



*Developing the local
government services market
to support a long-term strategy
for local government*

Executive Report



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PricewaterhouseCoopers LLP.

November 2006
Department for Communities and Local Government

On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government

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Introduction

Local government delivers a diverse set of services. Where suppliers are commissioned to deliver services, markets are created, and there is a general perception, supported in some cases with more detailed analysis, that many of these markets currently operate in a sub-optimal way. Additionally, there is increasing pressure on these markets to respond to public service reform and the Department for Communities and Local Government's long-term strategy for local government, to be set out in the Local Government White Paper.

Understanding and improving the effectiveness of supply markets is critical if local government is to achieve its strategic objectives. This report considers the key challenges and opportunities facing major local government service markets and identifies thematic issues that influence effective competition across the sector.

This study has analysed eight key local government market sectors: asset management and construction services; leisure services; public library services; neighbourhood and streetscene services; regulatory services; technology and transformation services; transport services; and waste management services. Each of these is the subject of a forthcoming working paper.

In addition, the study has looked at some thematic issues cross-cutting all of these market sectors and developed a series of recommendations for the future development of local government services markets. These issues and conclusions are examined fully in the main report. In the case of the third sector, shared services and local authority syndication and franchising, these will also be explored in more detail through forthcoming working papers. This executive report summaries these findings and presents the conclusions of the study in full.

Why are local government markets important?

It is both a surprising and significant that local government expends around half of its revenue with suppliers (including goods, services and third party payments), equating to £55 billion of spend on an England-wide basis.¹ Spend alone, however, is not a reliable indicator of importance. If the spend on suppliers operated in stable patterns, for predictable services and at comparably best prices, the topic would hold little major significance. But our study of the dynamics of many of these markets suggests:

- Suppliers and markets are significantly influenced by policy and strategy – both positively and negatively
- The patterns of supply and demand are highly changeable and differentiated by sector
- Levels of competition in the supply of sector services vary enormously
- Competition, and in turn supply chain effectiveness, is a highly contingent factor in the achievement of policy changes and associated national/local objectives

¹ 2005/06 Provisional Revenue Outturn Statistical Release, Department for Communities & Local Government, August 2006.

- The buying power of local government is not leveraged effectively
- The level of attention given to markets in policy development is neither sufficient nor appropriately focused

This report aims to help bring much needed and deserved attention to the place of markets in the delivery of both local and central government objectives. It also aims to show both the points of critical connection with the current policy agenda – and crucially – how greater public value can be captured.

How are demand and supply structured?

We have been struck by the differences in demand and supply side structures. This reflects to some degree, the atomised nature of local government procurement, but also suggests (again to some degree) there are opportunities for change. In overview, the demand side is structured in two main ways:

- a. *By function*: traditional local authority structures tend to group services in functional units such as social services, housing and environmental services. Typically subsets of these units (such as street lighting, day care or waste collection) provide for the demand interface.
- b. *By cross-cutting agenda*: recently some local authorities have begun to organise their functions differently, for example around the needs of particular service users, such as children, in response to Government reform.

The structure of supply does not closely reflect that of demand. This is not necessarily an indication that demand structures should change, but at the very least this fact needs to be recognised by procurers of services in going to market. In overview terms, private sector suppliers are organised around the provision of:

- Managed services (e.g. grounds maintenance)
- Professional services (e.g. legal services)
- ICT services (e.g. Telecoms)
- Construction services (e.g. highways)
- Products (e.g. office supplies)

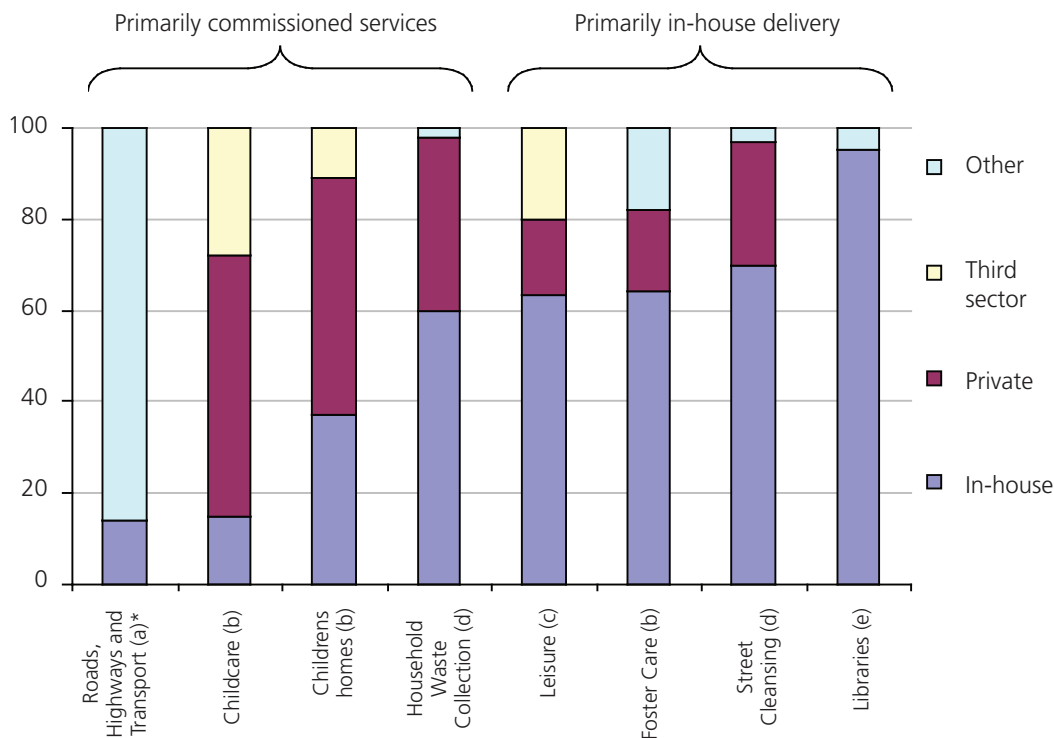
In addition, suppliers are differentiated by scale: ranging from niche suppliers of particular products, to sector specific suppliers, to (increasingly) the much larger, cross-sector suppliers. There is also increasing interest in the role of the third sector (including charities and voluntary groups).

Finally, evidence suggests the majority of procurement revenues accrue to small and medium-sized suppliers (61%). This reflects both the granularity of procurement ‘packages’ but also perhaps the nature of wider market structures in areas such as social care.

What services are delivered by whom?

At an overview level, the following chart (**Figure A**) sets out the very widely differing practice in the use of suppliers by individual service areas. At a glance it shows major differences in the way that services are delivered.

Figure A: Overall trends in procurement expenditure in local government



Sources: (a) 2005-06 Communities and Local Government LGF Revenue Outturn statistics; (b) DfES Children's services: Overarching Report on Children's Services Markets, PricewaterhouseCoopers, 2006; (c) The Leisure data base company Ltd., 2004; (d) Waste collection and disposal statistics 2003-04 Actuals, CIPFA, 2005. (e) Developing the local government services market: market sector working paper on library services, PwC, forthcoming.

NB: Figures are approximate only as expenditure breakdowns are not directly comparable.

* The large 'other' category for highways and transport results from the reporting method of non-staff expenditure, which includes both good services and third party payments.

How could competition and contestability be utilised to deliver greater value?

We have considered a very wide range of academic, government and other literature sources to identify a number of evidence-based messages we believe are relevant to the local government supply market. In overview we suggest:

- There is a strong theoretical basis and evidence from practice for suggesting that effective supply markets lever pressure to improve performance in both the external supplier community and in-house delivery of services;
- Achieving the benefits of competition is highly contingent upon a number of conditions, including high quality commissioning, the development of market capacity (market-creating and shaping) and the orientation of supply towards user choice (for example by instituting choice-based contracting);
- There are both opportunities and drawbacks to increasing the intensity of competition at different times and in different scenarios. Although greater competition is largely a positive trend in most supplier markets, tactical decisions (such as the involvement of too many suppliers in a competition) can lead to perverse consequences such as high procurement costs, tacit market collusion and bid fatigue from SMEs;
- Contract aggregation (for example by procuring shared services across local authority boundaries) presents benefits but also some risks. Management of these risks (such as incumbency advantage, or exclusion of SMEs) may be the difference between a successful long-term aggregation and one which might deliver quick wins – but also longer term dis-benefits; and
- Self supply, whilst a credible position in some circumstances, has the major impact of limiting competition, especially when potential suppliers feel some element of bias may be a factor in deciding whether to appoint an in-house team. For a range of reasons, given more detailed analysis later in this report, we strongly suggest competitive neutrality should be a major consideration in procuring goods and services.

What are the features of effective competition?

There are five main drivers for effective competition, which all need to be in place for the goal of better outcomes to be achieved. The absence of any one of the four drivers could inhibit the achievement of desired outcomes. These drivers are:

1. **Strategic market management:** Most supply markets in local government can be positively influenced by policy. But it requires a strategic perspective to be effective, which in turn suggests local and central government policy-makers need to work together to actively manage markets.
2. **Effective commissioning and procurement arrangements:** Rules-based contracting, elaborate processes and the consequent high bid costs are unlikely to positively affect outcomes.
3. **Low entry and exit barriers:** Productivity improvements depend on the cycle of entry and exit and whilst some barriers will be necessary, local authorities should consciously assess where barriers are truly needed for the furtherance of priority objectives.
4. **Competitive neutrality:** There needs to be a level playing field for all types of provider, including across the private, in-house and third sectors.

5. **Cultural and political issues:** These are often most significant. Within a market all the conditions set out above may be present but cultural and political factors could impact and influence what happens in practice.

How could the features of effective commissioning be drawn together in a new approach?

Whilst *individual* commissioning (e.g. for care pathways) has been a longstanding element of the local government commissioning landscape, it is operational commissioning (at a service level) and *strategic* commissioning that offers the major opportunity for change and improvement (**figures B and C**). Critical factors in developing strategic commissioning are:

- Building people capacity to lead and manage strategic commissioning;
- Using a ‘whole system’ approach to thinking about the relationship between outcomes and services/products;
- Working across local public service institutions; and
- A willingness to think differently about delivery options.

Figure B: The strategic commissioning role

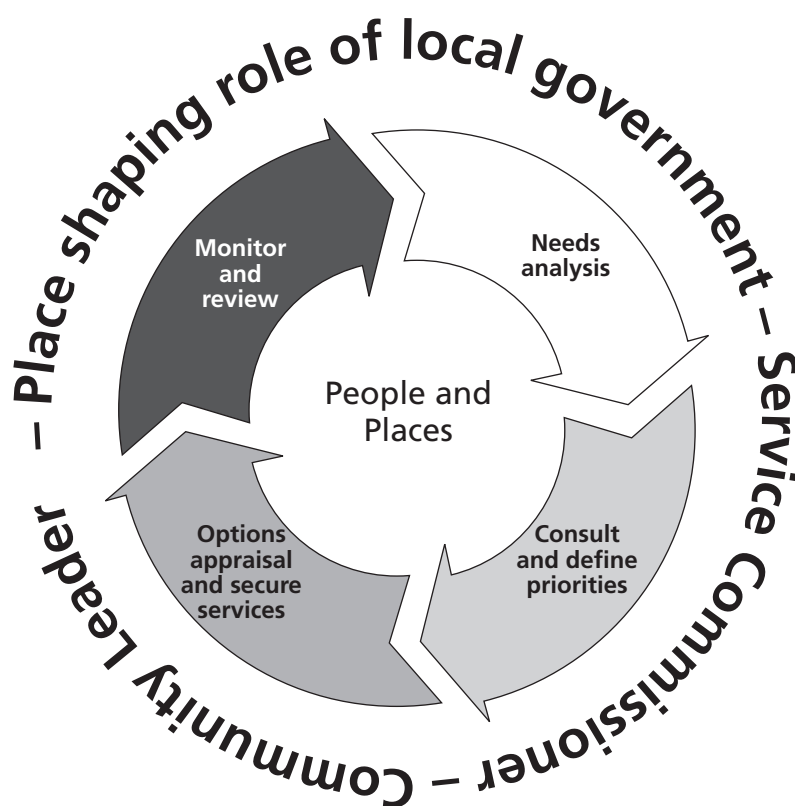
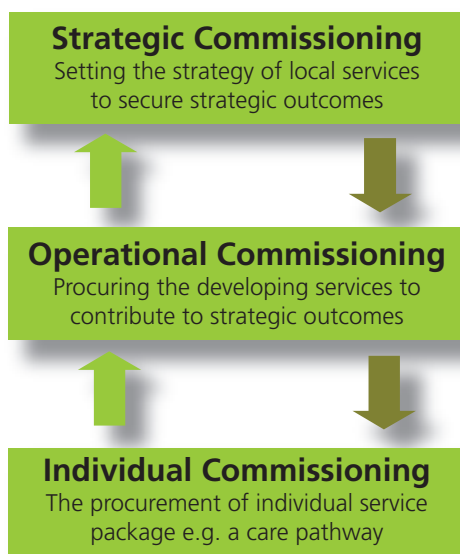


Figure C: Strategic, operational and individual commissioning



In addition to these cross-sector points, our examination of specific sectors demonstrated more opportunities – as the exhibit below illustrates:

Box I: The potential wider role of local government as a strategic commissioner

The following examples are designed to illustrate the possibilities of a wider role for local government as a strategic commissioner in the future, and reflect discussions about such opportunities at the sector roundtables:

Corporate Services & IT – where the development of shared services by local government could be expanded in future, potentially through trading arrangements with other public sector organisations, to support central government relocation away from London/South East and pan-public sector efficiency goals.

Waste management – where local government could take on a broader role – as recently recognised in by DEFRA’s waste strategy consultation paper – for dealing with waste ‘streams’ beyond municipal waste (which represents only 8% of all waste at present), possibly through establishing trading arrangements with other public bodies, to deal for example with ‘hazardous’ and ‘commercial’ waste produced by NHS organisations, as well as providing more consistent support in the commercial sector (particularly for SMEs) and in pooling existing and new treatment and disposal facilities with other waste streams.

Transport – it could be argued that local government already provides a strategic role. But our work confirms that there is potential to integrate different transport modes more effectively, if issues of leadership, governance, influence, powers and finance are addressed.

Sports and leisure – where the aspirations set out in recent analyses, such as the Carter Review and ‘Game Plan’² suggest the need to focus on boosting participation and health outcomes through new models of commissioning and delivery from a more diverse supply base, for example based upon developing mixed use facilities providing community, education, health, and leisure services; and ensuring access for key target groups.

² *Review of national sport effort and resources*, Carter, P. 2005; *Game plan – a strategy for delivering the Government’s sport and physical activity objectives*, Strategy Unit & Department for Culture Media and Sport, 2002.

Box I: The potential wider role of local government as a strategic commissioner (*continued*)

Asset management – where local authorities, as community leaders, take on a more strategic planning role in mapping the demand, rationalising and making better use of local public assets and potentially assisting central government in its relocation objectives. Local authorities might in future become the ‘hub’ front-office for networks of public services across localities, building upon current trends towards integrated, one-stop shop delivery models for local public services that are taking root in some areas.

Public Library Service – where an alternative perspective focused on the optimum way of commissioning lifelong learning outcomes for local communities, rather than on traditional “bricks and mortar” library services, creates opportunities for radical new thinking on delivery vehicles within this sector.

Neighbourhood & Streetscene services – where there is an opportunity to provide a more coherent approach and develop fence-to-fence solutions directed at liveability outcomes, through a sensible balance between economies of scale in contracting and locally tailored services, and encouraging a more diverse supply base.

Regulatory Services – here there is an opportunity to challenge the current pattern of service delivery through the introduction of greater contestability and deregulation to allow the growth of alternative supply, greater choice to users and exploiting the synergies between different regulatory services to provide for more integrated frontline services and realise greater scale and operational efficiencies.

This new approach overall *and* in relation to specific services, would be highly congruent with both the future role of local government to be ‘place shapers’ and community leaders, and the development of Local Strategic Partnerships (LSPs), Sustainable Communities Strategies and Local Area Agreements (LAAs). Indeed, there are a number of options for structures to work alongside LAAs including:

- The definition of mayoral or leader responsibilities with respect to strategic commissioning
- The development of a strategic services organisation responsible across an area for particular functions (such as waste or transport boards)
- An area wide public sector executive responsible for commissioning, working for, and to, an existing Local Strategic Partnership (LSP)

The evidence from our roundtable discussions with commissioners, suppliers and policy makers, suggested that whilst purchasers and the supply community welcomed experimentation and flexibility with new strategic commissioning arrangements, they were sceptical a ‘volunteer’ approach would create the step-change needed.

How can strategic reform be balanced with the needs of neighbourhoods and service users?

Policy and practice tensions are undoubtedly created by the pursuance of both an aggregating and devolution and decentralisation of service delivery agendas.

But it is also conceivable that in some circumstances both agendas can work well together. For example, ‘unbundling services’ and identifying which of these services

require more tailored delivery, and which are more suited to a high degree of standardisation and have a relatively ‘generic’ demand profile. Another way to look at the balance between productive and allocative efficiency is to take a longer-term view of the need to realise efficiency gains in terms of investing-to-save and higher value outputs such as liveability or healthier communities. We have also found that economies of scale are often assumed rather than evidenced, and on the other hand, local differences sometimes have little material impact.

How can more effective competition be driven within the specific sectors studied?

The tactics employed in driving effective competition should comprise a number of general themes, but a differentiated approach by market will be needed. The following box sets out our sense of what is needed by each sector.

Box II: Summary of the key drivers for improved competition by market sector

Waste Management: Increasing competition and capacity by attracting new domestic and overseas suppliers into the UK market and by local government taking on a more strategic role, working with others to improve the operational efficiency of the service by exploiting scale economies across different waste streams.

Regulatory Services: Challenging the current pattern of service delivery through the introduction of greater contestability and deregulation to allow the growth of alternative supply, greater choice to users and exploiting the synergies between different regulatory services to provide for more integrated frontline services and realise greater scale and operational efficiencies.

Libraries: Challenging the current pattern of service delivery by introducing a range of alternative providers, expertise, and new ways of working for different parts of the service, maximising resources on frontline delivery and making the services much more responsive to users (and non-users).

Asset Management & Construction: Local government taking a more strategic approach to planning and management not only for their own needs, but by working with others to exploit opportunities for greater rationalisation and integration of frontline services with a more joined up and strategic use of market capacity.

Neighbourhoods & Streetscene services: Providing for a more coherent approach and developing fence-to-fence solutions directed at liveability outcomes through a sensible balance between locally tailored and efficient services and encouraging a more diverse supply base.

Leisure: Local government taking on a more strategic role and therefore exploiting the full capacity of the wider leisure market by focusing upon capacity planning and facilitation and focusing resources on the needs of, and increasing access for, target groups – for example, within the context of the healthier communities agenda.

Corporate Services & IT: Exploiting economies of scale and at the same time encouraging competition and innovation within the market (including public-public as well as public-private partnerships) which brings about a sensible balance between efficiency and service transformation outcomes.

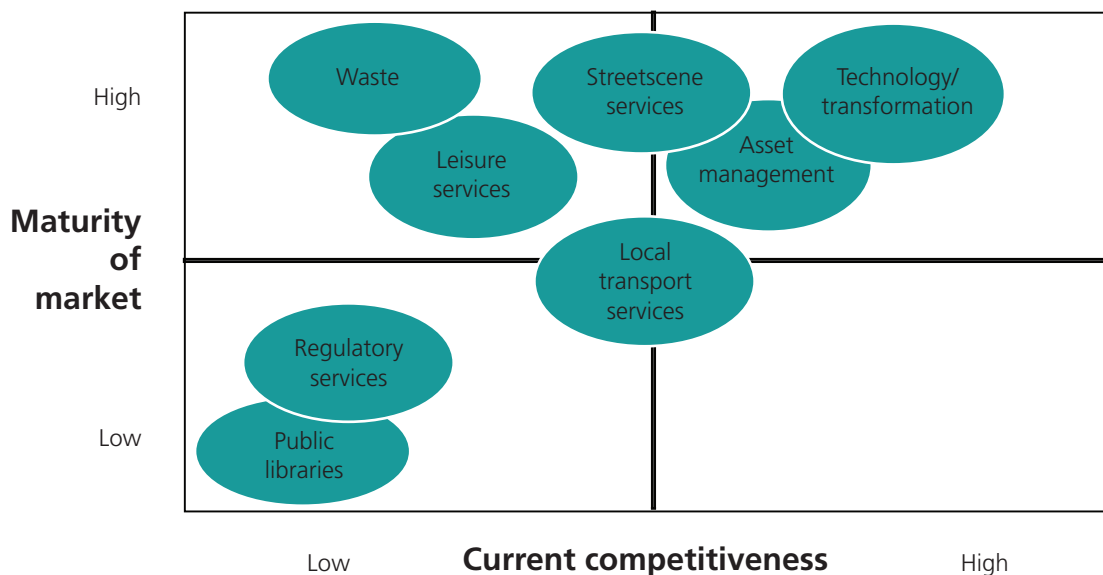
Transport: Local government taking an even more visible leadership role in orchestrating, brokering and steering the complex network of local stakeholders with transport responsibilities on both supply and demand sides, towards the achievement of transport and sustainability outcomes, coupled with a more assertive approach to developing competition in key local transport market sectors such as buses, home-to-school transport and community transport, by using self-supply and performance benchmarking more effectively, and stimulating the latent potential of the social enterprise sector to deliver a bigger share of community transport services.

How should cross-sector improvement in competition be driven?

The study is clear that there are substantial variations in the level of competition across the market sectors (**Figure D**). Whilst the causes of variation are often sector specific, they all fall within the following characterisation:

- a. Mature supply markets with relatively weak competition and restricted capacity, which need to tackle stagnation and reducing entry and exit barriers to bring in new players, for example waste management
- b. Markets that are not current offering optimum solutions for the local government setting, which need to challenge current solutions and incentivise innovation, for example asset management
- c. Services that have had little or no exposure to alternative sources of supply to date, and therefore more limited external challenge to performance than other sectors, for example, regulatory services and public library services. Design and concept-testing of new delivery models will be required in these markets.

Figure D: Competitiveness and maturity of key local government market sectors



Further, buying power is currently not leveraged consistently and purposively to effectively stimulate and manage the market as a whole. Sector-specific action will continue to be important but since supply side structures are very different (and much more dynamic), demand side commissioners have a genuine opportunity to lever more than the sum of the sector parts. This is much more than simply aggregating demand or supply. In some cases the opposite may be required. Rather, it is about optimising the potential and the competitiveness of diverse markets including of both scale economies and public value.

What are the main aims for strategic commissioning in local government?

The need for a strategic commissioning approach was strongly felt by the sector roundtables convened as part of this project. Participants felt the current arrangements represented less than good practice, by virtue of:

- A perceived lack of leadership for commissioning and procurement
- A lack of connection between commissioning, and procurement in particular, and the strategic objectives of local authorities
- A lack of rigour in working through user needs to supplier engagement
- Uneven progress towards clearer, output-based specifications related to desired outcomes
- Entry barriers in the form of high bid costs and overlong process
- A lack of standardisation in contracting
- (Some) weak contract management skills

To respond to these challenges, and indeed the subtext of weak market leverage; the high-level goals for developing strategic commissioning are as follows:

- To build capacity in strategic commissioning, in particular to develop robust leadership of functions
- To delineate clearly between procurement and commissioning on the basis of:
 - scale (i.e. whole area needs)
 - scope (i.e. interlinked with partner public organisations)
 - size (i.e. sufficient market coverage)
- To develop cross-organisation commissioning frameworks that could lead to new service configurations
- To consider a wider range of procurement solutions than has historically been the case in demand-side functions, including user-choice models, public interest companies and partnerships
- To provide more direct forms of accountability to users for supplier performance;
- To make and manage markets actively and consultatively, creating a better understanding of supply chains
- To deliver best practice in the specification of outcomes

Why is market development and shaping important?

Market developing and shaping takes commissioners beyond the procurement of contracted services to an active (and often highly beneficial) dialogue with the marketplace. It is absolutely central to strategic commissioning and falls into three main elements:

- *market intelligence* refers to the accessibility at a local, regional and national level of market data covering areas such as current market activity, current and potential suppliers, and future opportunities, to inform strategic planning on both the supply and demand sides, as well as market research for individual transactions;
- *market dialogue* refers specifically to the quality and frequency of interactions between stakeholders on the supply and demand sides, in interpreting and discussing this data, to better inform individual transactions and the medium and long term development of supply markets for local government services; and
- *market shaping* refers to collaborative action by public sector organisations and the supply market as a whole to develop markets in ways that support the delivery of key policy objectives at both local and national level.

The study found that the quality of market intelligence available to commissioners is mixed at best and further, commissioners are not always considering the cumulative impact of buying decisions on the structure of the market and the leverage they can command. A wide range of other possible symptoms of weak market development are listed in the main body of this report, but the long term competitiveness of key sectors is at stake unless the issue of market intelligence is addressed. At the very least (and there are many more examples of good practice that could be employed) there needs to be:

- Better information for suppliers about future trends in demand in key sectors to enable capacity planning and investment decisions;
- A more structured, regular and accessible flow of information for commissioners about the quantity and quality of suppliers in key sectors; and
- where required, a more active approach to developing and shaping the market.

What is the role of the supply side in supporting effective competition?

The key players on the demand-side – both commissioners of local services and Government itself – have a key role to play in influencing and shaping supply markets. However, suppliers themselves – and those that represent them – have an equally important role in supporting the sustainable development of the market.

It is incumbent upon the supply community that they recognise this role and actively embrace it. This commitment should be reflected not only in the transactional relationships that individual suppliers develop with commissioners, but more importantly in the development of broader strategic relationships, at regional and national levels, to support high quality market dialogue between the demand and supply sides. Many of the challenges associated with nurturing sustainable markets, such as the development of the strategic commissioning role, and improving the effectiveness of public procurement, will only be overcome by a sustained and shared effort on the supply side, as well as on the demand side.

What are the conclusions of the study?

Based upon the research and stakeholder discussions undertaken in preparing this report, we have drawn together twelve key conclusions, which are set out below:

1. ***Commissioning and procurement should be elevated in importance so that these functions incorporate a strategic perspective so as to advance local government's wider role in 'place shaping'***. This will mean:
 - All services should be planned and delivered as part of a commissioning cycle, integrating the consideration of user needs, strategic planning, prioritisation and management of resource allocation, as well as consideration of possible sources of supply and their management. The commissioning cycle should incorporate both the strategic and operational-service levels.
 - Commissioning should be centred on delivering improvements for people and places and should be undertaken after real engagement with local people, service users and prospective and present partners in all aspects of the commissioning cycle.
 - A move towards strategic commissioning in local government, will have significant implications for the structure of local government. In particular, planning will need to take place at an appropriate level to ensure that the delivery of key services is optimised. This is likely to mean more multi-authority and multi-institution working
 - Local government procurement will need to move away from being primarily a process-driven, technical competency and be set within the broader context of the commissioning cycle. This will involve confidential and pragmatic engagement across the policy and supply communities, to ensure that local government's service delivery and community leadership roles are both fulfilled.
 - There will also provide an opportunity to develop an area-based approach to strategic commissioning, by using LSP structures as the basis for specifying area outcomes. Local Area Agreements can be further developed as the basis of the 'contract for delivery' of those outcomes on an area level, cutting across traditional service/institutional boundaries to advance a common reality of place.
2. ***A clear and comprehensive commissioning framework for local government needs to be established, which provides a central focal point for those involved in the development of policy, the commissioning of activities and the procurement and provision of services***. This should:
 - Build on the proposals in *local:vision* and provide a clear and decisive message that strategic commissioning lies at the heart of local government's role and function.
 - Articulate the key policy issues which Government wishes local government commissioning practices to address, such as user focus and empowerment, competitive neutrality, market development and a mixed economy.

- Ensure strong incentives for internal and external providers to respond to user needs and increased satisfaction with local services.
- Require engagement with all stakeholders to ensure that outcome specifications become the norm and the publicly-seen aspects of service delivery are sustainable and practical.

3. *Greater investment should be made in the development of commissioning skills and capacity in local government.* In particular:

- The role that can be played by Members in strategic commissioning needs to be better understood across local government.
- Strategic commissioning skills need to be seen as a leadership competency for future service heads and chief executive officers.
- In addition to the execution of individual procurements, skills need to be developed in the identification of service needs, in options appraisal and in contract management.
- Specialist “procurement hubs” should be developed within local government, from which individual councils can access specialist commercial procurement skills as and when they are needed.
- This would allow individual councils to concentrate on building skills in more strategic aspects of commissioning such as needs assessment, and in contract management.

4. *‘Received wisdom’ about the delivery of core services must be challenged.* In particular:

- There must be a willingness to challenge current patterns of service delivery, drawing on the best of the public, private and third sectors.
- There must be a greater understanding that simply turning to alternative suppliers will not necessarily achieve more efficient and effective services, nor will it achieve real transformation of services on its own.
- The approach to commissioning and procurement needs to encourage innovative solutions to service transformation based around the needs of users and local areas.
- This should start from a clear understanding within commissioning organisations of what they want from suppliers and what alternative providers might have to offer, on the benefits of forming relationships based around outputs and outcomes, and intelligent allocation of risk and reward.

5. *Performance, efficiency and value-for-money can be improved through a diverse and competitive supply community.* This will require:

- Attention at a local level to the recruitment, reward and retention of senior officers, to ensure that commercial acumen and an understanding of public service markets are seen as core to their role, rather than elements of a purely technical procurement activity.
- Wider development of performance benchmarking data across key services to ensure that in-house or external provision continues to deliver value for money.
- The development of a common options appraisal methodology that takes into account current best practice and focuses upon the absolutely key deliverables of any service, so that different models and sources of supply can be considered on a 'level playing field'.
- Investment in new delivery models by suppliers, both on their own and in joint ventures with providers from other sectors, in exchange for greater certainty in demand from commissioners, through the application of improved market management.
- The ongoing development of capacity in procurement and project management to increase client capability and ensure that local government continues to improve its abilities in framing and managing individual transactions, ensuring effective competition and extracting value from its supply base.

6. *The supply side of the mixed economy – the public, private and third sectors – must recognise its role in stimulating effective competition and supporting capacity planning,* including:

- Proactively engaging with commissioners to understand their needs within individual services.
- Being open to the development of consortia and joint ventures with new kinds of supplier, from the public, private or third sectors, where this will deliver better outcomes.
- Recognising that their long-term interests involve acting with transparency and accountability to both client organisations and end-users.
- That it is in the interest of individual suppliers and the wider market to be open and honest with commissioners when they spot weaknesses in projects or procurements.
- Engaging openly and transparently with commissioners, in particular to add value to the commissioning process by proactively identifying ways to shape individual commissioning exercises so that they contribute to local government's place-shaping role.

7. ***Public service suppliers and those who represent them should engage pragmatically in the future development of the local government services market***, by:

- recognising that the challenges which the supply-side need to address – some of which are set out above – are of equal importance to the long-term development of the market as the challenges applying to clients.
- taking a wider-perspective in business development beyond the next deal by engaging with local government commissioners proactively and constructively to help shape the market over the longer-term.
- assuming a leadership role by promoting and mentoring new enterprises within the public services market
- embracing the agenda based on user choice and voice, not only through the commissioning process but also through the delivery of individual services.
- bringing forward solutions that balance the need to deliver scale economies, with the need to respond to the locality agenda.
- seeing mutual advantage in mentoring other parts of the supply chain across public, private (including SMEs) and third sector to help develop a diverse and mixed economy of provision.
- developing innovative products and solutions that will help local government “shape places” by delivering outcomes that are valued by local people.

8. ***The market environment must be neutral between different classes of provider, and care needs to be taken to ensure that artificial entry barriers to local government markets do not discourage new providers***. This should include:

- Active encouragement of a diverse supply community including improving incentives and capacity development to encourage entry by new participants and growth from under-developed sources of supply from across the economy.
- Better procurement practices to reduce the transaction costs of doing business with local authorities.
- A commitment to fair and open competitive procurement practices, whether or not they are subject to the EC Procurement rules.
- Greater transparency of the costs and the performance of services provided by councils (and their service providers) on a “like for like” basis.

9. ***A balance must be sought between aggregation and localism in commissioning services***, including:

- A more sophisticated understanding within the local government market of the efficiency agenda, which gives equal weighting to effectiveness of services as well as their economy.

- An analysis across each of the market sectors involving prospective and present service providers about which services are best delivered nationally, regionally, locally, through shared services and at sub-council/neighbourhood level.
- Consideration, on a service-by-service basis, involving prospective and present providers, of the right balance between the achievement of economies of scale in delivery, and the need for responsiveness and local flexibility in service delivery; applying the principle of subsidiarity.
- A balance between the aggregation of supply and its impact on the long-term competitiveness of markets.

10. *Central and local government need to take an active approach to developing and shaping the local government services market.* Supply markets are strategically important to both central and local government and they do not always work effectively. Therefore government at both levels has a responsibility to be proactive and engage with and, where appropriate, manage inefficient supply markets to support a diverse and vibrant supply base. This will involve:

- Ensuring better connectivity along the delivery chain from policymaking, through commissioning and procurement on the supply side, to ensure that the implications of policy decisions for key services markets are properly considered, and that there is sufficient capacity available in key markets to support the achievement of policy objectives.
- Ensuring that existing markets develop their competitiveness and that new supply markets are created to introduce contestability into service provision.
- Ensuring that the buyer power of local government and its public sector partners is co-ordinated and deployed in a way that balances value-for-money in the short term with ensuring competitiveness in the medium to long term, through improved co-ordination and early engagement with key suppliers.

11. *There should be encouragement of a more strategic dialogue between policy, commissioning and supply communities.* This may require leadership at the national policy level to establish fora and network groups to allow ‘a conversation’ to take place outside the confines and constraints of a particular transaction about the strategic structure of markets, by:

- Establishing a national stakeholder forum with representatives from local government, policymakers and suppliers, to focus on the medium and long-term development of key supply markets for local government, with a remit to increase flexibility, innovation, and improved efficiency in market development.
- The development of a central capacity, drawing on existing central infrastructure, to feed into this forum, by undertaking periodic national reviews of key supply markets, for the purpose of horizon-scanning, exploring opportunities to innovate, or addressing potential national problem areas.

- Improving client capability to ensure a focus on medium and long term supply chain management in procurement decision-making, and widening existing procurement capacity-building activities if necessary to support these improvements.

12. *There should an investment in an on-going forensic review of local government markets so that actions are taken based upon evidence.* Each local government market sector has different pressures, characteristics and supply chains. An investment in improved market intelligence and market ‘shaping’ will facilitate a more robust and focused set of actions to improve the way particular market sectors operate within the market as a whole, by:

- Building on existing data sources to improve the quantity, quality and frequency of tactical intelligence to inform commissioning and procurement activities, including data on opportunities, transactions, local government spend and supplier performance.
- Identifying an appropriate channel to improve the distribution and dissemination of this data across local government and its key supply markets, such as the Regional Centres of Excellence.
- The establishment of regional fora, to complement the national forum set out above, to deal with tactical and operational challenges in relation to key markets at a regional or local level, such as dislocations between the supply and demand sides in particular regions.
- The establishment of a hosted ‘development space’ where commissioners and suppliers can engage to discuss specific upcoming opportunities, and how these can best be framed and outcomes specified, that maximise the innovation on offer in particular market sectors, and also ensure the commercial viability of new commissions.

For the findings of this study to be taken forward there are a number of issues that will need to be addressed by the different stakeholder groups, with whom we have engaged throughout this study:

- Policy makers will need to be prepared to take a leadership role and to recognise that there is a need and responsibility for the public sector to actively engage in the development and management of the supply markets.
- Commissioning capacity will need to be enhanced. Models will need to be developed that focus on sound business principles, the procurement and commissioning function will need to be seen at the heart of local government’s approach to service delivery and improvement.
- Suppliers will need to recognise that the importance of diversity of supply and the need for honest and active engagement in order to develop the viability of market areas.

The challenges are significant, but the opportunities presented by a more dynamic market, for local government and ultimately the end-users of the services, make this a key priority in the development of local government’s strategic role over the medium and longer term.

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Our work has been undertaken in accordance with the terms and conditions agreed between ourselves and the Department (then ODPM) on 26th July 2004. We do not accept any duty of care or responsibility to any party other than the Department. Any oral comments made in discussions as concerns our reports and letters are not intended to have any greater significance than explanations or matters contained in the final written reports or letters. We shall not be held responsible for oral advice unless we confirm such advice formally in writing.