

# **MOD SME POLICY – REFRESHED POST STRATEGIC DEFENCE AND SECURITY REVIEW**

## **Policy Context**

The government was elected with a manifesto commitment that £1 in every £3 of government expenditure would be spent with small businesses by 2020. The final figures published for the last parliament covering 2013-2014 showed that central government spent £11.4 billion with Small and Medium-sized Enterprises (SMEs) – equivalent to 26% of central government spend. The government is committed to increase this figure to a third by 2020 and In SDSR 2015 the department set out the importance of SMEs to the defence supply chain. SMEs including from adjacent sectors are able to bring flexibility, boost innovation and increase competition, all of which means we can deliver the best value for money capability to the Armed Forces.

The MOD, despite the constraints of large and complex procurements many of which are not available to smaller businesses, contributed with 19.4% of spend (direct and indirect) with SMEs in both 2013-14 and 2014-15. This figure equates to almost £4 billion spent both directly and indirectly with SMEs; of which direct spend in 2014-15 was £822M with over 5,400 different suppliers.

The MOD has agreed with the Cabinet Office a new 25% target for SME procurement spend by 2020, and this commitment was reflected in the Single Departmental Plan published on 19<sup>th</sup> February 2016. MOD recognises the challenges that an increased target provides and has assessed that revised measurement methods alone will not be sufficient. So in addition to working with colleagues in the Crown Commercial Service on enhanced methodologies, this refreshed policy seeks to influence behaviours, both across the department and with our supplier base, to increase engagement and communications with SMEs with the aim of identifying additional competitive opportunities in the defence marketplace. This approach will be aligned, where practicable, with other government departments, especially Business, Innovation and Skills (BIS) who have a business support and advice growth hub network in place across the UK.

## **Applicability**

This policy is intended for adoption and application across the breadth of the MOD's business, including DE&S, DIO and ISS as well as direct procurement by individual Commands as a direct subset of broader government policy. The department will report annually on both activity and progress towards our agreed target of 25% procurement spend. Min DP is the ministerial lead for delivering this target.

It is recognised that while Dstl remains a core function of MOD the organisation has a number of differences in its requirements, especially in the Science and Technology area, and in the types of contracting model it may choose to employ. This refreshed policy remains applicable to Dstl though there may be some additional considerations for Dstl to take into account covering the visibility of end-user requirements, types and sources of available funding under the various strands of government and research institutions, and the simplification of contracts – though this will form part of the overall reduction of bureaucracy under the Red Tape Challenge.

## Policy Direction

At a strategic level the refreshed SME policy consists of three **core objectives**:

1. Engaging throughout the supply chain, not just with direct contractors.
2. Reducing bureaucracy associated with procurement.
3. Making engagement simple and straightforward e.g. via the new 'supply chain champion' role.

The MOD SME Action Plan, last updated in October 2014, was originally targeted at tackling a number of tactical issues and is now largely complete. Those actions that remain on-going are of an iterative nature and form part of normal continuation of business. The government's policy on SMEs, and particularly those who participate in departmental supply chains, is clear. This policy is aimed at supporting the desired behavioural changes, both internally within teams who manage procurement across defence, and externally through stakeholders and the SME community in the defence industry.

It is recommended that, as the existing action plan has been largely completed, active measurement of the plan should now cease and all resources concentrated on implementing the refreshed SME policy. Measurement of success should take the form of an annual report against agreed objectives, staffed by the MOD's Supplier Relations Team, and presented by Min(DP) to the DSF SME Forum at future meetings. As there will be engagements and activities between the measurement points there will be opportunities to refine the policy further as relationships develop and the desired behaviours mature. Consideration of links with other complementary policy initiatives is at Annex.

## Activities

Based on the consultation carried out across the stakeholder community from August to October 2015 the following activities have been distilled and allocated to a core objective. The intent is that Minister (Defence Procurement) will update the DSF SME Forum during 2016 on progress.

- **We will seek additional information on supply chain activity with our prime contractors through direct and continued engagement using the DSF Executive Group as a vehicle by mid-2016. (Core Objective 1)**
- **We will compete as much MOD business as practicable, and encourage competition in supply chains for all MOD funded programmes – not just single source procurements. (Core Objective 1)**
- **Investigate with Commercial Policy the areas of bureaucracy that can be challenged and provide an action plan for their amendment or removal by mid-2016. This is intended to deliver towards the MOD's Red Tape Challenge targets. (Core Objective 2)**

- **Our newly appointed Supply Chain Champion for MOD is forming a network of supply chain advocates across the MOD to drive behavioural change and provide single points of access and contact for suppliers. This network to be in place and operational by end March 2016. (Core Objective 3)**
- **We will create a single online Supplier Engagement Portal that signposts opportunities, highlights policy and process, and provides links to relevant supporting bodies, research establishments and funding streams. A first version to be online through the gov.uk website by the end of March 2016. (Core Objective 3)**

These activities are intended to be refreshed and replaced on a rolling basis once completed satisfactorily.

## **Core Policy Objectives – underpinning considerations**

### 1. Engagement through the supply chain:

- Highlight examples of best and worst practice, directly linked to the Supply Chain Champion role within the Supplier Relations Team. Case studies highlighting SME successes in doing business with MOD have been placed on the gov.uk website.
- Introduce voluntary reporting of supply chain activity by primes and mid-caps.
- Ensuring supply chain opportunities are advertised more widely through Defence Contracts Online (DCO) – the Supply Chain Champion to write out to prime and mid-tier contractors (by end of April 2016) to highlight the available facility on DCO.
- Publicise, through the SME Forum and Supply Chain Champion, the support services provided by UKTI DSO, Defence Growth Partnership, and BIS.
- The existing trade associations can assist the enhancement of engagement by:
  - Encouraging regional representation, with additional consideration of use of the BIS growth hubs
  - Highlighting good and bad practice in terms of engagement
  - Highlighting opportunities to the SME Community.
- Consider whether hard targets should be set on prime contractors when setting defence contracts.
- Defence and Security Industrial Engagement Policy (DSIEP) will have a role in delivering opportunities for SMEs with non-UK domiciled prime contractors accessing the UK Supply Chain.

### 2. Reduction of bureaucracy and tackle known challenges

- Engagement with Commercial Policy team to investigate avenues for the removal of internal red tape and layers of bureaucracy that hamper supplier activity. This should mean that online processes are clearer and easier to follow. This activity has already commenced and includes joint reviews with Dstl covering existing template contracts with a view to simplification and the investigation of purchase order templates for the simplest low value and low volume contracts.

- Utilise education and peer review to encourage project teams across the MOD to use a quick and light touch approach to the PQQ process to promote full and open competition.
- Consider methods to encourage prime contractors to flow through the MOD's prompt payment terms to their supply chain.
- Ensure this complements Cabinet Office policy initiatives across government.
- Establish an annual industry day hosted by Min(DP) to enable SME engagement.
- Ensure sufficient numbers of the Commercial team have adequate security clearances (DV and above) when contracting with SMEs on specialist contracts.

### 3. Ensure direct engagement with defence is simple

- Review the effectiveness of the DSF SME Forum:
  - Is it tackling the right issues?
  - Does it represent value for stakeholders?
  - What is the appropriate use of the forum to highlight the future work programme and potential opportunities of benefit to SMEs?
- Publicise role of Supply Chain Champion and Advocates, their availability to all suppliers, and their accessibility by email and phone.
- Establish a Supplier Engagement Portal through the gov.uk website to signpost opportunities, highlight policy and process, and provide links to relevant supporting bodies, research establishments and funding streams.
- Use all avenues of engagement to explore:
  - How we might make better use of alternative models, including Framework Contracts for SMEs wanting to bid directly for MOD work.
  - The identification of areas where SMEs could make a more significant contribution – perhaps via a pilot activity.
  - Consider reducing the reliance on 'thin' prime contractors, especially once SMEs have proven capability (perhaps on contract renewal).
  - Removal of turnover thresholds at pre-Qualification stage.
- Make use of SME focused funding sources such as the Small Business Research Initiative promoting research and development collaboration to drive economic growth. The SDSR highlighted the new £165M Defence and Cyber Innovation Fund as an additional support to the procurement of innovative solutions to the challenges facing the Armed Forces.

### **Point of Contact**

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## Complementary Policy Initiatives

The refreshed MOD SME policy should not be regarded as a stand-alone document, instead it is intended to complement and build on other government policy initiatives already in place. These include, but are not limited to, the following:

### 1. Prosperity Agenda

The government's Prosperity Agenda has focussed on driving the prosperity/economic growth goal with clear objectives aiming to stimulate foreign direct investment, tourism and strengthen the UK's economy. The MOD supports this agenda and is a member of the Defence Growth Partnership, whose objective is to create a more competitive and export focused defence sector.

### 2. Innovation and Cyber

The MOD has worked hard to meet the challenges of cyber defence and has invested in new technologies aimed at disrupting penetrative attacks. This level of attention and investment will be continued to ensure that the UK has the best possible protection in the future. This will require MOD, along with the rest of government, to be able to recognise and respond swiftly to new ideas and technologies that become available. Such innovation is often found within SMEs and the additional engagement methods detailed in this policy is aimed at ensuring that MOD is able to react positively to innovative ideas and proposals in a timely manner.

### 3. Exports

The Strategic Defence and Security Review published on 23<sup>rd</sup> November 2015 detailed the government's support for the defence industry there was also focus on additional support for exports. Maintenance of the UK's defence export market share will offer direct support to the Prosperity Agenda, sustain high quality, skilled jobs across the UK, and generate economies of scale for the UK by reducing the overall cost of equipment. The addition of new resource in central MOD to support exports and the applied focus provided through the Defence Growth Partnership (DGP) and Defence Solutions Centre (DSC) will help support SMEs who choose to export their goods and services, whether individually or as part of teamed bids for opportunities.

### 4. Defence Growth Partnership and Defence Solutions Centre

The Defence Growth Partnership (DGP), between government and Industry, has been set up to deliver a systematic approach more effectively to meet the challenges faced by customers today. These include investing in the future to position the UK as the preferred partner for international defence collaboration and innovation. The DGP has now established a new UK Defence Solutions Centre (UK DSC), which is open and working with customers and Industry to support the development of new capabilities and identify export opportunities by working with UKTI DSO. The UK DSC is running a series of DGP Innovation Challenges on the MOD's behalf to find innovative proposals, including from

SMEs, to deal with a number of defence challenges including persistent surveillance from the air and the use of big data and autonomy.

### **Future Policy Initiatives outlined in the SDSR**

A number of additional policy initiatives for delivery during this parliament were headlined in the recently published SDSR. We can expect them to be fleshed out during 2016:

- Launch a Defence Innovation Initiative
- Create an Emerging Technology and Innovation Analysis Cell
- Consult on a new National Shipbuilding Strategy
- Enhancing apprenticeships and increase the numbers of apprentices

The MOD Advocacy role will complement the existing Defence Supplier Service, (DSS) which has been running for over twenty years and is the MOD focal point for the provision of a wide range of advice and guidance to companies interested in doing business with the MOD.

Points of contact for this service are:

Help Desk

Email: [defcomrclsrtdsshelpdesk@mod.uk](mailto:defcomrclsrtdsshelpdesk@mod.uk)

Website: [www.contracts.mod.uk](http://www.contracts.mod.uk)

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