

Small and Medium Enterprise Action Plan



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1. Introduction and background

1.1 The Government's Small and Medium Enterprise (SME) agenda

Small businesses make up 98% of the business population (source: BEIS Business Population Estimates, 2016). The UK Government aims to spend £1 in every £3 with SMEs, directly or through the supply chain, by 2022.

A clear objective of this is to increase growth for SMEs¹, but achieving this will also drive forward the national economy. To meet the 33% target, various measures have been introduced to make public procurement more accessible, breaking down barriers for SMEs who want to supply to the public sector.

1.2 About HM Treasury (HMT)

HMT (<https://www.gov.uk/hm-treasury>) is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

As SMEs make up a significant part of the UK economy, supporting their growth aligns to HMT's responsibility for ensuring the economy grows sustainably.

1.3 Procurement at HMT

HMT procurement is managed by Crown Commercial Service (CCS), an executive agency of Cabinet Office, under a managed service agreement. The vast majority of HMT contracts are let in accordance with CCS policy, process, and systems, therefore HMT's procurement practices are intrinsically aligned to CCS'. Contract Management responsibility remains with HMT. We currently have an annual procurement spend of close to £93 million.

¹ The UK Government adheres to the EU definition of an SME, which is: micro-business = less than ten employees and turnover under €2 million; small business = less than 50 employees and turnover under €10 million; medium-sized business = less than 250 employees and turnover under €50 million.

1.4 SME Action Plan

This plan highlights the measures HMT is taking to ensure SMEs can access new opportunities to supply government. It also provides clear spend targets for the department to work towards to support the government's commitment to 33% of all spend flowing to SMEs. Aligned to the Government's agenda of increasing SME spend to 2022, the plan is intended to be used by HMT over the longer term, and will be refreshed annually to reflect progress and new actions.

HMT has built its plan with input and guidance from the central Cabinet Office SME team, who have approved its publication. The Exchequer Secretary as HMT's SME Ministerial lead, and HMT's Commercial Director have also reviewed and approved the plan.

2. Actions

2.1 Increase SME spend

The core objective of the action plan is to outline the approach to increase the percentage of total Departmental procurement spend with SMEs (directly and indirectly) year on year during this parliament. We will ensure Departmental sourcing strategies consider the role of SMEs in delivering Departmental requirements both directly, and indirectly via the supply chains of large suppliers.

HMT has worked with the Cabinet Office central SME team to agree stretching and realistic SME spend targets, as a % of total departmental procurement spend.

These are as follows:

Year	Year 2016/17	Year 2017/18	Year 2018/19			Year 2019/20			Year 2020/21			Year 2021/22		
	Total	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total
Spend Target	8%	8.5%	14.3%	0.7%	15%	15.2%	0.8%	16%	15.6%	0.9%	16.5%	16%	1%	17%

The table below illustrates the growth in our total contracted spend with SMEs between 2015/16 and 2017/18 in relation to our total procurement spend:

	Total procurement spend	Direct SME spend	Indirect SME spend	Total SME spend
Year 2015/16	£75m	NA	NA	9.5%
Year 2016/17	£76m	NA	NA	11.7%
Year 2017/18	£93m	13.4%	0.6%	14%

Note: HMT has begun tracking spend with SMEs directly and indirectly from 17/18, as per the Cabinet Office SME agenda guidelines.

2.2 Link with Departmental Strategic Objectives

The Chancellor has appointed the Exchequer Secretary as HMT’s Ministerial SME lead to ensure there is departmental engagement with this agenda at the highest level. There is also an SME Champion who is responsible for embedding SME procurement good practice in the department.

This action plan, along with progress made against it, will be reviewed on a regular basis by senior officials and the Ministerial lead to encourage the delivery of real outcomes.

The SME Champion will work to increase awareness and visibility of the SME procurement agenda within HMT and promote the relationship to Departmental objectives. There will be messaging to Senior Civil Servants tied in with peak periods of activity.

2.3 Departmental Procurement Strategies

CCS will apply lean procurement principles to all HMT procurement activity and looks to conclude all open competitions within the Cabinet Office set target of 120 days, reducing costs for prospective providers.

HMT and CCS will appraise proposed procurement strategies before finalising an approach to ensure the competition conditions maintain a level playing field for SMEs (without compromising operational delivery and value for money).

CCS will be encouraged to provide operational support to HMT teams where there are opportunities for engaging SMEs. In developing procurement strategies, HMT will seek justification for any approaches adopted that propose more restrictive procedures, limiting these to only the instances where they are necessary to meet department needs. CCS procurement staff

will be encouraged to robustly assess commercial strategies, to ensure there is justification for any potentially restrictive procurement activity.

HMT will work with CCS to review procurement strategies used on a regular basis to identify where there are areas for improvement, or where there have been strong examples to learn from of SME engagement during procurement activity.

HMT also uses, wherever possible, centrally-negotiated CCS commercial agreements. Commercial agreements like these provide access to public sector procurement opportunities for a number of SMEs, offering an established and streamlined procedure. As CCS are a key enabler of the SME agenda, there is a focus to work towards having greater ratios of SME inclusion for commercial agreements. There has been particular progress in the technology space where the majority of suppliers on both Technology Services 2 and Technology Products 2 are SMEs², and over 90% of suppliers on the recently released G-Cloud 10 are SMEs.

2.4 Contract Management

Contract Managers can also play an important part in levelling the playing field for SMEs. Through HMT's Contract Management Forum, there will be communications to Contract Managers about the importance of the SME agenda and what can be done to support it.

CCS procurement staff will work with HMT Contract Managers at the outset of procurements to ensure consideration of SME agenda when forming commercial strategies for future requirements. CCS will also ensure that procurement staff are briefed on category strategies, and know how to access market intelligence to be able to inform discussions with HMT Contract Managers and teams.

2.5 Supply chain activities

HMT recognises the value of encouraging SMEs to engage in the supply chain of Government opportunities indirectly as well as directly. Therefore, increasing SME opportunities throughout the supply chain and recording "indirect spend" is also a priority.

To do this, HMT will engage with top suppliers (by spend) and encourage the use of Contracts Finder to advertise sub-contract opportunities for current contracts. The advertisement of sub-contract opportunities on Contracts

² Taken from the CCS Annual Report 17-18,

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/726555/CCS_Annual_Report_and_Accounts_2017_18_HC1281web_1_.pdf

Finder valued above £25,000 will become a contractual obligation as standard for new contracts valued at over £5 million per annum, through new standard terms & conditions.

Direct suppliers will also be required to report on how much they spend on sub-contracting opportunities and how much they spend directly with SMEs, to enable HMT to effectively track progress.

HMT will expect large suppliers to meet their contractual obligations with regards to prompt payment (30 days) through proactive contract management, making this a standard agenda item at review meetings with supplier representatives.

2.6 Government SME initiatives

HMT and CCS will provide, where appropriate, opportunities for suppliers to engage with the department through pre-market engagement activity. HMT and CCS will encourage teams to build in sufficient time to engage suppliers and understand market capability in a meaningful way.

HMT maintains engagement with the cross-government SME Champions network, with representation within the network to continue. HMT will look to implement good practice proposals identified through the network and share locally established good practices.

2.7 Removing barriers

HMT will look to remove real and perceived barriers for SMEs when tendering for HMT opportunities.

This will involve identifying red tape and challenging to ensure HMT processes are lean and efficient; and communication channels are short and clear e.g. review of standard contractual terms and conditions. Standardisation and sufficiently articulated processes for engaging with HMT via CCS procurement systems will enable SMEs to express interest and bid for opportunities.

HMT will also welcome feedback post procurement from suppliers, to capture what works well and what could be improved, to inform HMT and CCS continuous improvement activity.

2.8 Pipeline

HMT will build an effective Procurement Pipeline established to support forecasting and horizon scanning of requirements. This will be used to

identify opportunities that are deemed suitable for SMEs, and then can be published with potential for SME tender opportunities clearly identified.

Appropriate opportunities identified through the pipeline will be published and refreshed on a six monthly basis. Allowing prospective providers to see HMT's pipeline will give SMEs timely notification of all Departmental potential opportunities.

3. Challenges and risks

HMT recognises there are challenges which may limit our ability to increase SME spend:

- Increasing the potential for SME engagement with sub-contract opportunities requires the support of the direct suppliers. Where contracts are already in place, there is a dependency on direct suppliers advertising sub-contract opportunities on Contracts Finder, which they may not necessarily agree to when not a contractual requirement;
- Where SMEs grow in size, they can move away from SME classification, which can impact spend performance if any high-volume SME providers to HMT cease to be SMEs;
- In comparison to other departments, HMT has a low proportion of indirect spend with SMEs. This means that HMT's performance against its SME spend targets has been and may continue to be dependent on maintaining and increasing its direct spend with SMEs. There is risk that when these contracts are retendered, that SMEs are unsuccessful in bidding for new contracts, leading to limited spend increases or reductions.

4. Contact us

Anthony Khattir
HMT SME Champion, Head of Commercial Intelligent Client Function,
HMTCommercial@hmtreasury.gov.uk

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk