AUDIT AND GOVERNANCE COMMITTEE

Report subject	**Procurement and Contract Management – deeper dive into processes and arrangements for SMEs**
Meeting date	3 September 2026
Status	Public Report
Executive summary	This report provides assurance regarding the Council's arrangements for procuring from, appointing and managing Small and Medium-Sized Enterprises (SMEs). The report considers two key governance questions: 1. How does the Council satisfy itself that SME suppliers are capable, financially resilient and appropriately controlled to deliver contracted outcomes? 2. How does the Council ensure that procurement processes do not create unnecessary barriers which disadvantage SMEs or restrict competition? The report outlines the Council's current control framework and how it seeks to balance protection of public funds and service delivery with the objective of maintaining an accessible and competitive supplier marketplace.
Recommendations	**It is RECOMMENDED that:** **The content of this report is noted.**
Reason for recommendations	The minutes from the 19th of March 2026 meeting of Audit & Governance Committee state (para 115) the Chair indicated that it may be useful to undertake a deep dive into the experience of SMEs in navigating their way through the procurement process.

Portfolio Holder(s):	Cllr Jeff Hanna, Portfolio Holder for Transformation, Resources and Governance
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Wards	Council-wide
Classification	For Information

Background

This report provides assurance regarding the Council's arrangements for procuring from, appointing and managing Small and Medium-Sized Enterprises (SMEs).

The report considers two key governance questions:

- How does the Council satisfy itself that SME suppliers are capable, financially resilient and appropriately controlled to deliver contracted outcomes?
- How does the Council ensure that procurement processes do not create unnecessary barriers which disadvantage SMEs or restrict competition?

The report outlines the Council's current control framework and how it seeks to balance protection of public funds and service delivery with the objective of maintaining an accessible and competitive supplier marketplace.

Scope

1. The scope of this deep dive does not include the following which are not subject to the council's Procurement and Contract Management governance:

- Award of Grants, Subsidies and Financial Assistance
- Award of licencing / permitting street / open-space based traders
- Award of licencing / permitting for events

Strategic Context

2. SMEs play an important role in the Council's supply chain and contribute to:

- Increased market competition.
- Improved value for money.
- Innovation and service improvement.
- Increased flexibility and responsiveness.
- Support for local economic growth.
- Delivery of social value outcomes.

3. The Procurement Act 2023 promotes greater participation by SMEs and requires contracting authorities to design procurement processes that are proportionate, transparent and accessible.

4. While SME participation generates significant benefits, SMEs can also present different risk characteristics to larger organisations. Effective governance arrangements therefore need to ensure that risks are appropriately managed without creating unnecessary procedural burdens that inhibit SME participation.

Reserving contracts exclusively for SMEs

5. The Council cannot generally reserve contracts exclusively for SMEs under the Procurement Act 2023. Instead, assurance is obtained through ensuring procurement requirements are proportionate and do not create unnecessary barriers to SME participation, whilst maintaining fair and open competition for all suppliers.

The Council's Assurance Framework

6. The Council's assurance framework is based on three principles:

   - **Proportionality** - Requirements placed upon suppliers should be proportionate to the value, complexity and risk profile of the contract.
   - **Risk Management** - Due diligence and contract management controls should be sufficient to protect public funds, service continuity and statutory responsibilities.
   - **Market Accessibility** - Procurement processes should encourage competition and avoid creating unnecessary barriers to capable suppliers.

7. The Council seeks to strike an appropriate balance between these principles when designing and managing procurement exercises.

Understanding SME Risks

8. The Council recognises that SMEs can present particular risks which require assessment and monitoring.

9. Financial Resilience - Potential risks include:

   - Lower cash reserves.
   - Limited access to financing.
   - Greater exposure to inflationary pressures.
   - Dependency on a smaller customer base.
   - Increased vulnerability to unexpected economic events.

10. Capacity and Capability - Potential risks include:

    - Limited workforce capacity.
    - Key-person dependency.
    - Reduced organisational resilience.
    - Challenges associated with rapid growth.

11. Governance and Compliance - Potential risks include:

    - Less mature governance structures.
    - Limited compliance resources.
    - Reduced specialist support functions.

12. Business Continuity - Potential risks include:

    - Reliance on subcontractors.
    - Reduced resilience to operational disruption.
    - Service continuity risks should the supplier experience financial distress.

13. These risks are not unique to SMEs and do not necessarily indicate that an SME is unsuitable for Council contracts. However, they inform the level of assurance required before contract award and throughout the contract lifecycle.

Preventing Unnecessary Barriers to SME Participation

14. An important part of the Council's governance framework is ensuring procurement processes remain proportionate and accessible. Excessive assurance requirements can create unintended barriers to entry, resulting in:

- Reduced competition.
- Fewer bids.
- Higher contract costs.
- Reduced innovation.
- Reduced opportunities for local businesses.
- Reduced value for money.

15. The Council therefore seeks to ensure that supplier assurance requirements are focused on genuine risk mitigation rather than unnecessary administrative burden.

<u>Procurement Controls Prior to Contract Award</u>

Financial Due Diligence

16. The Council undertakes financial assessments appropriate to the value and risk profile of the contract. Typical controls include:

- Credit reference checks, or
- Full financial checks that are referred to BCP Accountancy for more detailed review such as:
  - Review of financial accounts.
  - Financial ratio analysis where appropriate.
  - Assessment of business viability.
  - Consideration of turnover and contract exposure.

17. The purpose of financial assessment is to understand and manage risk rather than exclude smaller suppliers. Financial requirements are applied proportionately and are not intended to create unnecessary barriers to participation.

Supplier Suitability Checks

18. Prior to award, suppliers may be assessed against:

- Mandatory exclusion grounds.
- Discretionary exclusion grounds.
- Companies House records.
- Financial stability.
- Tax compliance requirements.
- Relevant legal and regulatory obligations.

19. These checks provide assurance that suppliers are suitable to contract with the Council.

Technical Capability Assessment

20. Suppliers are assessed on their ability to deliver the required outcomes. Assessment may include:

- Relevant experience and capability at an organisational level
- Relevant experience and capability at an individual staff level
- Delivery methodology.

21. The focus is on capability and experience rather than organisational size.

Insurance and Compliance Requirements

22. Insurance requirements are determined according to the specific risks associated with each procurement / contract and may include:

- Public liability insurance:
  - BCP's default position - £10m
- Employers' liability insurance:
  - UK Statutory Minimum - £5m (most insurers provide £10m as standard)
  - BCP's default position - £10m
  - It is a legal requirement that all companies hold Employer's (Compulsory) Liability insurance of £5m as a minimum. NB not applicable to Sole Traders
- Professional indemnity insurance:
  - BCP's default position - £1m minimum

23. The Council seeks to ensure that insurance requirements remain proportionate and reflective of actual contract risks.

Information Governance and Cyber Security

24. Where contracts involve personal information, technology systems or sensitive data, suppliers may be required to demonstrate:

- Data protection compliance.
- Information governance arrangements.
- Cyber security controls.
- Cyber Essentials certification or equivalent arrangements where appropriate.

SME-Friendly Procurement Practices

25. The Council has adopted several approaches designed to reduce unnecessary burdens on suppliers.

Standardised Documentation

26. Where possible, procurement exercises utilise standard templates for:

- Invitation to Tender (ITT) and Request for Quote (RFQ) documentation including standardised Response Documents
- Pricing schedules.
- Evaluation criteria.
- Contract terms.

27. Standardisation reduces complexity and improves consistency for suppliers.

Reducing Duplication

28. The Council seeks to minimise requests for duplicate information and to avoid requiring suppliers to repeatedly provide evidence already submitted elsewhere within a procurement exercise.

Proportionate Response Requirements

29. Tender / Quote questions are designed to focus on information necessary to assess delivery capability. Examples include:

- Use of targeted method statements.
- Application of word limits.
- Limiting requests for extensive supporting documentation.
- Focusing on outcomes rather than lengthy narrative submissions.

30. This helps ensure evaluation is based on quality of response rather than bid-writing resources.

Staged Evidence Requests

31. Where appropriate, suppliers may initially provide declarations which are subsequently verified before award. Examples include:

- Insurance arrangements.
- Policy documents.
- Compliance certifications.

32. This reduces the burden on bidders who are ultimately unsuccessful.

Plain English Documentation

33. The Council aims to produce procurement documentation using clear and accessible language to support understanding by suppliers of all sizes and levels of public sector experience.

Lotting Strategies

34. Where appropriate and practical, larger requirements may be divided into:

- Geographic lots.
- Specialist / subject matter lots.

35. This enables SMEs to bid for portions of opportunities aligned to their capability and capacity.

Market Engagement

36. Prior to procurement, the Council may undertake market engagement activities to:

- Understand market capacity.
- Test proposed requirements.
- Identify barriers to competition.
- Inform procurement design.

37. Market feedback can support the development of proportionate specifications and commercial models.

<u>Contract Award Governance</u>

38. Contract awards are subject to established governance arrangements designed to ensure:

- Transparency.
- Fairness.
- Compliance with Procurement Act requirements.
- Appropriate delegation and approval.

39. Controls include:

- Approved procurement routes.
- Documented evaluation processes.
- Separation of duties.
- Moderation and quality assurance.
- Appropriate officer approvals.

40. These arrangements provide an auditable decision-making process.

<u>Contract Management and Ongoing Assurance</u>

41. The Council recognises that assurance does not end at contract award.

42. Contract management arrangements are intended to ensure suppliers continue to deliver the required outcomes throughout the life of the contract.

43. Typical controls include:

- Named contract managers.
- Contract management plans.
- Performance monitoring.
- KPI monitoring.
- Service review meetings.
- Risk management arrangements.
- Escalation procedures.

Financial Monitoring

44. Where contracts are higher value or higher risk, ongoing monitoring may include:

- Review of financial information.
- Credit monitoring.
- Assessment of emerging risks.
- Escalation of concerns.

45. This supports the early identification of financial distress and potential service continuity issues.

Managing Supplier Failure Risks

46. The Council operates arrangements intended to identify and respond to emerging supplier risks. These may include:

- Monitoring performance indicators.
- Escalation routes for concerns.
- Business continuity planning.
- Contingency arrangements.
- Exit and transition planning for critical contracts.

47. The objective is to minimise disruption to Council services should a supplier experience operational or financial difficulties.

Governance Oversight and Assurance

48. Corporate oversight is provided through existing governance structures, including procurement, finance and contract management arrangements. Assurance may be derived from:

- Procurement compliance reviews.
- Internal audit activity.
- Contract management reporting.
- Risk management processes.
- Performance monitoring arrangements.

49. These mechanisms enable senior officers to monitor whether controls are operating effectively.

Measuring Success

50. The council's performance, with respect to SME participation, shows:

- Number of contracts awarded to SMEs in 2025/26: 457
- Number of contracts awarded to SMEs in 2025/26 as a proportion of overall number of contracts awarded in 2025/26: 48%
- Value of contracts awarded to SMEs in 2025/26: £680M
- Value of contracts awarded to SMEs in 2025/26 as a proportion of overall value of contracts awarded in 2025/26: 30%

Conclusion

51. The Council operates a procurement and contract management framework designed to achieve an appropriate balance between effective risk management and market accessibility.

52. Pre-award due diligence, governance controls and ongoing contract management arrangements provide assurance regarding supplier capability, compliance and resilience. At the same time, the Council seeks to apply these controls proportionately to avoid creating unnecessary barriers that may disadvantage SMEs, reduce competition or undermine value for money.

53. Overall, the framework is intended to support informed procurement decisions, protect public funds, maintain service continuity and encourage a diverse and competitive supplier market capable of delivering positive outcomes for residents and communities.

Options Appraisal

54. No options appraisal associated with this report.

Summary of financial implications

55. No financial implications associated with this report

Summary of legal implications

56. No legal implications associated with this report.

Summary of human resources implications

57. No human resources implications associated with this report.

Summary of sustainability impact

58. No sustainability impact associated with this report.

Summary of public health implications

59. No public health implications associated with this report.

Summary of equality implications

60. No equality implications associated with this report.

Summary of risk assessment

61. No risk assessment associated with this report.

Background papers

No background papers associated with this report.

Appendices

There are no appendices to this report.