“it was primarily due to excessive barriers in relation to time and marketing which made it difficult for SMEs like Mokum to compete in the marketplace.”* They often had to trade through larger organisations to win contracts, losing 11% of revenue in the process.

For Mokum, doing business with government is considerably easier than it was a few years ago. The removal of the PQQ for below EU threshold contracts is seen as a positive step in making the marketplace more competitive. The G-Cloud Framework has meant better competition on smaller and more controlled projects aimed at SMEs. Trevor said that, *“as a result of these positive steps, we have seen turnover increase by 10% and are looking at hiring more staff in the near future.”*

Mokum also believes that there should be better distinction between lots so that criteria do not overlap, which can lead to mis-interpretation and unnecessary extensions to the procurement process.

**SME Panel:** The SME panel is a representative group of SMEs drawn from a range of market sectors who help ensure the Government remains in touch with the reality of SME experience in engaging with government. The panel has played a pivotal role in understanding the barriers to consortia formation, and have seen real success including a GPS framework for medical locums that includes eight SME consortia.

The SME Panel regularly meets with both the Minister for the Cabinet Office and the Minister for Political and Constitutional Reform allowing a two way dialogue to discuss how the SME programme is delivering real results and where more needs to be done. The expertise and enthusiasm shown by the SME panel members has helped shape the direction of the programme and deliver genuine results.

*“It has been a challenging year for the SME Panel. Opportunities have opened up for members of the panel to make a big difference.....the ability to influence for the greater good has continued to be there.”* Daniel Ruiz, Delivery Cell One and SME Panel member

The SME panel, in conjunction with government departments also developed an **SME Friendliness Tool**. The tool has been designed to describe what SME friendly procurements look like and support improvement by allowing departments to benchmark against and learn from each other.

**Trade Associations:** We continue to work closely with SME-focused trade associations to help ensure delivery of our 25% aspiration. Trade associations are a valuable source of feedback, helping us reach out to SMEs, understand the real impact the programme is having on UK businesses and the ongoing challenges in creating a level playing field for SMEs.

*“Industry is very supportive of the SME programme. The 25% contracts by value aspiration is ambitious. We are encouraged by government’s willingness to tackle some of the challenges needed to achieve this, particularly procurement reform which would make it much easier for SMEs to bid for government business.”* Julian David, Director General, Intellect

Trade Associations have informed us that government’s continuing use of frameworks is still a concern, perceiving them to hinder access for new innovative companies. The G-Cloud framework is widely regarded as a positive example of an approach to frameworks that encourages and develops new suppliers – a model for the future use of SME-friendly frameworks in government.

The 25% aspiration is seen by the **Confederation of British Industry (CBI)** as a means of focusing the attention on SMEs and bringing to the fore the role they can play in the supply chain.

In November 2012 the CBI reported high confidence in the SME policy and was encouraged by the departmental procurement pipelines now available. Although the policy direction was welcomed, the CBI thought that more practical steps were needed to improve access to central government business.

The Federation of Small Business (FSB) is positive about the progress made so far but wants more to be done.

*“The FSB’s research shows just how important it is to maximise the impact of procurement by spending more with SMEs, and as such we are pleased to see that government policy continues to move in the right direction.”* Mike Cherry National Policy Chairman, Federation of Small Businesses

## CHAPTER THREE – LARGE SUPPLIERS TO GOVERNMENT SUPPORTING THE SME AGENDA

**Securing better value from SMEs:** The largest suppliers to Government play a critical role in the achievement of the 25% aspiration. Large suppliers to Government have been encouraged to refresh their supply chains and make more use of SMEs in delivering their business to Government. Here are some of their stories:



*“Government can use its influence and spend with large suppliers to help drive economic growth in the SME sector.”* James Johns, Director of Strategy, HP

HP is the largest supplier of IT products and services to the UK public sector market and a significant force in the UK in its own right. With a third of its public sector business subcontracted, HP already has over 600 SMEs in its £560m UK supply chain.

HP has made a commitment to grow the amount of business it places with SMEs by the end of 2013, and has set targets to increase the value of goods and services bought from UK SMEs by 50% and an additional 150 SME partners engaged to its supplier network. James Johns explained, *“we think there are four ways that a large supplier like HP can help SMEs work with government; market access, financial assistance, knowhow and facilities and contractual support.”*

An SME partner from HP’s commercial work, **Emergn**, specialises in agile software development. Having helped HP to adopt agile development methods for a major mobile phone vendor, the company was introduced as a subcontractor to the Department for Work and Pensions. As a result the SME was able to grow and is now dealing directly with its government clients as one of the most successful suppliers on the G-Cloud framework.



*“Local is not just about being more sustainable, it is about a lasting positive impact on the local economy, which is why over the last year over 70% of suppliers we used for public sector contract in the UK were from the SME community.”*  
Bruce Melizan, Executive Director, Interserve

SMEs are important and increasingly valuable members of Interserve’s regional business offering. Utilising SMEs in their local supply chain Bruce Melizan explained, *“Interserve’s national capability is based on a regional and local approach, at the heart of which are SMEs.”*

Interserve provides national capability through local presence, assisting SMEs by offering its own advice on areas like how to deliver using framework agreements and health and safety training.

Bruce Melizan explained, *“Where possible Interserve has modified its procurement systems to allow the future identification and tracking of activity with SMEs within our supply chain.”* This is supported through its standard tendering process which asks suppliers to provide examples of using SMEs in their own supply chains as well as actively seeking to identify, with existing key suppliers, opportunities for further engagement with SMEs.

Over the past two years there has been an increasing emphasis on the need to innovate and achieve value for money. Interserve regularly holds ‘meet the supplier’ events, where potential new suppliers have the chance to engage with its procurement teams to improve visibility of opportunities. Of the suppliers used for public sector work by Interserve, the SME proportion has grown from about 60% in 2010/11 to over 70% in 2012/13.



*"In the last year 22% of Capita revenues were delivered by SMEs."* Giles Ruddle,  
Service Director, Capita

Through its Civil Service Learning contract, delivering learning and development to the Civil Service, Capita is committed to increasing the use of SMEs to deliver training. Opportunities are received from Civil Service Learning, through Capita's dedicated supplier portal which is used to establish the extent to which SMEs can be involved in the solution and delivery. There are over 900 suppliers registered on Capita's supplier portal of which 85% are SMEs.

Capita is very conscious of government's interest in supporting SMEs. Giles Ruddle explained, *"Capita is continually refining its approach to recording our SME work in delivering on our public sector contracts. Our latest quarterly return indicated that for FY12/13, 22% of Capita revenues were delivered by SMEs."*

Since the start of the contract, from all of the bespoke training requirements procured by Capita on the open market, 65% have been awarded to SMEs.

## CHAPTER FOUR – DEPARTMENTAL COMMITMENT TO THE 25% ASPIRATION

The Prime Minister commissioned comprehensive action plans from all central government departments to show how they will increase their business with SMEs to help achieve the Government's 25% aspiration. The top spending departments had their plans scrutinised by a panel comprising the Minister for Political and Constitutional Reform, the Deputy Chief Procurement Officer, the Crown Representative for SMEs and representatives from Cabinet Office's SME Panel.

*"When I was invited to be a part of the Scrutiny Panel I felt it represented another real example of how seriously the Government is taking the SME agenda. Involving group members suggested to me that it was a joint effort without barriers and demonstrated a clear and evidence-driven approach to evaluation and open comment. I was really pleased to be invited and I felt that my voice was being heard."* Pamela Cook, Managing Director, Infoshare Ltd and Scrutiny Panel member

One of the key changes in the programme over the last year has been the appointment of **lead ministers** in each department to drive the agenda forward. Ministerial involvement plays an important role in driving and sustaining momentum of the SME programme. Annex A shows the nominated lead ministers and summarises the progress made by the seventeen departments.

*"I am delighted to champion the SME agenda within the Home Office. I believe our focus on breaking down ICT contracts offers great potential for SME engagement, as well as supporting the Government's ICT Strategy. We are starting to see new SME entrants to the market offer us significant savings over incumbent suppliers and I am keen to drive this forward at the Home Office, generating savings for the taxpayer and growth for the economy."* Mark Harper MP, Minister for State for Immigration and HO Lead Minister for SMEs

**Departmental progress against the 25% aspiration:** Eleven central government departments have seen a positive shift in their direct spend with SMEs due to a number of procurements resulting in **SMEs winning business**, as the following examples illustrate (refer to Annex A for full details):

- Department for Work and Pensions (**DWP**) recently announced £6.5m of pioneering support to millions of separated parents as seven SMEs were chosen to launch projects across the country.
- Home Office (**HO**) secured better value, when compared to using a large Systems Integrator (SI), resulting in an 83% saving.
- **BIS** recently contracted with an SME (over a large SI supplier) – contract value of approximately £1m over 2 years.

**Behaviour change** also has to apply to the largest suppliers to government. Actions taken to achieve this include:

- Ministry of Defence (**MOD**) will require its large single-source contractors to provide an annual report outlining their sub-contracting procurement process and steps taken to encourage greater involvement of SMEs in their supply chains.
- **DWP** has agreed with its major suppliers to provide a minimum 20% SME spend through the supply chain.
- Department for Communities and Local Government (**DCLG**) has agreed with two of its major suppliers to increase SME spend and will work with others to do the same.
- Department for Business Innovation and Skills (**BIS**) continues to ask all new major project suppliers to provide a scale of SME usage within bids.
- Department of Health (**DH**) has proposed a new contract clause requesting prime contractors to pay SME sub contractors within 10 days.
- Nuclear Decommissioning Authority (**NDA**) - an arm's length body of Department of Energy and Climate Change (**DECC**) implemented a bespoke intellectual property solution to allow an SME to contract with a strategic supplier.

**Small Business Research Initiative (SBRI):** Innovative SMEs frequently face challenging funding gaps as they seek to develop new and innovative products. SBRI helps to bridge this gap by providing 100% research and development funding, supporting companies to develop potential solutions. Providing valuable opportunities for innovative technology-based companies to engage with the public sector, SBRI is a means of solving specific problems where there is not a readily available solution on the market.

Since April 2012, with the Technology Strategy Board running the programme, SBRI has made good progress - 26 full competitions across a wide range of public sector areas, awarding 332 contracts worth over £24m.

A number of departments are utilising SBRI to generate innovation. Examples include:

- Department for Environment, Food and Rural Affairs (**Defra**) which has completed seven SBRI competitions across its organisation;
- **MOD** has a need to reduce the weight a fighting soldier has to carry on operations. Using SBRI, a start-up micro has developed innovative technologies that have the capability to deliver a significant weight saving in the electrical cabling that connects each soldier's equipment items.

The Government announced in the 2013 Budget that it will substantially expand **SBRI** among key departments so that the value of contracts through this route increases from £40m in 2012-13 to over £100m in 2013-14 and over £200m in 2014-15.

## CHAPTER FIVE – THE NEW DIGITAL WORLD



*“We will focus on user needs; rebalance our approach to government technology and digital services. For all suppliers, including SMEs, we will build on G-Cloud and the proposed Digital Services Framework, providing government with access to agile product and software development services throughout the UK.”* Mike Bracken, Executive Director of Digital, Cabinet Office

The Government Digital Strategy focuses on making public services more relevant, responsive and convenient, with the ambition that it should be as easy to deal with government online as it is to bank online. Government began its digital transformation last year with the launch of GOV.UK, a simple, single platform for all interaction with government. Over the next year, 25 of the top 50 public services will be transformed across eight different government departments.

Underpinning this is the de-construction of big IT to make way for digital, by using commodity and common services, disaggregating large contracts and ensuring there is a level playing field for open source. We want to enable departments to focus on their line of business IT – the technologies needed to address the specific user needs of that department – and working in tandem with their digital colleagues to deliver great services for users.

**Open markets:** Central government spends £7bn a year on IT, with the majority of the largest contracts that make up this spend coming to an end in 2014-15. We have made sure that the barriers to entry that government put in the way of small businesses have been lifted. Competition in procurements will be encouraged, with no like-for-like extensions to existing contracts. Programmes will be disaggregated for commercial purposes – broken down into components supported by the market to enable many suppliers to bid. This will open the door to new vendors to bid for government business.

*“Change is afoot. Four of our fastest projects this year were government based. It is great to see rapid prototyping and agile environments deliver benefits quicker.”* David Burgess, Managing Director, Reading Room

**G-Cloud:** G-Cloud has already made it easier for SMEs to supply to government, by simplifying the procurement process and creating an open, competitive and transparent marketplace for services; further supported by a ‘Cloud First’ policy mandated for central government. SMEs have taken over 60% of G-Cloud sales to date, and the latest G-Cloud framework (G-Cloud iii) attracted 83% SMEs from a total 708 suppliers.

**Government Service Design Manual:** We have published how we deliver Digital and IT in the Government Service Design Manual, so business can see how we work and understand government’s needs. We are also being more transparent throughout the procurement process for government technology, giving suppliers of all sizes the information they need.

**Open Data:** Our commitment to open data will help us to provide better information to business. We are developing Application Programming Interfaces (APIs) through which business can access government data. Since the launch of GOV.UK we have been trailing a content API and we are continuing to improve and refine it.

### Where do we go next?

Government has made a significant step in lifting the barriers to entry for SMEs, creating a more dynamic and open market with an increased level of SME involvement and better value for the taxpayer. As part of efforts to deliver the 25% SME aspiration, our ambition is that at least 50% of spend on **new government IT** flows to SMEs directly and in



the supply chain. In exceptional cases where large IT contracts are required, we will expect at least 25% of the supply chain of those contracts to go to SMEs.

*“Government should focus on educating more departments in the positives that can be gained from using G-Cloud for digital requirements.”* Kate Craig-Wood, Managing Director, Memset

We will continue to build on the success of **G-Cloud**, making this a routine way for the Government to buy cloud services. By working on improving it together, we can make G-Cloud a lasting success and radically change the market for public sector IT – simpler, more agile and cheaper.

All new digital spend will be channelled through the proposed **Digital Services Framework** which goes live late summer 2013. It will provide government with access to agile product and software development services throughout the UK. Although open to all providers of agile product and software development services, it will be particularly attractive to SMEs given its low barrier to entry and the requirement for departments to break work packages into smaller lots. Suppliers will also be required to deliver ‘where government is located’ which will assist the local SME market.

## CHAPTER SIX - NEXT STEPS

At the half way point of this programme the Government knows what it has to do and the routes it must take to ensure its aspirations are delivered. The key areas are:

### Commercial capability

Civil servants in policy development and delivery need to be more commercially astute; delivering value for money requires sound financial and commercial ability, much more than simply improving our procurement skills. We must better understand how to engage with the market to obtain more choice and innovation.

We will look to improve the tendering process by focusing on minimal data requirements that simplify the overall procurement process - and therefore reduce the cost of bidding. Knowing how to negotiate a good deal and applying commercial judgement is just as important as understanding the procurement process.

In particular government must do more in terms of pre-market engagement. So that we understand the potential for SMEs to contribute and supply our services and goods, we must share specifications and procurement routes. To enable this departments are working with upcoming procurements, taken from the pipelines, aiming to encourage more strategic dialogue with the supply chain and facilitate innovation early in the pre-procurement process.

SMEs and their representatives will be invited to participate in discussions on the pipelines and in pre-procurement dialogue on individual projects.

*“Departments will need to continue to change procurement attitudes and behaviours by breaking down contracts into smaller lots, provide better visibility of pipelines and up skilling on wider commercial skills.”* Sally Collier, Deputy Chief Procurement Officer, Cabinet Office

### IT and digital

Digital will provide the biggest opportunities for SMEs during the next twelve months. Government has set itself an extremely ambitious goal, that at least 50% of spend on new government IT, flows to SMEs directly and will be looking at its pipeline of business to show that real change is happening. Examples include:

- Department for Transport (**Dft**) is focusing on opportunities within the Highways Agency construction supply chain – a potential £15m to flow to SMEs by 2015 as a result of re-letting ICT contracts.
- **HO** identified a potential pipeline of £200m of ICT projects that will be targeted for increased SME participation.
- **BIS/UK Shared Business Service (UK SBS)** have identified a potential £300-400m in the disposal of IT hardware that could have significant opportunities for SMEs.
- **The Health and Social Care Centre** (an arm’s length body of DH) on behalf of NHS England, are currently working with the supply market to understand how and where SMEs can be incorporated into the replacement NHS Mail contract(s). The re-procurement activity will commence in October 2013.

### Holding Government’s “feet to the fire”

The **SME Panel** will continue to hold the Government to account by keeping a close watch on the programme and ensuring sufficient progress is made.

We are building on the success of **Mystery Shopper** by extending the service to include spot checks of procurement and contract management processes.

The Cabinet Office will also develop a greater understanding of the impact of the SME reforms within the English regions.

We will continue to build on the success of **Contracts Finder** and deliver improvements to the system, making it easier for government departments and SMEs to use. This includes encouraging private sector companies to advertise government sub-contracting opportunities.

*“Government is definitely moving towards simple and more accessible requirements for SMEs and increasing its willingness to engage in suggestions from suppliers.”* Kate Craig-Wood, Managing Director, Memset

We needed to find a way for SMEs to pitch innovative solutions to government outside of the procurement process. Building on the findings from a pilot programme, the new **Solutions Exchange** website will be launched during summer 2013 as a quick and easy way for SMEs to pitch their proposals and for government to conduct informal pre-market engagement and encourage diversity in the supplier base.

### **Extending the reforms**

In April 2013, **Lord Young** set out his recommendations for removing the complexity, cost and inconsistency that suppliers often encounter when trying to sell to more than one public body, by establishing ‘single market’ principles. The Government will also consult on these reforms as soon as possible.

## OTHER SOURCES OF INFORMATION

SME Year One report – *Making Government business more accessible to SMEs – One Year On:*

<https://www.gov.uk/government/publications/government-business-for-smes#>

SME Spend Data - *Departmental SME spend for 2011/12:*

<https://www.gov.uk/government/news/departmental-sme-spend-for-2011-12-reveals-steady-increase>

BIM4SMEs - *Building Information Management for SMEs:* <http://www.bim4sme.org/>

Central Government Website – *A simpler, clearer and faster way to find Government Services and Information:*

<https://www.gov.uk/>

Contracts Finder – *lets you search for information about contracts worth over £10,000 with the government and its agencies:* <https://www.gov.uk/contracts-finder>

European Tenders Electronic Daily (TED) – *Advertising all EU procurement opportunities over £100,000; also includes sub contracting opportunities advertised by Prime Contractors registered on the site:* <http://www.tenders.eu/>

Lord Young - *Growing your Business: A report on Growing Micro Businesses:*

<https://www.gov.uk/government/publications/growing-your-business-a-report-on-growing-micro-businesses>

Mystery Shopper Scheme - *Structured and direct route for suppliers to raise concerns about public procurement practice:* <https://www.gov.uk/doing-business-with-government-a-guide-for-smes#mystery-shopper-scheme>

National Specialist Contracts Council - <http://www.cnplus.co.uk/nscc-picks-14-fair-payment-champions/8638543.article>

Procurement for Growth - *A recipe for success: Guidance for public sector procurement practitioners:*

<https://www.gov.uk/government/publications/procurement-for-growth>

Prompt Payment Policy – *Prompt payment is critical to the cash flow of every business:*

<http://www.promptpaymentcode.org.uk/>

SME Friendliness Tool – *A tool to help government departments engage with SMEs:*

<https://www.gov.uk/government/publications/sme-friendliness-tool>

SME Videos - *Advice on how SMEs can win government contracts:* <https://www.gov.uk/doing-business-with-government-a-guide-for-smes#mystery-shopper-scheme>

Service Design Manual – *guidance for Chief Technology Officers that support SMEs and encourage competition:*

<https://www.gov.uk/service-manual/chief-technology-officers>

Small Business Research Initiative (SBRI) – *The SBRI programme uses the power of government procurement to drive innovation:* <https://www.innovateuk.org/-/sbri>

# Annex – Departmental progress reports

**Top spending departments:** pages 22 to 31

**Other departments :** pages 32 to 35

## Department for Business Innovation and Skills (BIS)



*“Public procurement can seem opaque, time consuming, expensive and as a consequence a closed door for SMEs. These perceptions need to be changed, not least through enlightened procurement practice.”* Michael Fallon MP, Minister of State for Business and Enterprise

### SME spend data (2015 Target – 42%)

Spend Data	2011/12	2012/13
Direct	26.6%	28.3%
Indicative Indirect *	N/A	2.5%

\*Taken from the quarterly supplier survey

BIS and its partners spend in the region of £1.2bn per annum of which 28.3% is spent directly with SMEs. To support Government’s aspiration to get full value from SMEs, BIS has set a stretching target to increase spend (direct and through the supply chain) by 15-30% by the end of this Parliament. The plan to achieve this will require embedding best practice category management that encourages pre-market engagement, enabling increased competition and opening other ways to fulfil our procurement or commercial requirements. BIS has developed a procurement strategy that encourages tiered supply chains and the use of SMEs by suppliers to support their contracts and encourage the use of consortia bidding for all opportunities. Significant SME opportunities have been identified in the ICT category, particularly around the disposal of IT Hardware.

BIS procurement spend is managed by UK Shared Business Services Ltd (UK SBS - formerly RCUK SSC). As more BIS spend falls under its control, integrated contracts will be reviewed and where possible, broken down into smaller lots to enable SMEs to bid for business. More recently UK SBS announced their alliance with the Government Procurement Service and have taken the lead in the development of Scientific and Technical Research, Market Research, Social and Economic Research and the Construction Categories. The application of best practice category management across these areas, and encouragement of consortia bids or tiered supply chains for the delivery of pan – government frameworks and contracts will further increase SME participation for the benefit of BIS, across government and the wider public sector.

#### “SMEs form a partnership to service Government”

**Background:** A recent procurement activity was required to find a replacement provider (the incumbent was a large SI) for the Department’s SPIRE system, an online tool to apply for a trade licence for goods with a value of approximately £47m per day or £10bn per year. This system is business critical for BIS, and also has an important role to play for the UK Economy.

**SME Partnerships:** During June 2013 the G-Cloud (ii) framework was successfully used to identify and contract with an SME, **Fivium Ltd**, to provide BIS with the specialist Software as a Service (SaaS) solution to manage the requirements set by SPIRE. In order to provide the full service required, with a contract value of approximately £1m per year over a two year period, Fivium Ltd has partnered with SME supplier, **Skyscape Ltd**, who offers data hosting.

**SME demonstrates value for money:** The partnership between Fivium Ltd and Skyscape Ltd has demonstrated how SMEs can add value to the business, producing an annual operational saving of circa £300,000 against the previous platform.

## Department for Environment, Food and Rural Affairs (Defra)



*“It is vitally important that Defra continues to work with its supply chain to make savings and generate innovation growth, sustainability and resource efficiency.”* Lord de Mauley, Parliamentary Under Secretary of State for Resource Management, the Local Environment and Environmental Science

### SME spend data (2015 Target 25%)

SME Spend Data	2011/12	2012/13
Direct*	16.4%	20.3%
Indicative Indirect**	N/A	3.9%

\*Please note these figures are sourced from a range of systems and subject to further detailed verification work \*\*Taken from the quarterly supplier survey

Over the past 12 months the Defra network has seen a significant increase in its direct spend with SMEs and there is much close working across the Defra network to identify best practice and monitor its application.

The department has a detailed action plan which covers all major bodies in the departmental family and has been signed off by Lord de Mauley, Defra’s lead minister on the SME agenda. Defra’s progress is reviewed quarterly by Lord de Mauley and the department’s head of procurement. Additional SME spend is expected to be revealed by gathering data from significant departmental prime contractors. Defra will also encourage its top five departmental prime contractors to develop plans to increase spend with SMEs.

The Environment Agency recently awarded its major Water and Environment Management framework to deliver its flood defence programme (c £500m per annum). This procurement addressed the SME agenda by breaking the framework into lots to encourage SMEs and consortia to bid, and by asking prime contractors to provide details of 2<sup>nd</sup> tier supplier spend and to publish their sub-contracting opportunities. The framework is also open to Local Authorities to use.

#### “Consortia are encouraged”

**Background:** The Rural Development Programme for England (RDPE) is funded by the EU and the UK Government and managed by Defra. The National RDPE Skills Framework provides new knowledge and skills for agricultural, horticultural and forestry sector workers.

**Supplier days:** Ahead of the procurement process Defra actively encouraged the setting up of consortia of SMEs to provide national coverage by running three supplier days in London, Bristol and Leeds. Many SME (and non SME) suppliers attended and were inspired to engage with each other to form consortia and sub contracting arrangements and to bid for an area of work which, in the past they had been reluctant to engage with. As a result, many of the SME suppliers did go on to win a position on the Framework of 32 suppliers and through the contracts to date a good rapport has been built with many of these new suppliers.

**Pre-market engagement continues:** A similar approach to supplier engagement has been used to encourage SMEs to play a part in the agile systems development for the Common Agricultural Programme (CAP) reform programme. This has been split into multiple lots using a variety of procurement routes including GPS frameworks and OJEU procurements, which, along with the agile systems development approach has made it much more accessible to SMEs.

## Department of Energy & Climate Change (DECC)



*“We need large corporations to recognise the commercial advantages of a more inclusive supply chain, as well as the knock-on benefits that SMEs can deliver in achieving value for money and generating growth.”*

Baroness Verma, Parliamentary Under Secretary of State for Energy and Climate Change

### SME spend data (2015 Target – 19%)

SME Spend Data	2011/12	2012/13
Direct	0.4%	1.9%
Indicative Indirect*	N/A	11.1%

\*Taken from the quarterly supplier survey

DECC has agreed its 2015 SME target with the lead minister. The department has a credible, adequately resourced plan – subject to regular senior review – setting out the key actions designed to deliver real outcomes. The plan covers DECC, Nuclear Decommissioning Authority (NDA) and its other executive agencies and non-departmental public bodies.

A significant proportion of the department’s total procurement expenditure falls within the control of the NDA which is responsible for the UK’s Civil Public Sector legacy nuclear sites. The NDA has a mature SME plan; and those of the Site Licence Companies (SLCs) have been agreed. Engagement approaches are continually reviewed to ensure that all new project and programme acquisition strategies, consider the SME and Growth agendas through lotting and other SME-enabling techniques and proposals.

NDA has also taken steps to reduce the cost and complexity of trading with its estate - simplification and standardisation of PQQ and T&Cs, and adoption of Contracts Finder (used by the SLCs and progressively by the estate’s Top Tier 2 contractors) to facilitate transparent access to opportunities. Recognising the complexity of trading across a geographically large and complex estate, the NDA has set up SME steering committees (Wales, Cumbria, Scotland and the North and South of England) with the aim of enabling SMEs to be more successful in the nuclear sector.

### “Size is not a barrier in Nuclear”

**Background:** Historically the disposal route for dealing with nuclear activated oils is by incineration - costly and time consuming. Magnox, one of the NDA SLCs, and Arvia Technology Ltd have been working together for over two years to develop a means of efficiently and cost effectively processing 2,000 litres of activated oil at the Trawsfynydd Nuclear Site in Wales.

**Bespoke Solution:** As a small technology start-up company Arvia needed to protect its background intellectual property (IP), making it difficult for them to accept the normal NDA IP provision. Magnox prepared and submitted a business case to NDA arguing for a bespoke IP solution. Without this it is highly unlikely that Arvia would have been able to contract with Magnox and in turn would have found it increasingly difficult to continue to secure support from its financial backers.

**SME offers a cost effective solution:** Arvia’s patented water treatment system, offered an environmentally friendly solution to deal with a difficult waste. The value offering at Trawsfynydd alone is worth in excess of £4m reduction in lifecycle costs. Ron Gorham, NDA SME Champion, explained *“as a result of these pragmatic arrangements Arvia is able to continue to develop technology that delivers more affordable solutions to the UK tax payer”*. On the back of this successful contract, NDA has also effected introductions to potential nuclear clients in Japan, North America and China.



## Department of Health (DH)



*“We are seeing across the health and care sector that SMEs can bring innovation, flexibility and value for money to our services helping us to reduce costs and put more money into frontline patient care. It is because of this that it is extremely important for us to continue to improve our procurement practices and give our support to SMEs.”*

Dr Daniel Poulter MP, Parliamentary Under Secretary of State, Department of Health

### SME spend data (2015 Target – 18%)

SME Spend Data	2011/12	2012/13
Direct	8.6%	13.4%
Indicative Indirect*	N/A	7.6%

\*Taken from the quarterly supplier survey - these figures are indicative and representative of indirect spend for the period October 2012 to March 2013 only.

DH has a comprehensive and credible plan to deliver its target, on which progress is reviewed monthly by its lead SME Minister. DH is progressing well with implementing change to support better access to SME. Major procurement opportunities in the next two to three years are likely to be through DH’s Arms Length Bodies (Executive Agencies and Non-Departmental Public bodies). DH and its Executive Agencies and Non-Departmental Public bodies are working towards publishing a pipeline of these opportunities later this year.

DH is engaging in pre-market engagement (following LEAN principles) for all high potential SME procurements. Work will continue to embed LEAN principles into all the department’s Executive Agencies and Non-Departmental Public bodies.

With the modernisation of the health and care system, the challenge for DH will be to maintain its SME spend over subsequent financial years. In April 2013, Strategic Health Authorities and Primary Care Trusts were abolished and the NHS England took on their functions - the consequence of these changes on SME spend is not yet fully understood.

#### “DH changes the way it procures”

**Background:** The national ‘Patient Questionnaire’ framework agreement for the collection and reporting of data through the administration of patient questionnaires (circa £60m), has historically been awarded to a single supplier providing the whole requirement nationally and often through a complex procurement process. When the contract came up for renewal the Department took the opportunity to review and redesign the contract not only to improve service delivery but also to enable smaller specialist organisations to participate.

**Redesigning the contract strategy:** Early supplier engagement was critical in the shaping and development of the contract strategy, three sets of briefing days were held on this project and the information that came out of these contributed to the strategy. During the engagement, it became clear that breaking the requirement down into smaller work packages and putting in place a framework would enable SMEs to put forward proposals - a move away from the single supplier solution giving end users more choice. The procurement process and associated documentation were also reviewed to make the process as simple as possible. One significant change was the reduced level of financial assessment being asked for so not to prevent smaller suppliers participating.

**SMEs appointed to the Framework:** Two of the four successful suppliers bidding for the framework were SMEs. Both SMEs offered solutions which matched the quality and price of other bidders. Both suppliers also had lots of opportunities to input into the shape of the procurement and the final lot structure. Importantly, both SMEs, following the award of the framework, have been successful in winning work.

## Department for Transport (DfT)



*“SMEs are the cornerstone of our economy. Put simply, if we are to move out of these challenging economic times, the success of SMEs is fundamental.”* Norman Baker MP, Parliamentary Under Secretary of State for Transport

### SME spend data (2015 Target – 18.6%)

SME Spend Data	2011/12	2012/13
Direct	2.9%	4.9%
Indicative Indirect*	N/A	8.5%

\*Taken from the Cabinet Office and DfT quarterly supplier surveys

The Department for Transport’s target of 18.6% spend with SMEs by March 2015 represents a high ambition given the shape of DfT’s procurement programme with its predominance of high value and infrastructure projects. The Action Plan to deliver this outcome is reflected in the objectives of the Permanent Secretary and Director of Group Procurement and Estates, as well as those for each of the Heads of Procurement in the DfT Group. It has been endorsed at ministerial level, is reviewed at the monthly DfT Heads of Procurement Board and is reflected in KPIs reviewed monthly by a DfT Main Board member.

The most significant SME spend areas for DfT are construction and ICT – and DfT’s forthcoming programme of major ICT contract re-lets opens up new opportunities for SMEs to compete for government business. The Construction pipeline forms part of government’s Infrastructure pipeline, whilst the ICT pipeline is published on Contracts Finder.

Approximately 69% of DfT’s total spend is through the Highways Agency. The department is therefore highly reliant on unlocking SME opportunities in this area if it is to make progress towards its target. The Highways Agency is rolling out Project Bank Accounts to ensure prompt payment to SMEs.

### “SMEs supported by Project Bank Accounts”

**Background:** The Highways Agency (HA) Board made a policy decision to adopt Project Bank Accounts (PBAs) as the default position for supply chain payment on all contracts. The PBA business case recognised the benefits that supported the SME agenda which included cash flow acceleration, protection in the event of main contractor liquidation and reduced tier 2 and 3 supplier costs.

**Deploying the first PBA:** Valued at £92m, the motorway improvement scheme (M62) was an ideal opportunity to deploy the scheme. Working closely with the main contractor, a PBA was created with an approved bank and funds protected by a Trust deed for named tier 2 and 3 suppliers. The main contractor agreed the amount contractually due to their named suppliers each month which subsequently informed the bank payment instruction. Overall 15 tier 2 and 3 suppliers are paid directly from the PBA each month, representing some 70% of the value of work sub-contracted alongside an average payment of 9 days.

**PBAs become business as usual:** PBA deployment has continued to evolve covering an additional 7 improvement contracts and 2 operation/maintenance contracts. By March 2014 HA is scheduled to have in excess of 20 operational PBAs, demonstrating real commitment in injecting liquidity into the supply chain.

## Department for Work and Pensions (DWP)



*“As Government continues to transform the benefits system and modernise the services DWP provides, we need to make sure we take new, innovative approaches. Tapping in to the experience and expertise in the SME sector will be a crucial part of this innovation.”* Mark Hoban MP, Minister for State for Employment

### SME spend data (2015 Target – 25%)

Spend Data	2011/12	2012/13
Direct	11.1%	7.1%
Indicative Indirect *	N/A	8.9%

\*The indirect spend with SMEs has been calculated using the results of the quarterly Supplier Survey set against departments total procurement spend - the suppliers surveyed represent a small sample of key suppliers to Government, therefore only cover a proportion of total procurement spend. This means that SME spend in the supply chain is likely to be higher than the figures presented here. Suppliers, who were unable to provide a breakdown by Department, have been excluded from DWP figures.

DWP has a challenging but credible plan in place, which is reviewed six-monthly by its lead Minister and quarterly by its Commercial Director. The direction of travel, particularly in Welfare to Work, has been to let larger contracts meaning that the bulk of opportunities for SMEs are in the supply chain. With the introduction of the Welfare Programme in 2011, DWP has therefore experienced a shift of their direct spend with SMEs to indirect spend. Such expenditure is not fully captured currently and DWP will continue to improve the collection of this data.

DWP is working with its key suppliers to increase spend with SMEs and has commitments from a number of suppliers including Trillium and HP to achieve 20% SME spend in its supply chains. All the prime contractors in the Welfare to Work arena are accredited to the Merlin standard which supports the SME agenda by ensuring fair supply chain practices are in place. DWP will continue to influence the level of SME spend in two other large procurement categories – ICT and Estates, therefore targeting up to 75% of its third party expenditure. DWP has identified opportunities for increasing direct market engagement of SMEs, particularly in its forthcoming IT Transformation programme and will be working to disaggregate requirements, engage open markets and promote indirect use of SMEs where contract size cannot be broken down.

#### “Out of court support projects awarded to seven SMEs”

**Background:** The Innovation Fund providing help and support for separated families was an ideal procurement to test a wide range of interventions. DWP wanted to understand what would be effective in changing parental behaviour, encouraging collaboration and reducing conflict amongst separating and separated parents. In parallel, a key objective was to increase the number of children benefiting from child maintenance arrangements through changing parental behaviour and avoiding the default use of Courts or statutory system.

**Welcoming new ideas attracts SMEs:** As part of £20m worth of investment to support parents to collaborate and give their children the best start in life, the first round of bidding for new funding generated a significant amount of interest from the market with over 100 applications; the majority from SMEs. This significant interest was predominately due to a simplified bidding process and moving the Financial Viability Risk Assessment to the Invitation to Tender stage of the competition. Over a quarter of a million separated parents in Britain will now benefit from £6.5m of pioneering support as seven SMEs were chosen to launch projects across the county.

**SMEs supported through effective payment models:** DWP has introduced a payment model which consists of evidenced milestone payments to help support the fixed costs involved in the delivery the project (accounting for no more than 30% of the total contract value, and staggered through the contract duration) and participant engagement payments e.g. a payment for each participant/couple who receive meaningful engagement from the project.

## Home Office (HO)



*“At the Home Office we have a comprehensive and credible plan that I review personally. ICT is our most promising area for increasing spend with SMEs; an area of focus for the coming year”* Mark Harper MP, Minister for State for Immigration

### SME spend data (2015 Target – 15%)

SME Spend Data	2011/12	2012/13
Direct	6.4%	3.8%
Indicative Indirect*	N/A**	8.1%

\*Taken from the quarterly supplier survey \*\*5.2% recently confirmed

The Home Office have a comprehensive and credible plan against which progress is reviewed quarterly by Mark Harper, the lead minister for SMEs in the Home Office. High potential SME procurements have been identified in the ICT category. Further supported by the new ICT strategy, Home Office will be working to disaggregate requirements, engage open markets and promote indirect use of SMEs in contract packages that cannot be broken down.

Home Office is also continuing to improve the collection of data from major prime suppliers on spend with SME sub-contractors. Alongside this, prime suppliers will be required to ensure all future major tenders request that vendors submit details of SMEs in their supply chain and the value of indirect spend placed with them. Systematic steps are already being taken to discipline compliance by primes with prompt payment terms as well as the top 5 departmental prime contractors being encouraged to develop plans to increase the percentage of SME spend with sub-contractors.

### “SME awarded a hosting contract via G-Cloud”

**Background:** With a contract value estimated at £3.2m, the Home Office was looking to award a hosting contract for the Disclosure and Barring Service. Initial quotes received from the Home Office shared service supplier (a large systems integrator) were in the region of £18m. The supplier reduced their hosting quote to around £9m, on a traditional hosting basis. This still did not demonstrate value for money; so a decision was taken to compete on G-Cloud.

**SME demonstrates a good outcome for the UK tax payer:** An SME, **Skyscape**, demonstrated greater agility and better value with a competitive quote, representing an 83% saving on the incumbent’s original price. The supplier’s ready to use platform meant that there were no implementation costs or significant lead times to set up the new service on the G-cloud. All costs are via unit costs based on actual numbers of units consumed – the Home Office contract will enable Skyscape to start to recoup their investment. This is a different approach to that used by larger firms who expect government to fund their investments rather than make investments themselves in anticipation of business from government.

**SME valuing government’s business:** **Skyscape** has embraced a true consumption model where the charges are made on an hourly basis allowing services to be switched on and off freely. In practice this means that if the business decides it does not need part of the system live at weekends the Home Office can reduce its costs. Other competitors’ offers were on a monthly basis and would charge for the full period even if the system was only used once during that month.

John Fernau for the Home Office explained, *“Skyscape has demonstrated a strong service ethic, orientated towards providing a solution and seeing how they can genuinely help us. They have shown that they add value to our business.”*

## HM Revenue & Customs (HMRC)



*“Small businesses make a vital contribution to the UK economy, both in terms of employment and growth. That’s why HMRC is committed to seeing a positive improvement in its relationship with small business – an improvement that has been felt on the ground and is recognised and welcomed by SMEs.”* David Gauke MP, Exchequer Secretary to the Treasury

### SME spend data (2015 Target – 16%)

SME Spend Data	2011/12	2012/13
Direct	0.4%	6.5%
Indicative Indirect*	N/A**	6.8%

\*Taken from the quarterly Cabinet Office supplier survey and HMRC supplier surveys \*\*Recently confirmed as 1.8%

HMRC has a comprehensive and credible plan to deliver its 16% target by March 2015, which is a significant increase from the 2.3% the previous year. With £300m addressable spend over the next 2 years HRMC’s focus during this Parliament is on opening up contract supply chains to SMEs. The ASPIRE ICT contract is the main opportunity for increased spend with SMEs and HMRC has developed methodology to identify those elements to compete externally and will be pursuing a large number of opportunities. To support this HMRC undertook its SME Expo where over 100 SMEs were asked for ideas to resolve some of HMRC’s future ICT challenges.

Away from its large contracts HMRC has a comprehensive pre-market engagement on direct contracts and has indentified those that could be supported/delivered by SMEs over the next two years.

#### **“SME friendly contract let under centralised procurement - shared services”**

**Background:** In developing the new centralised Courier Services framework, it was recognised at an early stage that the industry is formed of both large international and smaller domestic regional players. A total contract value of £30m over 3 years meant it was going to be necessary to focus on procuring a solution that would not only be suitable for the largest central government departments but also attractive to the wider public sector.

**Suppliers challenge government’s procurement behaviour:** Early engagement with suppliers through an on-line questionnaire and raising awareness via the trade bodies, aided suppliers of all sizes in preparing their resources and asking formal questions prior to the subsequent supplier day. All interested parties were invited to a ‘meet the buyer’ event, which included a debate around the proposed structure and procurement process and was reinforced by individual one-on-one sessions. The individual sessions were especially useful to SMEs as it encouraged them to ask questions that they would not be comfortable voicing in an open forum.

**Regional lots enable majority award to SME:** The outputs of the questionnaire and supplier day, a dynamic framework structure with smaller lots, encouraged a wide range of both general and specialist suppliers. The development of a regional lot structure was specifically designed to encourage SMEs to tender for the area in which they felt they could provide optimal service. Many SMEs appreciated the chance to tender on a level playing field with the larger more experienced suppliers. Many of the suppliers, whether successful or not, stated that the level of support they received during the tendering process encouraged them to stay the course and improved their knowledge for future tenders.

20 SMEs responded to the tender and 12 were awarded places on the Courier Services framework – 57% of the total suppliers awarded. *“This tender demonstrated that when procurements are sympathetic to the market structure and there is sufficient supplier engagement, centralised procurements can provide the right solution for stakeholders and support government’s SME and growth agendas.”* Dave Henderson, HMRC SME Champion.

## Ministry of Defence (MOD)



*“Working closely with the defence industry, we are determined to encourage more SMEs in the supply chain.”* Philip Dunne MP, Parliamentary Under Secretary of State for Defence Equipment, Support and Technology

### SME spend data (2015 Target – 15%)

SME Spend Data	2011/12	2012/13
Direct	5.2%	5.4%
Indicative Indirect*	N/A	9.8%

\*Taken from the quarterly supplier survey and reflecting solely expenditure by major prime suppliers with SMEs at the next tier of the supply chain.

Accounting for 45% of government’s total procurement spend, MOD’s SME achievement is critical to achieving the Government’s 25% aspiration. MOD’s SME action plan has senior oversight from the Minister for Defence Equipment, Support and Technology as well as from the Defence Commercial Director as departmental SME Champion. From a baseline of 13%, as measured by the MOD’s direct spend with SMEs and, indirectly, by its major suppliers’ spend with SMEs at the next tier of the supply chain, the plan sets a goal of increasing MOD’s direct and indirect SME spend to 15%. Since over half of MOD’s expenditure is on complex major projects that SMEs are not able to address directly, and a significant amount of current-year spend has already been committed in 2010 and earlier, the goal represents a significant challenge.

To address this challenge the MOD has an extensive range of activities in place to increase spend with SMEs. As described in detail in the February 2012 White Paper on National Security through Technology, these include: an MOD SME forum which provides SMEs with a direct route to raise issues to Ministers and senior officials, a dedicated outreach team which focuses on raising awareness of defence market opportunities to new suppliers, in particular SMEs, and close alignment with SBRI to encourage innovative ideas and solutions that align with MOD needs.

As proposed in its Better Defence Acquisition White Paper (June 2013), MOD will require its large sole-source contractors to provide an annual report outlining their sub-contractor procurement processes and the steps they have taken to encourage greater involvement of SMEs in their supply chains. Better identification of indirect SME expenditure at lower tiers of the defence supply chain will be a priority in the coming twelve months.

#### **“SME influences significant change in ICT procurement”**

**Background:** The MOD signed its first contract for services using the Government Cloud (G-Cloud) in November 2012. The contract, with Skyscape Cloud Services, uses Cloud hosting to deliver an Information Management System for MOD’s GEMS staff suggestion scheme for simplifying activities and reducing costs. The contract was delivered in just over three months at a cost of under £100k, which was significantly faster and cheaper than delivering a solution using traditional in-house delivery approaches.

**Winning hearts and minds:** Cloud computing represents a radical change in the way MOD uses and pays for ICT. The GEMS IMS contract served as a pilot for using G-Cloud in the defence sector where security is vitally important. MOD’s experience with the project provided valuable lessons for future ICT procurement policy, including the principle of “G-Cloud First”. The use of G-Cloud services will reduce bureaucracy, cost and management overheads, providing the flexibility to change service provider easily without lengthy procurement and implementation cycles or being locked into long contracts, together with the freedom to adopt quickly solutions that represent better value for money and use state of the art technology.

## Ministry of Justice (MoJ)



“SMEs are the backbone of our economy and the job-creators” Lord McNally,  
Minister of State for Justice

### SME spend data (2015 Target – 38%)

SME Spend Data	2011/12	2012/13
Direct	34.0%	31.0%
Indicative Indirect*	N/A	3.8%

\*Taken from the quarterly supplier survey

MoJ have a comprehensive and credible plan against which progress is reviewed bi-annually by MoJ Ministers. The majority of SME direct spend comes from MoJ Legal Aid Contracts. The slight reduction in direct spend with SMEs in 2012/13 represents efficiencies that have been made in procurement expenditure during this financial year.

MoJ is well placed to achieve the 2015 target helped by introducing a number of changes in the way it does business – for example: advertising opportunities over £10,000 on Contracts Finder, the single advertising portal for government opportunities; including a pipeline of forthcoming opportunities on the MoJ website; removing the pre qualification questionnaire for all sub OJEU tenders; and where possible, splitting large requirements into "lots" that are more suitable for SMEs to bid. In addition we are about to commence a programme of targeted supplier events for our Rehabilitation Programme to ensure that SMEs are afforded maximum opportunities to participate.

Due to expected changes in legal aid civil contracts following the Legal Aid, Sentencing and Punishment of Offenders Act 2012 and the implementation of a new legal aid crime contracts spend with SMEs in this sector is likely to reduce. The MoJ will continue to maximise opportunities for SMEs in all other areas of spending.

#### “SME Innovation”

**Background:** The provision of new lifts and the refurbishment of those lifts were carried out by a main contractor that sub-contracted the work to a specialist elevator contractor. MoJ realised that it could avoid layered profit and central office overheads and provide flexibility in project delivery if it procured services for its estates directly. As a result, MoJ undertook a procurement exercise for lifts & lift refurbishment across the estate.

**SMEs secured via Contracts Finder:** The requirement was advertised in Contracts Finder and a market engagement day was held with the suppliers to facilitate a two way exchange of information which proved to be invaluable. The day provided constructive feedback enabling the MoJ to better understand SME industry issues and concerns. As a result of this feedback the requirement was tailored in order to remove barriers to SME participation.

**SMEs provide MoJ with flexibility:** Out of the five suppliers chosen, three SMEs were successful in being selected for the Framework and whilst this is in the early stages of implementation it is envisaged that this will provide MoJ with the savings, innovation and flexibility foreseen.

**Cabinet Office (CO)** –Chloe Smith MP, Minister for Political and Constitutional Reform

**SME spend data (2015 Target – 25%)**

SME Spend Data	2011/12	2012/13
Direct	12.0%	13.5%
Indicative Indirect*	N/A	14.0%

\*Taken from the quarterly supplier survey

At the Cabinet Office we have a credible plan where progress is reviewed monthly and performance reports are submitted on a quarterly basis to the Cabinet Office Board and the Executive Management Committee. Including indirect spend, the Cabinet Office has already exceeded its goal and will continue to increase its ambition for spend through SMEs in the year ahead.

We endeavour to break down barriers and encourage SMEs to do business with us by focussing on early engagement with the market. This approach was successfully evidenced by our Mutual Support Programmes where we held a supplier week consisting of one-to-one meetings. This ongoing requirement for consultancy and legal support for mutualisation projects across the UK has been specifically designed to be SME friendly; to date 14 out of 21 contracts have been awarded to SMEs with 69% of spend flowing to SMEs either directly or through the supply chain. The combined outcome of these measures has resulted in an increase in spend of over 300% with SMEs since 2011-12, over a third of which was direct expenditure.

We are continuing to collect data from our prime contractors on SME spend within their supply chains. Alongside this we will also look to identify prime contractors that have potential for SMEs in their supply chain and work with them to seek full value and thereby increase their spend with SMEs.

**Department for Communities and Local Government (DCLG)** - Baroness Hanham, Parliamentary Under Secretary of State for Communities and Local Government

**SME spend data (2015 Target – 27.5%)**

SME Spend Data	2011/12	2012/13
Direct	21.1%	25.0%
Indicative Indirect*	N/A	4.3%

\*Taken from the quarterly supplier survey

DCLG has developed and agreed a comprehensive and credible plan covering 96% of its departmental family spend. The plan is in place to deliver a significant goal of 27.5% spend with SMEs by 2015. Progress is reviewed regularly by both the SME Lead Minister and SME Champion. Including indirect spend DCLG has already exceeded its goal and, depending on spend projections for next year; the 27.5% figure could increase.

Larger contract sizes which take procurements out of reach of SMEs are rare. Procurements with high potential for SME involvement, both directly and indirectly through the supply chain, have been identified - pre-market engagement is already underway for some of these.

Good progress has been made on collecting data from major prime contractors on spending with SME sub-contractors. Two of its largest primes have plans to increase SME spend and will work with others to do the same.



**Department for Culture, Media & Sport (DCMS)** - Ed Vaizey MP, Parliamentary Under Secretary of State for Culture, Communications and Creative Industries

**SME spend data (2015 Target – 35%)**

SME Spend Data	2011/12	2012/13
Direct	17.5%	14.5%
Indicative Indirect*	N/A	15.4%

\*Taken from the quarterly supplier survey

To help deliver its stretching SME spend target, DCMS has devised a credible and demanding plan. This has been approved, and is regularly reviewed by the DCMS SME Minister. Post Olympics, the department finds itself in a challenging position with reduced spend overall and a change in how data has been collected - presenting a picture of falling direct spend with SMEs. DCMS remains optimistic that there is spend within its Arms Length Bodies (Executive Agencies and Non-Departmental Public bodies) therefore each of the ten highest spending Executive Agencies and Non-Departmental Public bodies also have action plans to support the SME agenda.

With a high proportion of services within the wider DCMS family already delivered by specialist small suppliers, increasing direct spend will be a significant challenge. Nevertheless, DCMS is committed to securing best value for money and has a policy of reviewing contract size during the planning stage to break up larger contracts where appropriate. Actively working to do more to open procurements to smaller suppliers and encourage greater innovation, DCMS has increased the level of pre-market engagement and consultation with suppliers. Work will also continue with the Small Business Research Initiative to identify areas that are ripe for the introduction of new thinking and technologies.

**Department for Education (DfE)** - Lord Nash, Parliamentary Under Secretary of State for Schools

**SME spend data (2015 Target 25% (Direct spend))**

SME Spend Data	2011/12	2012/13
Direct	17.9%	19.5%
Indicative Indirect*	N/A	19.0%

\*Taken from the quarterly supplier survey

DfE has a goal of 25% **direct** spend with SMEs by March 2015. This target has been agreed by the Lord Nash, DfE’s SME Minister. DfE has a credible, adequately resourced plan – subject to regular senior review – setting out the key actions designed to deliver its target. All major members of the departmental family are covered by the plan. The department has embraced the Government’s growth agenda and sees it as a driver of its commercial activity. DfE already has a good track record of engaging with SMEs, and are reporting that direct spend with SMEs is up to 19.5%.

Including indirect spend, DfE has already exceeded its goal and will continue to increase its ambition for spend through SMEs in the year ahead. ICT and professional services are two of the common categories where DfE will continue to work with GPS and G-Cloud, and focus efforts to drive up SME spend.

DfE has amended standard terms and conditions of contract to require mandatory prompt payment for sub-contractors. The department will also focus on understanding its strategic suppliers and work with them to explore opportunities to increase SME spend in the supply chain.

**Department for International Development (DfID) - Alan Duncan, Minister of State for International Development**

**SME spend data (2015 Target – 35%)**

SME Spend Data	2011/12	2012/13
Direct	<b>30.9%</b>	<b>31.9%</b>
Indicative Indirect *	<b>N/A</b>	<b>4.7%</b>

\*Taken from the quarterly supplier survey

DfID has a credible plan and has achieved a number of successes to date. These include streamlined procurement processes and simplified templates reducing the burden on SMEs, enhancement of its Supplier Portal to enable communication of new opportunities (to all registered suppliers) enabling effective reporting of DfID’s direct spend with SMEs. DfID has placed more focus on frameworks, which has delivered a significant increase in SME participation. DfID’s Supplier Management Programme has set in place a Statement of Priorities and Expectations, signed by over 250 suppliers, including its top 12. This includes a requirement to support the government’s commitment to work with SMEs. DfID highlights the SME agenda at supplier forums, encouraging large suppliers to look for ways of improving the opportunities for SMEs in the supply chain. SME-specific forums are also being held to better understand the issues that SMEs face.

Other proposed actions planned over the next two years include moving towards more output based contracts to allow increased flexibility and innovation in delivery of a requirement, developing SME engagement through forums and more effective communication of opportunities. DfID will also continue to communicate the SME agenda to larger suppliers through the Supplier Management Programme.

**Foreign and Commonwealth Office (FCO) - Lord Green, Minister of State for Trade and Investment**

**SME spend data (2015 Target – 25%)**

SME Spend Data	2011/12	2012/13
Direct*	<b>19.5%</b>	<b>20.5%</b>
Indicative Indirect**	<b>N/A</b>	<b>4.3%</b>

\*Direct spend is based on UK spend only

\*\*Taken from the quarterly supplier survey and has been calculated against global total procurement spend.

The FCO has a credible plan in place to help SMEs both at home and abroad comprising its SME Action Plan for UK procurements and the FCO’s Business Charter to assist companies wishing to expand overseas. Significant progress has been made to improve SME participation and with the establishment of the Procurement Strategy Approval Board, which review all new procurements over £80k, it can provide commercial oversight of procurement strategies.

Staff have been trained in LEAN procurement practices. Procurement lead-times have fallen; many early market engagement events have been conducted in line with the LEAN Standard Operating Procedures and SMEs are participating in these events and tenders. For example, following one such event (of which half the attendees were SMEs), the FCO’s prestigious £3 million Language School contract was awarded to an SME. Also, FCO has awarded contracts to SMEs using the G-Cloud Framework.

The FCO is taking a strategic approach to priority categories of expenditure and has integrated a Sustainability Impact Questionnaire into the Category Management processes which includes a need to consider SMEs and lot size. In addition FCO will be writing to strategic suppliers to request information including payment terms.

**HM Treasury (HMT) - Sajid Javid, Economic Secretary to the Treasury**

**SME spend data (2015 Target – 9%)**

SME Spend Data	2011/12	2012/13
Direct	5.0%*	5.0%
Indicative Indirect**	N/A	1.4%

\*HM Treasury Group has revised its figures for 2011/12. On a like for like basis the total procurement spend is now recorded for 2011/12 as £91.6m (formerly £93m) and direct spend with SMEs as £4.5m (formerly £5m) which equates to 5%

\*\*Taken from the quarterly supplier survey

HM Treasury has a target of 9% of spend with SMEs by March 2015. The Ministerial SME Champion, the Economic Secretary to the Treasury, has committed the Department to a challenging action plan of activity to achieve this. To ensure momentum is maintained the Ministerial SME Champion is provided with a progress report on a quarterly basis.

A number of actions are already being implemented. HM Treasury has increased visibility through publication of a procurement pipeline - to help SMEs to plan ahead for potential opportunities - and all tenders are posted on Contracts Finder. Wherever possible work packages have been structured so they are smaller and therefore more accessible to SMEs; there has been early engagement with the market for all major procurements including the use of Prior Information Notices and supplier engagement days. As a result in the last year over a quarter of all contracts were awarded to SMEs.

To increase indirect spend with SMEs work is underway to ensure that, where feasible, SME opportunities in the supply chain are visibly promoted. Treasury's largest contract is with Exchequer Partnership Plc who will run a review in 2014 of contracts for 'soft services' (e.g. catering/security/cleaning). The department is actively working with them, and their top tier supply chain, to ensure SMEs have the opportunity to bid for this work.