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## **SME Procurement Policy**

**Warwick District Council will ensure that its procurement processes do not create unnecessary barriers for Small and Medium-sized Enterprises (SMEs), which may deter or inhibit them when our contract opportunities are advertised**

Warwick District Council recognises the value of SMEs to the regional economy. SMEs offer flexibility, excellent customer service and innovative solutions. They are also the larger organisations and employers of the future. It is therefore important that Warwick District Council's procurement processes are as lean as possible, and do not create unnecessary barriers which deter SMEs from competing for our contracts or inhibit them when tendering.

Warwick District Council also recognises the need to comply with the EU Procurement Directives and uphold the principles of equal treatment, non-discrimination, proportionality and transparency.

### **Benefits**

There are many benefits associated with using SMEs:

- Lower lifecycle costs of goods or services
- Increased performance in relation to corporate social responsibility, which can directly help to secure more contracts in the future
- Greater innovation and creativity
- Possible reduction in transport and logistics costs, in turn increasing Sustainability
- Greater degree of flexibility
- Better risk management
- Compliance with legislation
- Opportunity to build relations with communities within which you operate
- Opportunity to contribute to local strategic objectives
- Potential to strengthen the economy
- Potential to generate stakeholder goodwill

- Opportunity to develop new products and services for an increasingly, culturally diverse marketplace
- New solutions to challenges may be found by widening Warwick District Council's applicant pool

## **Challenges**

Using SMEs brings clear benefits. However, there are also a number of barriers that need conscious effort by you and the top tiers of Warwick District Council's supply chain if they are to be overcome.

Engaging SMEs usually means changing the way in which you deliver Procurement. SMEs are as a rule smaller, carry lower levels of insurance, may not have mature business policies and procedures, and may be put off by overly complex tendering processes. But by making small, manageable changes and carrying out some basic supply market analysis against Warwick District Council's spend profile and categories; there is a high probability that you can actively include more SMEs.

From the perspective of a Public sector organisation, the main barriers to engaging with SMEs are usually a consequence of a lack of knowledge and information, including:

- understanding what companies exist in the local area
- understanding when to contact these companies to allow them to participate effectively in procurement exercises
- understanding how to use the best tools to contact these companies (other agencies, face-to-face events, press and multi-media advertisements etc.).

At the other end of the spectrum, the two main barriers for SMEs are:

- Not having access to information about what is being bought and when (At first or second tier), meaning that an SME cannot participate or compete at the right times
- facing procurement processes and paperwork that are unnecessarily bureaucratic; an SME may not understand how to demonstrate compliance or how to market their services or competence in the first procurement stage, and therefore may never have the chance to progress to the full tender stages.

## **Barriers**

- Perceived lack of SME capacity/capability or track record
- Lack of mature business processes and procedures
- Lower level of insurance held

- Scant financial history and guarantees
- Perceived as a higher risk option (although this is not normally the case)
- Lack of knowledge about tendering process
- SME doesn't know how to get their "foot in the door"

The most common barriers that Public Sector organisations come up against in relation to engaging SMEs and suggested methods of removing them are detailed below.

<b>How to address barrier</b>	
<ul style="list-style-type: none"> <li>• For services or works contracts, change the specification to a more "output" based structure.</li> </ul> <p>This gives more scope to the bidder to describe an outcome Rather than respond to a more prescriptive specification based on what has been done on previous contracts.</p>	<ul style="list-style-type: none"> <li>• If the contract is awarded to a new SME, ensure that they have a close relationship with you or are assigned a mentor to ensure delivery of both the specific contract obligations and any more general business development requirements set out in the contract (e.g. improvements in health and safety or developing procedures).</li> </ul>
<ul style="list-style-type: none"> <li>• As above, assign a mentor to the successful SME to help them to develop their processes and procedures.</li> <li>• In the tender, allow SMEs to submit "action plans to create procedures" in place of the completed procedures themselves, if they have not been fully developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Along the same lines, ask for evidence of progress towards industry accreditation and standards (e.g. ISO14001) as well as any accreditation that has already been achieved.</li> <li>• Or simply ask SMEs to explain their approach, or give them a policy statement against which they have to agree to deliver.</li> </ul>
<ul style="list-style-type: none"> <li>• Ensure that an appropriate level of insurance is aligned to the work package level and risk threshold. For example, reconsider the requirement for £10 million public liability insurance as standard in every tender because this will exclude a large number of SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>• If it is not really required for a specific work package, develop an appropriate public liability insurance threshold that may draw more responses from the SME market.</li> </ul>
<ul style="list-style-type: none"> <li>• In the tender, allow for alternative proof of credit history or financial stability such as references from a bank or copies of management accounts rather than audited accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Highlight this issue on Warwick District Council's risk register and carry out mitigating actions accordingly, such as avoiding single sourcing in favour of dual sourcing to spread the risk. Assign a mentor</li> </ul>

	<p>to the SME concerned and help them through Any difficult situations to ensure a win-win scenario.</p>
<ul style="list-style-type: none"> <li>• As above, use a dual rather than a single source approach to spread the risk and minimise the chance of supply failure.</li> </ul>	<ul style="list-style-type: none"> <li>• Allow bidders to propose the use of associates as well as directly employed staff and assess the tender returns based on individuals' experience and competence to deliver the job rather than that of the company.</li> </ul>
<p>Publish information about Warwick District Council's tendering process on its website.</p> <ul style="list-style-type: none"> <li>• Create a "How to supply" section and populate it with relevant information.</li> <li>• Provide guidance on how to tender and Warwick District Council's expectations in terms of levels of accreditations, experience etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Host SME bid writing seminars run by local business support agencies And offer advice and support if asked.</li> </ul>
<p>As above, use Warwick District Council's website to publish relevant information and contact details of local business support agencies.</p> <ul style="list-style-type: none"> <li>• Communicate upcoming contract opportunities to business support agencies so that they can inform the wider SME community and/or local SMEs.</li> <li>• Attend "Meet the Buyer" events and other similar brokerage-type sessions.</li> <li>• Ask for "social considerations" and "SME involvement practices and action plans" in Warwick District Council's larger contract tender documentation so that successful contractors are selected and contracts awarded on the basis of their SME procurement credentials.</li> </ul>	<ul style="list-style-type: none"> <li>• Ask contractors to sign a (voluntary) SME engagement code.</li> <li>• Set a target on each project for the percentage of the contract value that you wish to be spent with SMEs and then work with the contractor to identify the most likely work packages that can be supplied by SMEs.</li> <li>• Measure and monitor the percentages spent with SMEs by project and use this information as part of the performance metrics of Warwick District Council's contractors.</li> </ul>

**We will take the following action to promote this policy:**

## **Advertising contract opportunities**

- At least two local Suppliers are invited to quote for contracts valued £10,000 to £49,999
- Directly notify all suppliers that are registered on In-tend, and have entered the industry/sector in which they operate, of any contract opportunity which may be of interest to them (via In-tend)
- Publish a list of all Contracts with a total value of £50,000 + allowing SME's to identify potential subcontracting opportunities
- Advertise all potential procurement opportunities via Federation of Small Business's weekly electronic newsletter

## **Supplier and contract requirements**

- Ensure that the minimum financial standing requirements for suppliers are proportionate to the risk and value of the contract being tendered
- Ensure that the insurance that it is required that a supplier holds, should they be awarded the contract, is proportionate to the risk and value of the contract being tendered
- Consider the value of consulting with potential suppliers on contract specifications before commencing the tendering exercise
- Use outcome specifications wherever appropriate, so allowing for innovative solutions
- Consider the value of breaking down any contract requirements / frameworks agreements into smaller 'lots', for which SMEs can more easily tender
- Consider allowing variant bids, where appropriate to the procurement exercise
- Hold Bidders events prior to the issuing of tender documents in order to allow potential tenderers to ask any clarification questions, where the supply market includes a significant number of SMEs or has limited tendering capability

## **Procurement processes**

- Develop template tendering documentation that are as concise as possible and written in plain English
- Ensure that the need for the tendering exercise to be SME-friendly is highlighted to staff throughout the procurement process, including within template documents such as the Procurement Project Strategy

- Enquire as to whether tenderers are SME-friendly, and advertise subcontracting opportunities within the region, when tendering large contracts (for example, major construction contracts)

### **Tender evaluation and award**

- Evaluate consortium bids as a whole, taking account of the roles and responsibilities of consortium members, and the risks and guarantees/indemnities associated with the consortium's constitution
- Provide full details of tender evaluation scores to unsuccessful tenderers for contracts with a total value of £50,000+, offering the opportunity for a verbal debrief

### **Payment**

- Consider reducing payment terms or allowing stage payments to assist suppliers with their cash flow or assist them in making the initial investment required to deliver the contract
- Ensure that payment terms agreed with a supplier are aligned to those between the supplier and its subcontractors for delivering Warwick District Council's contract

### **Communication**

- Clearly communicate our commitment to making our procurement processes as SME-friendly as possible, as well as how this is to be done, including through training and guidance delivered to staff involved in procuring goods, services and works
- Explain Warwick District Council's procurement processes to potential suppliers at regional 'Meet the Buyer' events and business fora, and through our website, including signposting the In-tend portal where we commonly advertise our contract opportunities
- Hold Bidders events prior to the issuing of tender documents in order to allow organisations to network and discuss potential joint bids and subcontracting opportunities

## **Suggestions to make Procurement SME - friendly**

### **Sample wording**

## **Best OJEU advertisement**

OJEU is the abbreviation for the Official Journal of the European Union, the publication where all European public sector bodies have to advertise their upcoming contracts that are above a certain financial threshold. It only applies to the public sector and certain nominated private sector companies.

Example: the following paragraph should be added to Warwick District Council's contract notice:

*"Please note that the [organisation] runs an SME involvement initiative (and has an SME/Local Procurement Code) which it may invite you to participate in."*

## **Prior information notice (PIN)**

If you are using a PIN, this can signal early on Warwick District Council's intention to seek community benefits from contractors. For example, where you have a preference for SME suppliers this can be communicated to the marketplace. A PIN can be used as a method of early market engagement and to provide an early warning.

Example: PIN issued by Croydon Council, 2006

*"We would like to encourage the market to respond, including SMEs. We would welcome submissions relating to new and innovative products that may not yet be in commercial production. We would be open to assisting the market entry of such products through early adoption, pilots and a forward commitment to include such items on the schedule of works should performance criteria be met."*

## **PQQ questions**

It is not always necessary to have a question on SME involvement in the initial PQQ. A PQQ is designed to test the eligibility and competence of the companies expressing an interest. A general statement and question to test their experience of delivering community benefits would suffice.

Example: PQQ question

*"We require clear evidence of how you will deliver improved economic and social outcomes in relation to this contract and examples of where you have done this elsewhere. To help demonstrate this you should detail the following..."*

If you do want to ask a more specific question, you could use this wording:

*"Do you have any sort of local procurement/SME engagement/community benefit schemes/initiatives under way already? If so please provide details."*

## Method statements and tender questions

Include method statements in part or in full or to form part of the contract – or use them as the basis for developing Warwick District Council's own method to understand how prospective contractors will incorporate SME involvement within the contract.

*"Please outline how your delivery of the service/goods/works will benefit the wider community with specific regard to the following social and economic issues: [List the social and economic objectives that are relevant to Warwick District Council's contract]"*.

*"Please provide details of the methods you will use to provide an accurate measurement of the benefits detailed in the method statement above. The methods of measurement detailed will form part of the key performance indicators of the contract."*

You can give encouragement to bidders and ask them to use best endeavours, for example to offer supply chain opportunities to local SMEs but not directly ask for an engagement plan. Bidders are well versed in these kinds of requirement and eager to gain a competitive advantage, and so will come forward with their own proposals.

Example: tender questions

*"Outline your policy for ensuring that full and fair opportunity is offered to all suppliers, particularly SMEs or those locally based in and around [insert local geographical area]. Please also detail how this is externally communicated and/or marketed."*

*"Describe your company's involvement in local partnerships, community groups and business organisations, as appropriate."*

Example questions issued by:

Camden Homes for Older People, London Borough of Camden, 2009  
" Describe how the consortium will contribute to the delivery of the Council's social and economic development objectives as set out in the Council's Community Strategy and in particular in relation to targeted employment and training and skills development in construction".

Camden's Community Strategy contains the following objective:

- *An economically successful place – for the benefit of local people*
- *Support for local businesses, as direct suppliers, in the supply chain, and through assistance to be 'fit to compete'*
- *Work with main contractors to maximise the use of SMEs and local businesses in the supply chain."*

Decent Homes contract, London Borough of Camden, 2007

*"Supply-chain initiative:*



- *What steps will you take to promote sub-contract and supply opportunities to small businesses?"*

## **Contract conditions**

You can underline your requirements for SME involvement during the execution of the contract; that is, the implementation of the work packages. If this is a specific contract requirement, then the supplier is obliged to fulfil their obligations – this is the most explicit way of achieving SME involvement.

Suggested wording:

*"The Client will maximise its options through the Contractor for purchasing from a diverse and competitive range of suppliers including minority businesses, voluntary and community sector groups, small firms and social enterprises. The Client has adopted an SME/Local Procurement Code which the Client will seek to agree with the Contractor during the procurement phase of the programme. Encouraging a supply base of SMEs in the execution of the contract is crucial to supporting local Economic growth and employment. This objective is also detailed in the suggested Method Statements.*

- *The Contractor shall use all reasonable endeavours to recruit and engage SMEs as subcontractors and suppliers (where required) in the performance of the Works or Service.*
- *The Client shall use all reasonable endeavours to assist the Contractor in identifying potential SMEs as subcontractors and suppliers to the Contractor. The Client, in assisting the Contractor, does not warrant the suitability of any SME that the Client may suggest as a potential subcontractor or supplier to the Contractor in the provision of the Works or Service."*

## **Evaluation and weighting criteria**

Each criterion should be assigned a weighting depending on its level of importance or criticality to ensure that greater emphasis is put on the more significant elements during the evaluation process. You should agree the weighting for each criterion with any relevant stakeholders. A weighting range as a percentage is recommended, but this range is not fixed and can be increased or decreased if appropriate so that more significant elements can be given greater emphasis.

It is recommended that the SME/local procurement criteria account for between 1% and 5 % of the total tender evaluation criteria. You will need to make your own judgement as to what weighting is proportionate and relevant for Warwick District Councils.