

## **Evolution of Local Government Supply Markets – Evidence from an Evaluation**

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## **Abstract**

Market mechanisms have been used in England to deliver efficiencies and concurrently to promote enhanced public benefit objectives. This creates a significant tension in local government. The National Procurement Strategy(NPS), a top-down New Labour policy was aimed at alleviating this tension by encouraging procurement processes and new markets that could deliver on both. This paper examines the initial results of a major evaluation of the NPS implementation involving three surveys of local government procurement officers. It concludes that the NPS has not been able to fully stimulate local governments to deliver both efficiencies and promote public objectives through demand-side market shaping approaches.

## **Introduction**

The tension between realizing market-driven efficiency and community-benefit oriented services presents a major challenge for government. NPM-type reforms have emphasised the place of competition in delivering greater efficiency for the tax payer, but have the disadvantage that they may cut across the distributional or wider public benefit objectives of government. Efficiency is desirable, but not to the extent that it distorts wider public interest values. This presents a particular challenge for social democratic governments, such as New Labour in the UK. Here, there is an attempt to reconcile the widespread use of market mechanisms with an expansion of publicly-funded social welfare provision.

This paper examines the implementation of a major reform programme – the National Procurement Strategy - that places local government in the forefront of managing this tension. This top-down policy requires local governments to establish methods of procuring services in ways that are responsive to local needs and political priorities, but at the same

time in the context of realizing efficiency savings. As part of this process, local governments play a role as market-makers, stimulating market provision in areas where hitherto there has been little or no competition. Developing markets through demand-side levers characterizes New Labour's approach to shaping regional and local economies, especially as they relate to how local governments contribute to wealth and wealth creation in the UK. The National Procurement Strategy is a particularly good opportunity to assess this approach at a micro level. This paper provides initial findings from a large scale evaluation of the implementation of the NPS. The first part of the paper sets out the background to this policy initiative. We then discuss the research design. This is followed by presentation and analysis of the survey results – results specifically related to local government markets, namely supply relationships, structures of relationships, types of suppliers (especially SMEs and Voluntary Community Organisations) and the mechanisms of engagement with them. The paper finishes with conclusions about the survey results and the evolution of local government supply markets in the UK.

### **The Developing Policy Context**

The National Procurement Strategy(NPS) for local government is one part of the Local Government Modernisation Agenda (LGMA), consisting of a collection of policies, legislation, and guidance that seek to influence the way local authorities deliver services. The LGMA was intended to achieve widespread transformation of local authorities through a series of strategies for increasing efficiency, reducing costs, and improving the quality of public services. Procurement had been given increasing attention evidenced by major central government reports (Egan Report 1998, Byatt Report 2001) and led directly to the NPS.

While these reports continued to emphasize competition as a key plank in the modernization of service delivery, a new overt goal emerged – that of attempting to broaden the measures of effective procurement and, most significantly, to directly align procurement

effectiveness with value-based political objectives. Specific goals that focused on obtaining community benefits through procurement processes were laid out in the NPS in a ‘meeting milestones’ implementation approach.<sup>1</sup> From a procedural perspective, the complexity of the NPS strategy as reflected through the milestones reflects a potentially more sophisticated procurement environment with demands for efficient contracting procedures (i.e. the Official Journal of the European Union notice award requirements) and the implementation and measurement of new forms of contracting (e.g.. smaller districts collaborating with others for shared services) embedded throughout. At the same time, the Gershon Efficiency agenda, requiring year-on-year savings at the local authority service delivery level, provided further stimulation to directly reduce costs through procurement processes.

The embedding of specific socio-economic objectives in local government processes through the use of a central government strategy was taken a step further with the NPS than it had been with previous policies associated with procurement (Allen and Caldwell 2006). New Labour had first tried to do this through the introduction of the ‘Best Value’ approach, both a policy and mechanism underpinned by the idea that each local authority and certain public other bodies were to make arrangements to secure ‘continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness’ (Local Government Act 1999 3(1)).

In theory, Compulsory Competitive Tendering (CCT) was abolished by Best Value. Until 1997 the procurement agenda was dominated by CCT both as a procurement mechanism and as a political ideology that justified subjecting all goods and services to competition in the name of efficiency. CCT represented an extreme case of directive government policy – demanding that contracting outside of the organisation be used to deliver public services. The CCT agenda has been well examined (Schwartz 2005; Entwistle

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<sup>1</sup> For example, the 2005 theme ‘Stimulating markets and achieving community benefits’ included such milestones as ‘Relationship of procurement to community plan addressed’, ‘Workforce diversity, equality and sustainability issues addressed’, ‘Sustainability built into procurement strategy, processes and contracts’.

and Martin 2005; Darwin, Duberley, and Johnson 2000; Choi 1999; Boyne 1998; Coulson 1998; Walsh et al. 1997; Walsh 1995; Rao and Young 1995) and explored in its application to local government finances (Wilson 1999), accounting (Willie 1999, Wilson 1999), regional development (Pinch 2000), service firms (Reimer 1999), and housing (Harries 2001).

Similarly, there are a number of accounts of the Best Value regime (Higgins, P. 2005; Boyne, Gould-Williams, Law, Walker 1999; Vincent-Jones 1999; Boyne 2000; Entwistle and Laffin 2005). Best Value focussed attention on 'choice' – creating options for local authorities for service delivery, one of which may be contracting out (other included trading with other authorities, complete outsourcing, PFIs, etc). Best Value (BV) was to be about helping local authorities to consider their options and find the “preferred type” of contracting relationships (Darwin, Duberley, Johnson 2000). Best Value was viewed as a success from the perspective of promoting Labour’s new approach to service delivery - removing CCT yet retaining the idea that developing markets was essential to a modernising economy (Entwistle and Laffin 2005). While the economically advantageous aspect of awarding public contracts remained important throughout CCT and Best Value (Bovis 2005, a,b), at the policy level increasingly the arguments of supporting the socio-economic fabric through procurement gained ground. Entwistle and Martin (2005) suggest that New Labour’s emphasis on the market as a source of innovation and improvement ‘led the current Government to promote a different type of relationship between the purchasers and providers of public services.’ (234) The social policy considerations that arise from the award of public contracts were partially unpacked from the economic choices in order to allow for clearer judgments about the qualitative value-added of procurement to service delivery and local government more generally. The Local Government Act of 2000 exemplified this in its direct connection of the economic, social, and environmental well-being powers to procurement, giving those local authorities that were performing and meeting expectations greater scope for using alternative processes.

Despite the effort to stimulate local authorities to consider their options when reviewing service delivery arrangements, New Labour policies continued to be underpinned by the belief that local government had to be prodded into shaping a mixed marketplace. It was always possible that Labour policies would result in the opposite effect, that of a reduction of the role of market forces in the public sector such that monopolistic supply by local bureaucracies might re-emerge as the dominant arrangement for service delivery in some areas(Boyne 1998). Best Value seemed to provide an opportunity for local authorities to withdraw from contracting-out by encouraging them to fully consider other options when reviewing service delivery arrangements, however, the statutory guidance of Best Value stressed the Government's view that fair and open competition would usually be the best way of demonstrating that a function was being carried out competitively (Audit Commission 2002). Further, in a survey of Best Value officers, it was found that services subject to Best Value were at least as likely to be provided externally as would have been the case under CCT (Higgins, James, Roper, 2005). The role of external contractors was reported as increasing despite the shift from CCT and the wider objectives of procurement policy now promoted in Best Value. Embracing contracting and competition could have been a way to delay or prevent the uptake of more radical options that would involve complex partnerships and the possible complete transfer of functions outside the local authority(Vincent-Jones 1999) but it was not apparent that particularly creative service delivery options were being considered on any large scale. Schwartz (2005) notes that in an ideal world, local authorities would not be locked into any particular method of service delivery but would analyse the special context of each service used before deciding on pure contracting mechanisms or some form of network and partnership alternatives. Echoing Vincent-Jones, he says that in the real world, local authorities' decisions are influenced by politics, often placing significant restrictions on options and encouraging contracting-out where it might not otherwise make sense. The National Procurement Strategy was aimed at making authorities use a more

sophisticated approach – contracting-out where case-based efficiency gains made sense, aggregating demand in consortia-style arrangements where possible, and encouraging the growth of a mixed market through increased interaction with SMEs and VCOs.

The creation of greater choice in service delivery for local authorities in terms of their supply markets – actual market-shaping, is the most challenging aspect of the national procurement strategy. Consciously developing the breadth and depth of SMEs in a local area supports the political requirement for promoting local employment while at the same time may be in conflict with the political goal of finding efficiencies through procurement and aggregation of services to cut costs. In some areas of social services and health, or where exceptions can be found under public procurement rules and contracts are not subject to open tender, ‘duties and responsibilities and performance monitoring are exploited, in many cases, for political gain and to promote narrow Voluntary Non-profit organisation (VNPO) interests while neglecting local authority needs’ (Schwartz 2005, 80). Altering the market to a point whereby many more VCOs are fully equipped to provide a complex and high quality service poses many difficulties. The VCO sector has provided an important element of social services for many years (Wistow et al. 1996) but significant characteristics of their institutional and contextual environment make change a long term proposition – notably a lack of competition by geographic market (rural, suburban, urban) and service type (victim support, substance abuse, learning disabilities) that makes it difficult to correct for lack of market providers and thus use of contract mechanisms such as retendering (Van Slyke 2006). Engaging VCOs more fully in the services delivery market, where attempted, has traditionally meant structuring block contracts so as to ‘pump prime’ a small organisation thereby helping them to get bank loans. Up-front payments could help establish service provision by creatively crossing the mechanisms of grants and contract funding (Mackintosh 2000). Despite growth in a ‘contracting culture’ in the area of social services, the extent to

which favourable treatment for particular organisations in this manner damages the overall goal of creating a more competitive market must be questioned.

The policy context and recent literature raises a number of issues about the local government market environment as it relates to the tension between market-driven efficiency and community-benefit oriented services. The local authority supply market environment upon which the NPS was imposed could be characterised as being on a spectrum with the discipline of full and open competition on one end, and the closed, close world of working with specific suppliers on the other extreme. Given that local governments will be working within specific historical and cultural, and demographic contexts, they must try to find a balance on this spectrum. Thus we consider the response by local governments to the policy direction of developing markets, as evidenced by their actions associated with procurement mechanisms such as providing enhanced information programs. Beyond the administrative approaches we examine what structural arrangements local governments have with their markets such as strategic partnerships, joint commissioning or consortia that may demonstrate evolution of these relationships and thus how, or if, they are pursuing efficiency savings at the expense of community benefits. Finally, we explore if SMEs and VCOs are becoming more embedded players in local authority markets such that they can be effective partners in both helping governments to find cost savings as well serving as promoters of closer social links between governments and citizens. These matters form the basis upon which we examine the Evaluation of the National Procurement Strategy survey results and will provide a window on the nature of local authority supply markets after three years of this policy strategy.

### **Research Design and Methods**

The Evaluation of the National Procurement Strategy(ELGPA) undertaken by the School of Public Policy involves yearly surveys over 4 years, as well as the development of



case studies. The questions in the first annual survey were drawn up in discussion with policy and research colleagues at the Office of the Deputy Prime Minister(ODPM), the department responsible for local government in the UK. The Institute of Local Government Studies(InLoGov) produced the survey questionnaire and the survey was administered by bmg research. In subsequent years, the survey questions were re-examined by InLoGov and ODPM – with changes to certain elements of emphasis, some new questions added and some deleted. This was a challenge to the researchers; the ODPM policy context and organisation around this issue was such that as new agenda items rose to the forefront, policy officers added questions about their specific area to the survey in subsequent years and altered many of the original questions.

All English local authorities (388) were invited to participate in the survey. The survey was dispatched by email, completed in the form of Word document and emailed back to bmg research. Wherever possible, the survey was sent to a named person in each authority.

Three of the four surveys have been completed (over 300 observations). In this paper we are looking particularly at questions associated with supply markets, forming approximately a fifth of the survey. Varying across the years, these questions look at the nature of supply market problems by individual supply market, methods used to encourage suppliers, relations with the voluntary and community sector regarding issues of supply arrangements and communications, and the issue of local governments working effectively with SMEs.

### ***Population***

Table 1 indicates the sample and distribution of the LAs responding in each of the three years.

[Table 1 about here]

The table indicates that about one third (35%) of authorities responded in 2006, a very similar number to that for 2005. Second, the responses in 2006 somewhat under-represent Districts and marginally over-represent Counties and All Purpose authorities, however, in comparison with the population as a whole the responses are broadly representative of authorities by type.

The similarity of the distribution of the responses in 2006 to the population as a whole means that it is possible to draw some valuable inferences from the data although the relatively low response rate overall means that these must be treated with some caution<sup>2</sup>.

### **Developing Markets and Supply Relationships – The Results<sup>3</sup>**

#### ***Encouraging Suppliers***

Given the direction that has been given to authorities in the NPS to be more innovative and forward-thinking in their dealings with suppliers and in the markets in which they operate, a key question is whether, at the outset and inception of the national procurement initiative, authorities were experiencing problems in the markets in which they were engaged. Local authorities procure services, works, and goods from a variety of different markets, reflecting their needs and those of other clients for whom the local authority is acting. It might be expected that as clients engage more fully with markets and suppliers, and those markets develop and mature, there will be points at which clients identify problems with the markets to which they relate. In the surveys for 2004 and 2005 respondents were asked whether they were experiencing problems in particular markets and the nature of those problems that were encountered. Figure 1 shows the results for 2005.

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<sup>2</sup> This project also involves qualitative methods in the form of two rounds of interviews with 15 local authorities. Corporate procurement officers were interviewed (where these positions existed) and key procurement officials were interviewed in a semi-structured interview approach. The project is embarking on the second round of interviews, approximately two years after the first. The interviews have been written by up by members of the evaluation team and will be analysed in the coming year.

<sup>3</sup> Note that all the results discussed in the section are based on the surveys carried out each year, 2004-2006, and the population for the results presented are as contained in Table 1 unless otherwise indicated. The authors are grateful to their former colleague Michael Hughes for his analysis of the 2004 and 2005 surveys, and for his unpublished papers relating to these years results which are drawn on below.

[Figure 1 about here]

The survey asked respondents to assess whether their authorities had problems in fifteen markets, identified in Figure 1, in which they were likely to be clients. These markets were pre-identified from discussions with local authorities. In 11 of the 15 markets identified the majority of respondents – and in some cases a great majority of them - reported that they were not experiencing any of the problems listed. From Figure 1 it would appear that many of these markets are those where there is likely to be either quite significant in-house provision (e.g. Personnel/Human Resources, the LEA Service, Leisure Management) or where there is a history of contracting with suppliers so that relationships are likely to be well developed (e.g. Highways Maintenance and Grounds Maintenance). Further, many of these are also areas where output and performance are relatively easy to specify and identify, and where remedy in the event of poor performance can be also be specified. In these cases many features of the supplier performance are contractible and therefore, perhaps, less problematic.

However, in the markets for Children's Care Services and Adult Care Services in particular more than nine out of ten authorities (95% and 97% respectively) reported problems, a very similar pattern of responses to those received in 2004. In these markets, the most frequently identified problem was that of 'high prices', which was an issue for more than a quarter of authorities involved in Children's Services (29%) and a quarter involved in Adult Care Services (25%), although it was also seen as a problem in nearly a third of consultancy contracts. For Children's and Adult Care Services, lack of price competition was also seen as a problem so that, taken together with the 'high prices' response, over half of respondents experienced what they saw as price related issues in respect of these services. These two markets stand out as different from the others in two ways: the extent of the perceived problems; and that the level of problems perceived is virtually the same in both 2004 and 2005 surveys.

There were some notable differences between the responses in 2004 and 2005 in respect of five other markets. In the Construction market in 2004, 64% of respondents reported difficulties; in 2005 this had reduced to 50% which may reflect in part the increased emphasis that has placed on partnering in construction relationships (see, for example, National Audit Office, 2001; Construction Task Force 1998 and Chartered Institute of Building 2006). For the ICT Services market, 47% reported difficulties in 2004, in 2005 this had reduced to 27%, mainly due to more price competition and thus less of a perception of high prices. Forty-three per cent of respondents reported difficulties in the Grounds Maintenance market in 2004, by 2005 this had reduced to 33%. In the Professional Consultancy and Management Consultancy markets, 37 and 32% reported difficulties in 2004; in 2005 this had increased to 48% in both areas respectively – due to perceived high prices and lack of quality competition.

Where perceived high prices or a lack of competition in terms of price or quality are being experienced, a rational response on the part of authorities would be to try and encourage more or different suppliers to enter the market and compete for local authority business. In all three years of surveys to date, respondents were asked about the methods that they used to encourage suppliers to bid for work from their authorities. Table 2 shows the results.

Table 2 indicates that in most of the identified areas a greater proportion of local authorities are using a wide variety of methods to attract suppliers in 2006 than was the case in 2004. In particular the use of websites for advertising supply opportunities and for providing information is much more widespread than previously, while almost half of responding authorities in 2006 provide and publish a forward procurement plan, intended to assist potential suppliers in planning for future bids. The number of authorities which encourage, but, note, do not *require*, in-house teams to contract-out support for specialist skills or peaks of work has also increased.

As Table 2 shows, the 2005 and 2006 surveys included the category “encourage bids from black and ethnic minority businesses”. Here there were clear differences in the responses to this between the types of authority in both years. All-purpose authorities (40% in 2006, 41% in 2005) and Counties (23% in 2006, 33% in 2005) are significantly more likely to use this method than Districts (8% in 2006, 6% in 2005). Part of the explanation for this difference may be due to the geographical distribution of the black and ethnic minority population. Thus, over half of the London Boroughs responding to this question used this method. Overall Table 2 gives a positive picture of authorities’ activities in attempting to encourage greater interest in supplying the local public sector, particularly when allied to the finding (not shown) that, although there is some variation as noted, in general different types of local authorities do not differ greatly in respect of their use of the methods shown.

[Table 2 about here]

### ***Involvement in Partnerships and Joint Activity***

As suggested earlier, improvements in local authority supply arrangements are not solely dependant on encouraging (more) suppliers and (more) competition, but can also be achieved by restructuring relationships between clients and contractors once the latter have been chosen or by the form chosen at the outset. A key development in this area is the formation of long-term service delivery partnerships which have been argued to be strategically important vehicles for effective service delivery (DCLG 2006). The choice of service provider open to local authorities is not simply between in-house delivery and traditional outsourcing. Central government direction describes a variety of organisational and legal frameworks that could be used to manage effective service delivery. The list includes ‘partnerships at both the strategic and local level’. ‘Strategic’ partnerships can involve partnerships between any type of organisation and the local authority and are usually characterized by: alignment of goals between partners, the delivery of services by one body

on behalf of the other or through joint working, delivery of more value than a traditional contract, incorporation of risk sharing and reward, a change in behaviour from partners, and flexibility and the capacity to change in scope and nature over its lifetime(ODPM 2004).

Table 3 indicates the percentage of respondents whose authorities were involved in such partnerships and the sectors with which the partnerships had been created.

[Table 3 about here]

Table 3 indicates that long term strategic partnerships with the private sector and voluntary and community organisations (VCOs) have declined between 2005 and 2006, and, further, such partnerships with other local authorities or other public sector bodies have declined significantly from just over half responding affirmatively in 2005 to just over one third in 2006. This is perhaps a surprising result, given, as noted, the importance attached in some quarters to this form of relationship as a means of efficient and effective service delivery. Table 4 throws some further light on this. Respondents were asked to indicate how confident they were that such partnerships would deliver the potential benefits ascribed to long term strategic service delivery partnerships when compared to other procurement options. For brevity, the Table shows only the ‘not at all confident’ and ‘very confident’ responses from the degrees of confidence that respondents were able to express.

[Table 4 about here]

While only a small minority of respondents had no confidence that the identified benefits from these partnerships would be forthcoming, the number being very confident is not dramatically different. Most confidence is expressed in strategic partnerships of this sort delivering better value for money – where one in five respondents are very confident about this – but fewer respondents are very confident that these partnerships will deliver lower costs than are not at all confident that this is the case. In addition, respondents were also asked whether, in the light of their authority’s experience of working in a long term partnership,

they agreed or disagreed with a number of statements reflecting beliefs about the benefits that such working arrangements provided. Of the 103 respondents, more than 60% indicated that their experience led them to agree or strongly agree that long term partnership working:

- Provides valuable lessons for other procurement (74%)
- Delivers long term efficiency gains (70%)
- Was supported by a strong business case and effective options appraisal (70%)
- Provides value for money (65%)
- Is supported by joint performance monitoring and management systems (63%)
- Has the right governance structure to protect the Council's interests (61%)

These positive results sit uneasily, perhaps, with the results in Tables 3 and 4 which suggest a decline in involvement in such partnerships and a lack of great confidence in their alleged benefits. In this respect, it is important to note that over two thirds of respondents (69%) disagreed or strongly disagreed that partnerships were easy to set up and almost 30% did not believe that, in their experience, such partnerships had transferred risks from the authority or had been subject to effective scrutiny by elected members.

It is also possible that, despite their benefits, long term strategic partnerships are being replaced with joint commissioning arrangements and varied shared service delivery arrangements which might generate for authorities comparatively greater efficiency gains and other benefits. Local authorities may be increasingly moving to formal purchasing arrangements such as consortia or opting out of partnerships and designing other forms of procurement networking arrangements.

In order to investigate if this is the case, authorities were asked in each year, 2004 through 2006, whether they were involved or were considering involvement in various forms of consortia, joint commissioning and sharing arrangements. Table 5 shows the responses relating to such involvement.

[Table 5 about here]

Table 5 shows that membership of (public) service purchasing consortia remains the activity in this area in which most authorities are involved, although we can note some primarily anecdotal evidence here that suggests that for many authorities there is a significant difference between their membership of, and their actual use of, such consortia for procurement purposes. Almost two thirds (61%) of authorities in 2006 were involved in the joint commissioning and procurement of ‘other’ services with other authorities, which include revenue and benefits services, legal and IT advice, the contracting of agency staff and the disposal of abandoned vehicles.

Almost 40% of responding authorities have created a shared procurement function with other authorities, an arrangement which is much more common among District Councils, 47% of which share procurement, compared to other authority types (around a quarter), doubtless due to lower capacity and purchasing power of these smaller authorities. As might be expected given their different size and functions, only 15% of District Councils are involved in the joint commissioning and procurement of construction services compared to between 30% and 40% of all purpose authorities and 62% of County Councils. For similar reasons, only one District Council is involved in the joint commissioning and procurement of health and social care services while between 63% and 77% of all-purpose and County Councils are involved in this way, indicating the great significance of the arrangement for these services for the relevant types of authority.

The above would suggest, then, that if the involvement and use of long term strategic service delivery partnerships is somewhat less extensive, and less ‘popular’, than might have been expected, local authorities are increasingly involved locally and regionally in many other sorts of arrangements jointly with other authorities to improve their procurement activities.



The discussion to this point has concentrated on the client side arrangements for procurement. An equally important question is from whom authorities purchase the required goods and services. While the pattern of local authority expenditure by type of supplier is difficult and time consuming for authorities themselves to assess, and an area which it is unreasonable to expect survey respondents to explore for the purposes of a questionnaire, authorities' arrangements with two particular types of supplier have particular significance from the point of view of national procurement and commissioning policy in England. These suppliers are small and medium sized enterprises (SMEs) and organisations in the voluntary and community – not for profit – sector (VCOs). Each is considered in turn.

### ***Types of Suppliers – Small and Medium Sized Enterprises***

Local authorities are encouraged to sign-up to the principles of the 'Small Business Friendly Concordat for SMEs' (Small Business Service, 2005). The concordat commits signatory local authorities to:

- Publish a corporate procurement strategy that links procurement to the council's policy objectives, community leadership, well-being, and a diverse and competitive supply market, and the delivery of best value;
  - Provide general information on websites and elsewhere that enables SMEs to have fair access to contract opportunities;
  - Provide information about specific contract opportunities (including opportunities for prospective suppliers to discuss those opportunities) and about the prime contractors who may be able to provide sub-contracting opportunities;
  - Operate a fair, and simple, tender process following open and transparent procedures;
  - Provide feedback to failed suppliers and seek feedback from suppliers' associations;
- and

- Treat all suppliers fairly: paying them on time; seeking their feedback on the management of the contract; providing opportunities to put things write before action is taken against them; and requiring sub-contractors to pay their bills on time.

In the 2006 survey, authorities were asked whether or not they had signed up to this Concordat. Two thirds (65%) indicated that they had done so, and a further quarter indicated that they would do so by the end of 2006/07. This exceeds the 63% of authorities in the 2005 survey that had signed up to the Concordat or were planning to do so by the end of 2005/06, and greatly exceeds the handful of authorities (7%) that had signed a concordat in 2004. While responses to the 2005 survey suggested that all Counties answering this question would have signed the concordat by 2006/07, 82% had done so by 2006 with the remainder expecting to have signed up by the end of the financial year. A greater percentage of Unitaries (86%) had signed up than any other class of authority. In contrast, only about half of London Boroughs (seven out of 12) had signed up, a slightly smaller proportion than in the case of Districts (60%).

Five percent of the 125 respondents - six authorities - indicated that they had not signed the Concordat and did not have one in preparation. Three authorities gave reasons why this was the case and cited a lack of resources, other procurement priorities and, in the third case, the fact that the authority had signed up to a local business partnership which had itself signed up to the Concordat.

It is recognised, of course, that signing up to a concordat and extensively using or deliberately steering procurement activity towards the SME sector are different matters. Nevertheless, in this, perhaps limited, way, authorities do seem to be making some efforts to be more accessible to this sector when undertaking their procurement functions.

### ***Types of Suppliers – Voluntary and Community Sector***

An important part of government policies for social cohesion and widening the supplier base for public services rests in the extension of the role of the voluntary and community sectors in the supply of local public services (HM Treasury, 2002). One route to increasing the sectors' role is the agreement of a 'compact' between the voluntary and community sector and local authorities (Home Office, 1998). Compacts govern relationships between local authorities and the voluntary and community sector, dealing with various aspects of the relationship including the procurement of goods and services from the sector. Table 6 compares the results from all three annual surveys on questions concerning whether authorities had signed-up to a compact, or were likely to in the near future.

[Table 6 about here]

There is a noticeable increase between 2004 and 2006 in the number of authorities with approved compacts (18% to 65%) and there now remain only a small number of authorities (11% down from 32%) with no plans to develop a compact. Around three quarters of all purpose (71%) and County authorities (77%) have signed compacts and while fewer District Councils have done so (61%), the number of Districts covered by compacts is likely to exceed this as some County compacts cover local Districts as well. The completion of a compact commits councils and local VCOs to follow best practice. It is also intended that best practice in procurement is reflected in their formal relationships. The 2005 and 2006 surveys asked respondents to describe how the relationship between their council and the VCO sector had (or had not) changed over the last three years. Respondents were asked to consider three types of formal arrangement, the use of contracts, the use of service-level agreements (SLAs) and the use of grant-in-aid. First, contracts for goods and services between local authorities and the VCO sector should put the relationship onto a business-like footing with VCO suppliers competing against each other, and others in the marketplace, to

deliver goods and services to the local authority. A contract between a local authority and a VCO has the same standing as a contract with any other organisation. Second, service-level agreements have been used by local authorities (particularly in social care and leisure services) as a ‘half-way’ mechanism between contracts and grant-in aid (see below). SLAs have advantages and disadvantages for both parties – particularly when ‘things go wrong’. One concern in the VCO sector is that authorities may apply through the flexibility of SLAs for conditions that would not be acceptable if there was a ‘proper’ contract. Third, local authorities traditionally give grants to support organisations or projects. Although grants are subject to audit they are not subject to the same performance requirements as payments for goods or services. Given these types of more or less formal, contractual relationships, respondents were asked how, if at all, these relationships had changed over the previous three years. Table 7 shows the results.

[Table 7 about here]

Table 7 suggests a complex picture. The use of contracts, grants linked to SLAs and grant-in-aid has remained the same in between a third and almost a half of responding authorities. The largest increase – reported by nearly a third of authorities (31%) - is in the use of grants linked to SLAs, a finding not dissimilar to that for 2005 when 45% of authorities reported an increase in the use of such grants. Grant-in-aid shows the lowest reported increase as in 2005. However, what is striking is that between a third and a half of respondents did not know whether these sorts of relationships had changed over the previous three years. These results might suggest that there is some distance between local authority procurement practice and the policy objectives for fair and monitored treatment of VCO suppliers.

Reports from government and the sector (HM Treasury, 2002; NCVO, 2005) have identified possible obstacles to VCO suppliers’ interest in local government contracts. Five of

the more commonly cited obstacles are: a confusion between grant-funding and funding for goods and services that leads to VCOs being paid at rates below the full economic costs of providing services; the absence of VCO representatives from discussions about the overall design, delivery, and packaging of services; contracts for activities that are likely to be provided by VCOs are let for short periods (12 months or less) although demand can be predicted for longer periods. These short contracts cause uncertainty and disruption, making it more difficult for VCOs to invest in training and other resources; an absence of clear risk allocation pre and post contract; and the use of payment procedures which particularly disadvantage VCOs. The first three of these issues were explored through question in the 2006 survey, although the details of in which services these methods were used were not asked for, in contrast to 2005. Table 8 illustrates local authority responses.

[Table 8 about here]

First, note that almost a third of respondents indicated that they did not know the answer, as in 2005. For the remaining authorities the most common response was that they did not take any of the actions listed. Where action is taken it is through the involvement of VCO representatives in the pre-procurement process or in respect of awarding contracts for three years or more (25% and 24% of responding authorities, respectively). It would appear that this latter method has increased somewhat since 2005 when 16%-17% of authorities awarded contracts of such lengths for the services to which that survey question referred. From the 2006 responses it appears that most local authorities are still not taking action that responds to the main concerns of the VCO sector about the procurement of local public services. Another potential obstacle to the participation of new suppliers, and perhaps particularly those in the VCO sector, is a perception that risks are allocated unfairly to the supplier. Table 9 indicates the responses to a question about how risk allocation is agreed with potential suppliers at different stages in the procurement process. Again the responses

are only partially comparable with a similar question asked in 2005 where specific services were identified.

[Table 9 about here]

There is some evidence that the number of authorities agreeing to risk allocation procedures has increased since 2005. Thus while in the earlier year between a half and two thirds of respondents did not discuss risk allocation at any procurement stage when procuring or commissioning Adult and Social Care services, Children's and Education Services or Other Services, by 2006 the number not discussing risk allocation had fallen to around a third or significantly less. Further around a half discussed this at the service design, at selection interview and/or during post contract negotiations in 2006. Overall, risk allocation was discussed by between a quarter and a third of authorities at most stages of the procurement process in 2005 but by between about 30% and 50% in 2006. It is instructive to note, however, that about one third of respondents in 2006 did not know whether (or when) risk allocation was discussed.

A final potential obstacle to VCO participation in the market place for local government services is the way in which payments for work are made. VCOs, particularly those that (in financial and staffing terms) resemble SMEs, may have cash flow difficulties if they are paid yearly, or half-yearly, or on the completion of milestones, in arrears and sometimes with additional delay. This is a well-recognised issue and has partly been dealt with through rules on prompt payment (Small Business Service, 2003). There have also been some improvements in local authority performance in paying undisputed invoices in time - according to best value performance indicators three quarters of local authorities now pay 93% of their invoices within 30 days (2004-5) compared with 89% in 2001-2. The problem can also be dealt with by changing payment procedures to provide for all, or some, payment in advance of work being completed, rather than withholding all payment until work is completed (HM Treasury, 2003).

Questions about how payments are made were asked in the 2005 and 2006 surveys, although the question in the former year again focused on adult care services, education and children's services. Respondents were asked to indicate whether they used the three particular payment methods as highlighted in guidance issued by the Home Office and Office of Government Commerce (2004). The first method was 'payment in advance'. As in 2005, only three percent of authorities (3%) used this approach even though the National Audit Office suggests that this approach is 'relatively common' in central government procurement following changes to accounting advice (National Audit Office, 2005). The second method was 'up to 50% in advance'. Eight authorities (6%) in 2006 compared to 11 authorities (8%) in 2005 used part payment in advance. The third method was 'quarterly payments'. As in 2005, this was the mechanism most used by authorities in 2006 with 28% using quarterly payments. In 2005, however, only 18% used quarterly payments for 'Other Services' and a tenth used it for Adult Services (10%) and Children's and Education Services (9%). Despite the increase in quarterly payments which assist with the cash flow of VCOs, it appears that most local authorities responding to the survey continue to use 'traditional' and perhaps disproportionately risk averse approaches to payment.

### **Private, Public or Voluntary Sector Solutions?**

Having considered some of the reported difficulties that authorities have faced in their supply markets and some of the initiatives and arrangements that they have put in place in an attempt to overcome these, it is possible to summarise the options that they have chosen when considering who to contract with or relate to in their procurement activity. With respect to expenditure by type of supplier, it is a major task for authorities to identify accurately, in terms of number of 'contracts' or by value of contracts, the relative significance of the sectors with which they are trading. This has been started in most local governments over the past

year. However, the DCLG surveys asked for this information only in respect of the most recent service review (or service reviews where more than one service review was carried out contemporaneously) that the authority had undertaken.

Clearly the option chosen will partly depend on the particular service reviewed. For example, some services may be more readily amenable to outsourcing than some others. However, inspection of the data shows that the range of reviews is similar in both years – for example, about a quarter of all reviews in both years concerned environmental services, 26%-30% focused on corporate and support services, while 12%-15% addressed leisure, sport and culture provision. These broad service areas were similar to those reported as being reviewed in 2004. Table 10 compares the options that local authorities implemented by sector following the most recent review. The figures here indicate the implementation ‘solutions’ and the sector to which they relate as a percentage of all implementation decisions.

[Table 10 about here]

The Table suggests two clear conclusions. First, despite the efforts – or perhaps because of the limited efforts – that authorities have made to engage with the VCO sector, only a very small minority of service reviews led to supply agreements with that sector and, if anything, fewer such agreements were entered into in 2006 than in 2004 and 2005. Second, there is a clear move to opting for private sector solutions rather than in-house or other public sector solutions by 2006. The number of choices of the public sector options fell from 59% in 2004 to 38% in 2006, while the choice of private sector options correspondingly rose from 33% to 58% over this period.



## **Conclusions**

The National Procurement Strategy puts local government in the forefront of managing the tension between the use of market mechanisms and the promotion of public objectives through publicly funded service provisions. Central government, through this policy in particular, has emphasised the use of procurement to realize efficiency savings as well as its use to promote the development of social cohesion, in this case through demand-side levers in their supply management. The evaluation results highlighted in this paper tell an interesting story. The results associated with issues in supply markets, (notably the high prices of service suppliers in Children's and Adult Services) supports the idea that change and development in supply markets is indeed critical. Thus encouraging more or different suppliers to enter and compete in the market, as promoted in the NPS, is a logical approach. Through procurement methods including advertising tenders, providing training on how to bid for local authority work, and information disclosure, suppliers can be 'pulled' into more and better working relationships with local governments. The demographic make-up of local areas will be significant in terms of what type of mechanism works, especially in so far as various methods to encourage suppliers can impact on social inclusion and community development.

While there is merit in encouraging suppliers through mechanisms on the demand-side, the actual contractual and partnership mechanisms that are being used for structuring supply relationships provide an enhanced perspective with respect to what kinds of arrangements are underpinning marketplace activities. With long-term semi-competitive (or non-competitive) structures such as strategic partnerships in decline, and very little confidence as to their benefit, local authorities' shift towards fully contractually-based, long-term partnerships such as shared services and purchasing consortia demonstrates that local authorities are seeking formal, rules-based arrangements that can provide some certainty around efficiency savings. It is a step too far to say that this trend definitely reduces the

possibility for community benefits. However, given the growth of contractual formal arrangements with other local authorities or public sector bodies, and consortia that may involve many players beyond the local authorities regionally and nationally, it is reasonable to conclude that this will not expand local community relations nor the development of local markets per se.

In terms of widening the supplier base by greater involvement of SMEs and VCOs in local authority business, there is evidence that local governments are committed to working with them in more transparent and inclusive ways. The use of contracts, and grants linked to service-level agreements (a step closer to full contractual form) has increased, meaning that supply relations will be undertaken in a more business-like fashion. However there is still very little action being taken by local governments to deal with the problems associated with engaging VCOs in service supply, such as longer contracts, involvement at pre-contract stage, full cost recovery, risk management, and payment procedures that would enable VCOs to plan and shape their market activities in a more sophisticated manner.

The evidence from the evaluation demonstrates that despite a policy direction that marries the goal of greater efficiency with increased social inclusion, New Labour's approach with the National Procurement Strategy has thus far been only partially successful in shaping local economies through demand-side market development. Local governments are moving towards more contractually-based forms of supply partnerships that may not be focussed on the local community and suppliers within it. The goal of finding efficiency savings, most easily found through solid contracts in aggregate structures is being sought possibly to the detriment of developing cohesive local supply economies that contribute to other social democratic objectives such as political inclusion and community networks. There is a requirement for further research to determine whether using procurement strategies in this way is an effective lever to achieve socio-economic objectives.



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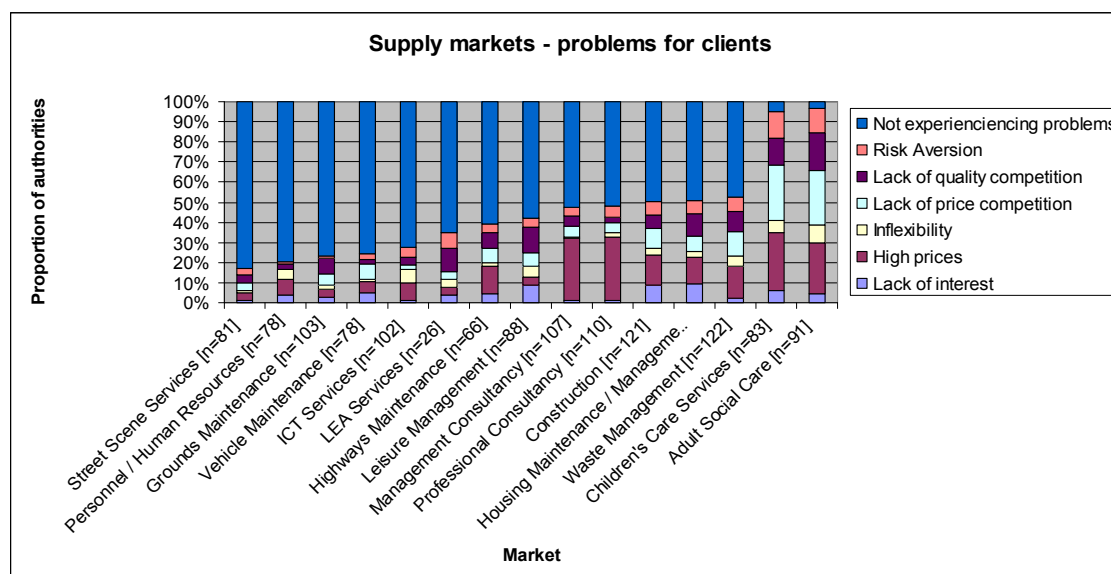
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**Table 1: Population and Samples: Annual Surveys 2004, 2005 and 2006**

<i>Type of Authority</i>	<i>Population (English LAs)</i>	<i>Responding Authorities</i>		
		<i>2004</i>	<i>2005</i>	<i>2006</i>
All Authorities	388 (100%)	157 (100%)	135 (100%)	136* (100%)
Districts	238 (61%)	80 (51%)	85 (63%)	74 (57%)
Counties	34 (9%)	16 (10%)	9 (7%)	13 (10%)
All Purpose	116 (30%)	61 (39%)	41 (30%)	42 (32%)

\* Includes seven LAs which did not indicate their type and which are excluded from the data presented in the remainder of this column

**Figure 1: Problems Experienced by Clients in Supply Markets: 2005**



**Table 2: Methods Used to Encourage Suppliers: 2004 - 2006**

<b>Method of Encouraging Suppliers</b>	<b>Proportion</b>	<b>Proportion</b>	<b>Proportion</b>	<b>Indication of Change: 2004 and 2006</b>
	<b>2006</b>	<b>2005</b>	<b>2004</b>	
Other information on website	93%	80%	55%	●●●●
Producing information in plain English	68%	59%	44%	●●●●
Placing OJEU notices and other adverts on its website	71%	59%	46%	●●●●
Packaging work appropriately to the market	60%	52%	54%	●
Basing requirements on outcomes	54%	48%	51%	●
Working with Business Links	51%	47%	45%	●
Using a Tender Opportunities Portal	40%	47%	34%	●●
Providing training on how to bid for council contracts	46%	47%	29%	●●
Publishing forward procurement plan	50%	43%	34%	●●
Providing information memoranda to prospective bidders	54%	41%	40%	●●
Asking bidders for large contracts to suggest a supply chain management designed to support local SMEs	38%	34%	27%	●●
Better scoping of project definition	34%	33%	29%	●
Holding seminars to introduce contractors to a contract, or range of contract, opportunities	36%	27%	27%	●
Encouraging in-house teams to contract-out support for specialist skills or peaks of work	28%	25%	18%	●●
Clarity on in-house bidding	19%	20%	20%	●
Encourage bids from BME business	22%	19%	n/a	n/a
Advertising all contract opportunities in newsletter supplier to local businesses	9%	7%	5%	●
Refunding bidders' costs	2%	1%	1%	●
Other	11%	9%	7%	●



None	1%	2%	3%	●
No. of Respondents	n=135	n=135	n=157	

**Key to Indication of Change in Table 2:**

●●● = increase of 20% points or more, 2004 to 2006

●● = increase of 10% points -19% points, 2004 to 2006

● = increase of less than 10% points, 2004 to 2006

○ = little or no change, 2004 to 2006

**Table 3: Involvement in Long Term Strategic Partnerships:  
2005 and 2006**

<i>Partnerships with:</i>	<i>2006</i>	<i>2005</i>
Private Sector	53%	60%
VCOs	25%	35%
Another LA or Other Public Sector Body	36%	51%
Mix of public, private and Voluntary/Community	12%	28%

NB: This table excludes 'no response', because these were significant for some options (up to 40%), but includes 'Don't Know'.

**Table 4: Confidence in Benefits from Long Term  
Strategic Service Delivery Partnerships: 2006**

Potential Benefits	Not At All Confident	Very Confident
Better Value for Money	9%	20%
Higher Quality Services	7%	14%
Wider Benefits for the LA	5%	14%
Better Service Design	7%	12%
Lower Costs	15%	12%
Wider Community Benefits	7%	7%
Better Working Relationships	10%	16%

n=111 for each option except 'Better Service Design' where n=109

**Table 5: Whether Authorities Involved in Joint Commissioning, Consortia or Sharing  
Arrangements: 2004-2006**

<i>Authority Involved In or Not</i>	<b>Involved</b>			<b>Neither Involved In Nor Considering</b>		
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Joint commissioning and procurement of health and social care services	30%	35%	34%	53%	42%	42%
Joint commissioning and procurement of construction services	29%	21%	21%	39%	30%	33%
Joint commissioning and procurement of other services	61%	*	*	11%	*	*

Creating a shared procurement function with other Authorities	39%	32%	29%	34%	39%	34%
Creating other shared 'back office' services with other Local Authorities	26%	29%	17%	6%	30%	23%
Creating other shared services with other Local Authorities	33%	*	*	21%	*	*
Membership of public service purchasing consortia <sup>1</sup>	74%	73%	76%	15%	5%	1%

<sup>1</sup> 'Use or Membership of public service purchasing consortia' in 2005 and 'Use of purchasing consortia' in 2004

**Table 6: Compacts with the VCO Sector: 2004-2006**

Compact with the VCS?	All Authorities		
	2006	2005	2004
Yes - already approved	65%	55%	18%
In preparation (for next year)	5%	8%	7%
In preparation (two years time)	7%	16%	n/a
In preparation (three years time)	1%	1%	n/a
Not being prepared	11%	7%	32%
Don't know	11%	13%	6%

**Table 7: Development of Relationship with VCO Sector  
over the Last Three Years: 2006**

<b>Change</b>	<b>Use of Contracts</b>	<b>Grants Linked to SLAs</b>	<b>Grant-in-Aid</b>
Increased	21%	31%	7%
Stayed the Same	47%	30%	33%
Decreased	1%	2%	9%
Don't Know	31%	38%	51%
No. of Respondents	129	128	127

**Table 8: Methods Used to Encourage VCO Bids: 2006**

<b>Method</b>	<b>Full Economic Costs</b>	<b>VCO Reps Involved Pre- Procurement</b>	<b>Contracts of 3yrs or More</b>
Used	17%	25%	24%
Not Used	54%	47%	46%
Don't Know	29%	28%	30%
No. of Respondents	124	123	124

**Table 9: Agreeing Risk Allocation at Procurement Stages: 2006**

<b>Procurement Stage</b>	<b>Assessing Needs</b>	<b>Service Design</b>	<b>Supplier Conference</b>	<b>Selection Interview</b>	<b>Post Contract Negotiation</b>
Yes	36%	51%	28%	46%	51%
No	29%	21%	38%	24%	18%
Don't Know	35%	28%	35%	30%	31%
No. of Respondents	107	114	104	109	109

**Table 10: Options Chosen Following Latest Service Review:  
2004-2006**

<b>Options Chosen</b>		<b>2006</b>	<b>2005</b>	<b>2004</b>
<b><i>Public Sector Solutions</i></b>	In House or Public Sector Partnership	38%	48%	59%
<b><i>Private Sector Solutions</i></b>	Contracting Out/Outsourcing or Private Sector Partnership	58%	43%	33%
<b><i>Voluntary and Community Sector Solutions</i></b>		4%	9%	7%