

Public procurement and regional development: The impact of local authority expenditure on local economies

Frank Peck
Research Director
Centre for Regional Economic
Development
University of Cumbria
Paternoster Row
Carlisle CA3 8TB
frank.peck@cumbria.ac.uk
01228 888840

Ignazio Cabras
Researcher
Centre for Regional Economic
Development
University of Cumbria
Paternoster Row
Carlisle CA3 8TB
ignazio.cabras@cumbria.ac.uk
01228 888838

ABSTRACT

Spatial patterns of public expenditure and government procurement have a significant impact on economic and social development in localities and regions across the EU. In the UK, there has been particular attention given to variations in government spending across regions and the effects of competitive tendering processes and EU State Aid rules on regional economies (Bennet 2006; Pinch and Patterson, 2000). Reimer (1999) has charted the regional consequences of widespread contracting out of local government services to large national private firms during the 1980s and 1990s driven largely by the need for greater efficiency and “value for money”. More recent government policies affecting procurement practices appear to have intensified these processes. In a recent document entitled “Transforming Government Procurement” (2007), the UK Government restated its objective to improve value for money in public procurement. Reference is also made in this document, however, to the principle of “sustainable” procurement that requires consideration of the impact of procurement decisions on government targets for the environment including carbon emissions, levels of waste, water consumption and energy efficiency. These aspects add considerable complexity to decision-making in the procurement process and may have intended (and unintended) consequences for local and regional economies.

Interventions designed to balance the need for greater efficiency in procurement with sustainability criteria will inevitably have further impacts upon spatial patterns of public procurement and may also alter long-standing relationships between local authorities and small and medium-sized businesses in their territories that depend on public contracts for their survival. This paper presents the findings of research carried out on behalf of the Cumbria Procurement Initiative (CPI) in the North West Region of England. The study analyses the collective patterns of spend of eight Cumbrian Local Authorities (County Council and Cumbria Constabulary, six Districts and the Lake District National Park). Data is presented on variation in spending patterns by type of purchase, size of contract and geographical location. The characteristics of the supply base are investigated further using a two stage survey of businesses (postal questionnaire with selected interview follow-up). Results of the survey are used to show the characteristics of suppliers and their level of dependency on local authority contracts. Managers’ evaluation of the advantages and disadvantages of contracting with the public sector are also presented. The paper concludes by considering the implications of the findings for procurement and the extent to which local authorities have retained a capacity to act to support local economic development.

Public procurement and regional development: The impact of local authority expenditure on local economies¹

**Frank Peck and Ignazio Cabras
Centre for Regional Economic Development
University of Cumbria, UK**

INTRODUCTION

The spatial patterns of public expenditure and government procurement have a significant impact on contemporary economic and social development in localities and regions. In recognition of this, the use of government contracting to achieve wider socio-economic benefits for communities and regions has precedents in many different contexts (McCrudden 2004). These include government procurement practices designed to link contracts to generate competitive markets (Caldwell et al 2006), to promote “green” environmental policies as well as achieving social objectives. Examples of this practice can be found in a wide variety of contemporary contexts including the use of “social clauses” in the award of public contracts in many European countries, South Africa and in the United States (McCrudden 2004).

In the UK, there has been particular attention given to variations in government spending across regions and the effects of competitive tendering processes and EU State Aid rules on regional economies (Bennet 2006;; Pinch and Patterson, 2000). Reimer (1999) has charted the regional consequences of widespread contracting out of local government services to large national private firms during the 1980s and 1990s driven largely by the need for greater efficiency and “value for money”. More recent government policies affecting procurement practices appear to have intensified these processes. In a recent document entitled “Transforming Government Procurement” (2007), the UK Government restated its objective to improve value for money in public procurement. Reference is also made in this document, however, to the principle of “sustainable” procurement that requires consideration of the impact of procurement decisions on government targets for the environment including carbon emissions, levels of waste, water consumption and energy efficiency.

Extending this approach to include socio-economic objectives in regions places further demands upon procurement systems that must simultaneously achieve objectives that can sometimes appear contradictory. One of these concerns the juxtaposition of criteria concerned with “value for money” and the efficiency of procurement processes alongside the emerging requirement to support local employment and SMEs in particular as part of government’s approach to “sustainable communities” (Caldwell et al 2006; Erridge 2007; Loader 2007). These aspects add considerable complexity to decision-making in the procurement process and may have intended (and unintended) consequences for local and regional economies. This paper examines these issues using recent research conducted on businesses involved in providing goods and services to local authorities within the County of Cumbria in North West England.

¹ ¹ Research commissioned by the *Cumbria Procurement Initiative* involving collaboration between Allerdale Borough Council, Barrow Borough Council, Carlisle City Council, Copeland Borough Council, Cumbria County Council, Eden District Council, Lake District National Park Authority, South Lakes District Council. This Group has now developed into the [EPiC partnership](#).

PUBLIC PROCUREMENT AND REGIONAL ECONOMIES IN THE UK

Public procurement in general accounts for a significant proportion of demand for goods and services in the UK economy. Estimates vary, but recent studies suggest that public sector purchasing and contracting accounts for between 11 and 18 percent of GDP (cited in Office of Fair Trading 2004) and in some sectors and markets this figure is likely to be much higher (e.g. products and services supplied to health and education providers). Public procurement also accounts for a significant proportion of public expenditure. Recent estimates indicate that the public sector spends £125bn annually on the purchase of goods and services (HM Treasury 2007, p.1).

It is also widely recognised that public expenditure in regions and sub-regions represents a highly significant direct input into the economies that sustain communities across the UK (McLean 2003). Public Expenditure statistics published by HM Treasury indicate that delivery of public services in the North West Region accounts for nearly £41bn of revenue during the financial year 2003-4 alone (HM Treasury 2005). Recent attempts to map this spend down to the sub-regional level identified at least £2.1bn of expenditure within Cumbria during the same year (CRED 2006). The resources used in the delivery of public services are therefore substantial, but there is relatively little systematic information concerning the pattern of use of this resource and its impacts on local economies (Connolly 2004).

The scale of public procurement in the UK has led policymakers at national level to introduce measures designed to improve public procurement processes in terms of the quality of service, value for money and efficiency. Following a review of Civil Procurement in Central Government (Gershon 1999), the UK Treasury established the Office for Government Commerce (OGC) to deliver efficiency savings in public procurement. The broad objectives of OGC were further emphasised in the Gershon Report (2004) 'Releasing resources to the frontline: Independent review of public sector efficiency' set down objectives for public sector spending reforms to develop greater efficiency savings within Departmental Expenditure Limits (DEL). Central Government recommendations in the 2003 budget paved the way for the review by investigating: '*...new ways of providing departments, their agencies and other parts of the public sector with incentives to exploit opportunities for efficiency savings, and also release resources for front line service delivery*', (Gershon Report 2004, p. 5).

Gershon (2004) also highlighted the extent of fragmentation in public sector procurement and how this may impede efficiency savings. The clear implication was the need for more effective supply chain management including, for instance, effective use of framework contracts in regional consortia. There was also recognition of other potential barriers to improvement in procurement processes including aversion to risk taking in the public sector, lack of professional skills specific to the procurement process, budgetary constraints and resource limitations to develop innovation. This range of issues had also previously been identified specifically in the context of local government procurement in England (Byatt 2001).

The basic principle underpinning public policy towards procurement processes has recently been restated in a treasury document entitled "Transforming Government Procurement" (HM Treasury 2007). Good procurement is defined in terms of getting "good value for money" buying products that are "fit for purpose" and taking account of the "whole life cost" of products and services. The achievement of "value for money" has been a particular point of debate that has been linked with the benefits thought to be derived from outsourcing and competitive tendering. However, it has also been recognised for that the role of partnerships in local development has

shifted some forms of contracting towards longer term arrangements particularly in instances where increased out-sourcing of core service delivery has occurred (Czepiel 1990).

UK Treasury (2007, p. 4) suggests that “successful procurement is good for the public, good for the taxpayer and good for businesses supplying government”. There are, however, potential threats in this process for businesses that depend upon public contracts for a significant part of their turnover. Greater efficiency in procurement may involve in some cases supply rationalisation in order to reduce the costs of operating procurement processes. This would mean awarding larger contracts to a smaller number of businesses that have the capacity and expertise to manage larger projects. It is possible that this approach could concentrate public procurement and lead to the loss of income for small and medium-sized firms as well organisations in the voluntary and community sectors.

Loader (2007) has argued that the evolution of policies in the UK has led to a highly complex procurement environment where practitioners are faced with a wide range of demands placed upon procurement systems to achieve multiple goals. In addressing social-economic goals alongside “value for money” criteria, various barriers for SMEs in public procurement can be identified including a widely-held belief that larger companies will provide a more competitive supply of goods and services. SMEs are disadvantaged by the increase in scale of contracts generated by the practice of “bundling” of contracts and supply rationalisation. There are also significant barriers for small businesses created by increase levels of bureaucracy and lengthy contract documents that increasingly include pre-tender registration with no automatic guarantee of success in contracting.

Discussions surrounding the role of public procurement in supporting the achievement of the “sustainable communities” agenda have strong resonance with previous debates surrounding the social costs associated with the implementation of specific public policies. An accounting framework, for instance, that includes the costs of business failure and the potential leakage of work out of local economies might lead to quite different decisions regarding the retention of SMEs as suppliers of goods and services. This point is reinforced considerably by the fact that previous studies of business linkages show that SMEs have a strong tendency to purchase locally. Loader (2007) illustrates various attempts by public sector organisations on Teesside to balance the requirement for “value for money” with wider socio-economic objectives for communities. These include facilitating small firms in consortia in order to generate scale economies and interventions to improve the use of e-procurement. Loader’s findings, however, tend to confirm previous studies that a narrow interpretation of “value for money” in awarding public sector contracts is tending to work against the small supplier.

SURVEY OF PUBLIC SECTOR SUPPLIERS IN CUMBRIA

Survey Method

The implications of recent policy initiatives affecting public procurement in the UK formed the basis of a survey of suppliers to Local Authorities in the County of Cumbria in North West England (See Figure 1). Postal questionnaires were sent to suppliers to Cumbria County Council as well as the six District authorities and the Lake District National Park followed by in-depth interviews with a selected number of businesses. The survey was designed to identify the characteristics of businesses that supply these local authorities, to assess the level of dependence on local authority customers and to explore the implications of changes in public procurement for small and medium-sized enterprises within the County in particular.

Figure 1:



The target businesses were identified using information on Spikes Cavell² database which contains names of suppliers who had contracted with Cumbrian Local Authorities in the 12 months period ending November 2006. The survey focused only on businesses that had total contracts worth at least £20,000. It was administered between December 2006 and February 2007. At the end of this process, a total of 276 completed questionnaires were obtained representing an overall response of 18 percent. Comparisons with the structure of the overall population showed no obvious forms of bias in response in terms of size of firm or by product type.

Characteristics of public sector suppliers

The survey responses provide a description of the characteristics of business that contract with local authorities in Cumbria. Table 1 shows the geographical distribution of business premises. In the replies overall, there are 152 located in the County and 124 elsewhere. Of those within

² <http://www.spikescavell.net/the-observatory>. Spikes Cavell operate an online database containing expenditure data of more than 500 local authorities, universities, colleges, central & civil government departments, police forces and other public sector bodies nationwide. We are grateful to the Cumbria Procurement Initiative for allowing access to this source of information.

Cumbria, a high proportion are based either in the largest concentration of population in the Carlisle area (55) or dispersed across several locations in the County (44). Outside Cumbria, business addresses linked to Cumbrian contracts are very widely dispersed. The data also reveal that more than a half of respondents have their headquarters within Cumbria and a further 16 percent located elsewhere in the North West.

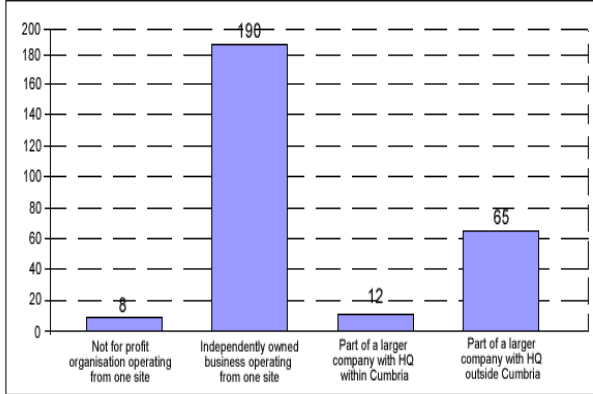
Table 1: Location of business premises

<i>In Cumbria</i>		<i>Outside Cumbria</i>	
Carlisle	55	Newcastle-Gateshead	6
Kendal	14	Preston	5
Barrow	13	Lancaster	4
Penrith	11	London	4
Workington	9	Manchester	3
Whitehaven	6	Leeds	3
Not specific	44	Other	99
<i>Totals</i>	<i>152</i>		<i>124</i>

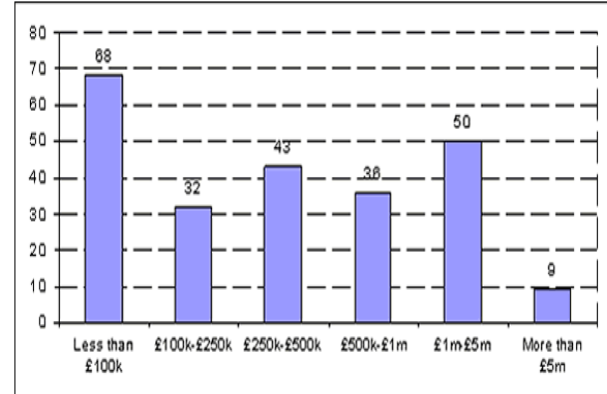
The survey included questions regarding type of ownership (Figure 2a). The results show that the most common type of supplier to Cumbrian Local Authorities are small independently owned businesses operating from one location (190 in the sample). This contrasts with 65 suppliers operated by larger companies with an HQ outside the County and a further 12 larger businesses with their HQ based in Cumbria. This pattern is as might be expected and confirms the fact that the purchasing decisions of Local Authorities in Cumbria provide contracts for a large number of SMEs within the local area. This finding is made even more strikingly by responses to questions on levels of turnover (Figure 2b). Around one quarter of respondents indicated that their turnover is less than £100,000 *per annum* while more than a half indicated less than £500,000. This tends to confirm the current significance of Local Authority procurement in sustaining many small businesses. By comparison, only nine respondent businesses report an annual turnover higher than £5m.

Figure 2

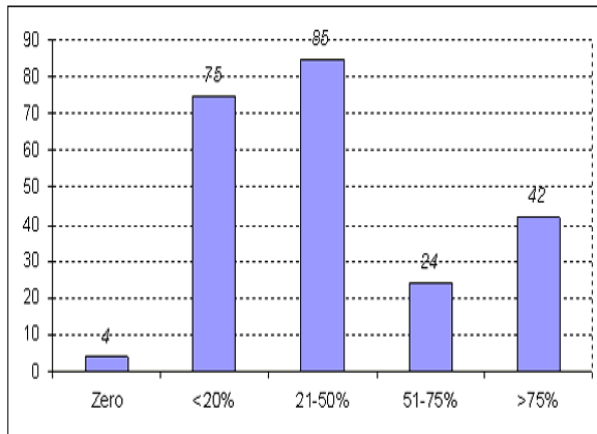
a) Type of business ownership



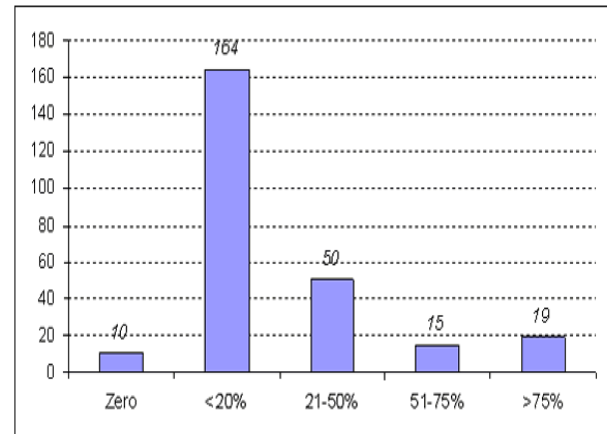
b) Suppliers' estimate annual company turnover in Cumbria (n=238*)



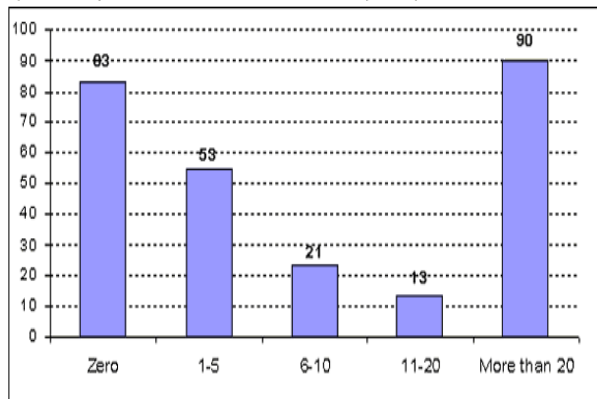
c) Percentage of company turnover accounted for by public sector clients in general (n=258*)



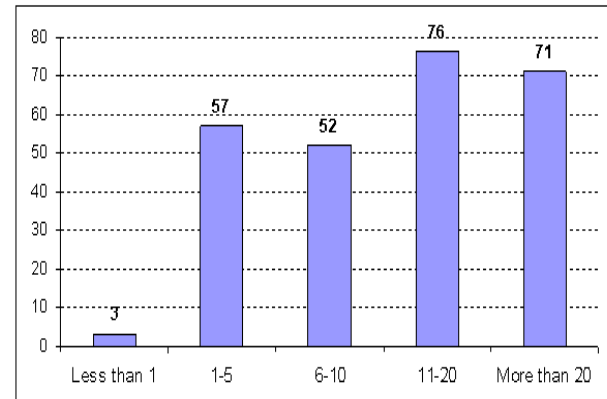
d) Percentage of company turnover accounted for by public sector clients in Cumbria (n=258*)



e) Number of public sector customers outside Cumbria (n=260*)



f) Years of procuring with Cumbria Local Authorities (n=260*)



*N sample could vary from 276 depending on non-answered responses
 Source: survey data

Table 2: Sector by size of business

	Small	Medium	Large	Total
Construction	62 (79.49%)	9 (11.54%)	7 (8.97%)	78 100.00
General Consultancy & Business Services	53 (73.61%)	5 (6.94%)	14 (19.44%)	72 100.00
Miscellaneous	36 (63.16%)	6 (10.53%)	15 (26.32%)	57 100.00
Social Care Services	25 (75.76%)	6 (18.18%)	2 (6.06%)	33 100.00
Transport	25 (69.44%)	5 (13.89%)	6 (16.67%)	36 100.00
All	201 (72.83%)	31 (11.23%)	44 (15.94%)	276 100.00
<i>Chi-Square= 12.974 (not significant)</i>				

Source: Survey Data

Table 2 shows the number of suppliers across different products and markets. Construction (78) and General Consultancy and Business Services (72) are the most numerous categories followed by Social Care (33) and Transport Services (36). The 'Miscellaneous' category covers all the remaining products or services suppliers which individually have low representation in our survey. In combination, however, this is the third largest category (57). While construction has marginally more small businesses than other sectors and larger suppliers are slightly more common in general consultancy and miscellaneous services, these small differences are not sufficient to register statistical significance.

There are, however, significant differences in the type of firm and decision-making in different sectors (Table 3). Suppliers that are parts of larger groups are more common in Transport Services and Consultancy & Business Services compared to Social Care and Construction. These contrasts are even more marked when comparing headquarters' location between sectors. In particular, there is higher propensity for Consultancy & Business Services to be provided by firms with head offices outside Cumbria. The same association is found by comparing levels of local decision-making autonomy across sectors.

These differences in local authority procurement between sectors may to some extent reflect the industrial structure and business size-structure of Cumbria and the "purchasing potential" in the local economy. More specialist services (as in some types of consultancy) may not be provided locally in the County, while other services (such as construction) are well represented with long associations between firms in local networks. In construction, there are also large providers of such services with *head offices in Cumbria* due to historic factors in the evolution of businesses in the County. Social care appears more unusual in that provider units are dispersed and relatively small scale but many are, in fact, owned and managed by larger companies with head offices outside the County.

Table 3: Sectors by type of business ownership and HQ location

	Business Type		Headquarter Location		Purchasing Decisions	
	Independently Owned	Part of Larger Company	HQ in Cumbria	HQ outside Cumbria	Made in Cumbria	Made outside Cumbria
Construction	64 (82.05%)	14 (17.95%)	56 (71.79%)	22 (28.21%)	58 (74.36%)	20 (25.64%)
Consultancy & Bus Services	51 (70.83%)	21 (29.17%)	29 (40.28%)	43 (59.72%)	29 (40.28%)	43 (59.72%)
Social Care Services	27 (69.70%)	9 (30.30%)	18 (54.55%)	15 (45.45%)	18 (54.55%)	15 (45.45%)
Transport	23 (25.00%)	10 (75.00%)	24 (66.67%)	12 (33.33%)	24 (66.67%)	12 (33.33%)
Miscellaneous	34 (59.65%)	23 (40.35%)	26 (45.61%)	31 (54.39%)	24 (42.11%)	33 (57.89%)
Chi-Square	8.536 (0.074*)		19.220 (0.001***)		23.951 (0.000***)	

*** 0.01 level of significance; *0,10 level of significance

Source: Survey Data

Levels of dependency on local authority contracts

A key aspect of public procurement in Cumbria concerns the level of dependency of businesses – particularly smaller locally owned firms – on Local Authority contracts. Figure 2c shows that levels of dependency on public sector contracts vary considerably across the sample. The distribution is also slightly bi-modal in that a significant minority of businesses (42) rely on the public sector for over three-quarters of total turnover, while the level of dependency is below 50 percent for most other firms.

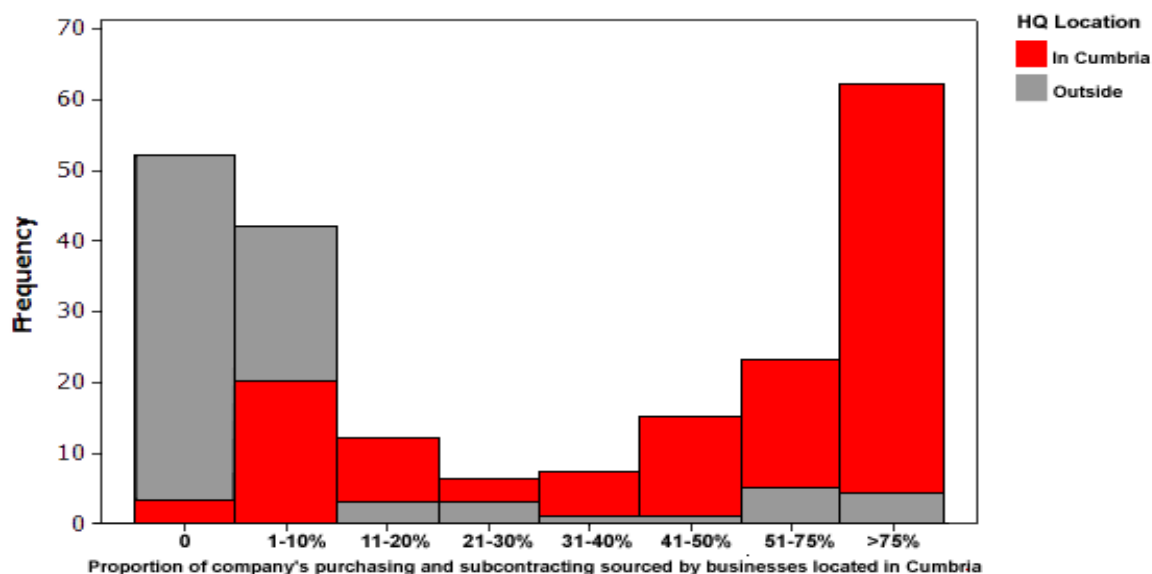
As regards dependency on public sector contracts specifically in Cumbria, the levels are generally lower (see Figure 2d), indicating that many companies that contract with Cumbrian authorities also conduct business with Local Authorities elsewhere. This is confirmed in Figure 2e which shows that while 83 businesses only work for Cumbrian Authorities, most have public sector clients outside the County and a significant number (90) have more than 20 such clients. The overall picture appears to suggest that relatively few respondent businesses are totally dependent upon contracts from Cumbrian local authorities, but even so, for most businesses this is a significant part of their overall customer base.

Respondents also indicated the length of time they have been involved in contracting with Cumbrian Authorities. While some respondents had only a few years experience of such contracts, over half (147 or 53%) had worked for Cumbrian authorities for over ten years, and in 71 cases longer than 20 years (Figure 2f). This suggests that contracting arrangements currently in practice in Cumbria have evolved in the context of long-standing networks and trust relationships between businesses and authorities that have been tested over time.

Patterns of purchasing of public sector suppliers

Respondents were asked to indicate what proportion of their expenditure involves suppliers and subcontractors in Cumbria. The results indicate a very strong bi-modal distribution (see figure 3). Many suppliers and contractors surveyed appear to do almost all of their purchasing and subcontracting in Cumbria, while many others seem to be involved in remarkably little local purchasing. The polarity in these responses was tested to see which factors correlate with variations in levels of local spend. The difference in terms of business size *per se* is not strong and the test statistic is not significant. However, there is a very strong association between location of head office and pattern of purchasing. As might be expected, suppliers and contractors to local authorities with head offices within the County have a much greater propensity to purchase locally. In contrast, companies with head offices outside the County tend to purchase elsewhere. This finding tends to confirm the significance of “locally-owned” businesses in retaining work on public sector contracts with the local community.

Figure 3: Patterns of spend by HQ Location



Source: Survey Data

Respondents' experience of public sector contracting

Business managers were asked for their assessment of the experience of conducting work for local authorities across a range of criteria. Respondents were asked to indicate from a given list the main advantages and disadvantages of working with public sector clients (Figures 4 and 5). The most commonly identified advantages were “provides long-term business” (200) and “payments are made on time” (152). This implies that many businesses regard public sector contracts as a means of providing their business overall with relatively stable sources of revenue over a longer period of time than usually applies to work in the private sector. Replies also indicate that managers believe that a public sector contract “improves the company reputation” (105) and that “risks are lower” (100) with such clients. As regards the disadvantages, the two

most common complains related to “high levels of bureaucracy” (160) and “length of time taken to prepare contracts” (98).

Figure 4: Advantages of public sector contracting for business respondents

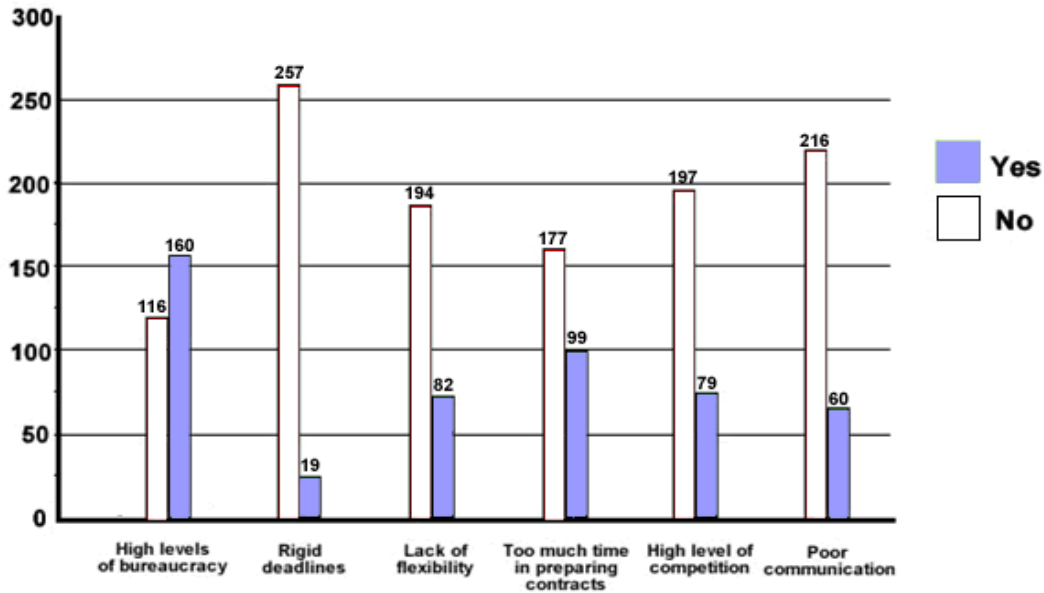
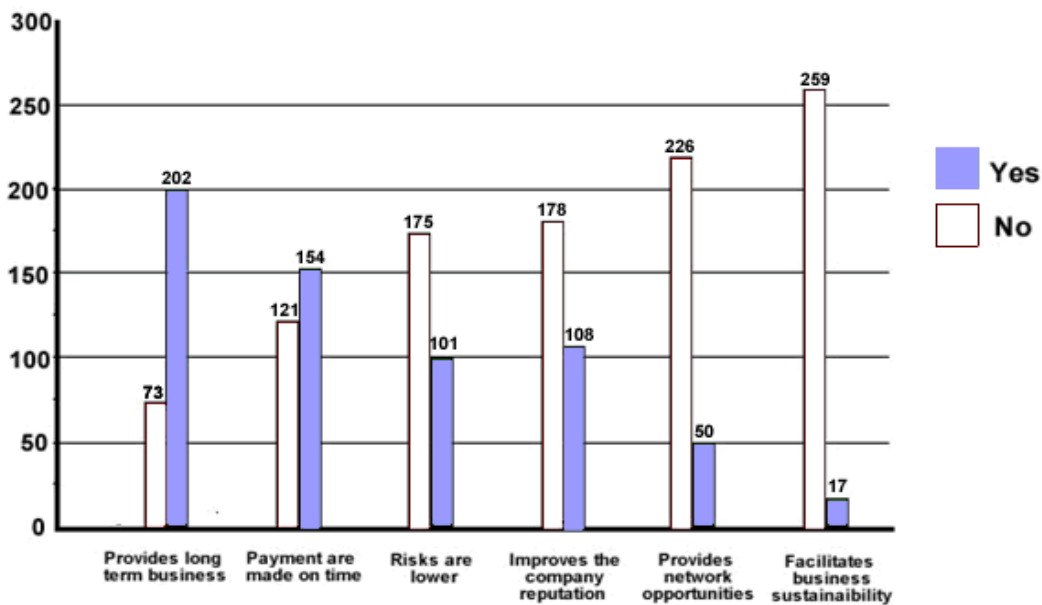


Figure 5: Disadvantages of public sector contracting for business respondents



The experience of involvement in contracting with Cumbrian public sector contracting may, of course, vary depending on the types of goods and services and the characteristics of businesses. Table 4 shows correlations between the responses to advantages (disadvantages) and other aspects of businesses. This analysis shows that the responses to perceived advantages and disadvantages of working with public sector clients are not randomly distributed between types of business; rather some types of business are more likely to respond in particular ways. In particular, SMEs and suppliers located in Cumbria are significantly more likely to identify “long term business”, “payment are made on time” and “lower risks” as advantages of working with public sector clients compared to firms in general. This tends to support the conclusion that the long term security of many SMEs in Cumbria depends on contracts with the Local Authorities. As regards the disadvantages, it is interesting to note that overall there are far fewer significant differences between firms of different size and ownership. This may partly be explained by the fact that current government policies towards procurement may have led to standardised practices in terms of bureaucracy. The one significant association however relates to the tendency for businesses with larger numbers of public sector clients outside Cumbria to highlight “too much time in preparing contracts” as a particular disadvantage.

Table 4: Experience of contracting with public sector by business characteristics³

1. Provides long term business	7. High levels of bureaucracy
2. Payments are made on time	8. Rigid deadlines
3. Risks are lower	9. Lack of flexibility
4. Improves the company reputation	10. Too much in preparing contracts
5. Provides networking opportunities	11. High levels of competition
6. Facilitates business sustainability	12. Poor communication

*Spearman correlation index. p-values: *5%, **1%*

	1	2	3	4	5	6
BusType	0.067	0.150*	0.117*	0.005	-0.054	0.040
TotalEmpl	0.068	-0.143*	-0.087	-0.019	-0.052	-0.041
YearExp	0.013	-0.052	0.076	-0.088	-0.038	0.142
PSCust	0.116	-0.122	-0.019	-0.081	0.144*	-0.036
GenPST	0.102*	0.032	-0.033	-0.064	-0.004	0.037
CumbriaPST	0.081	0.146*	-0.046	-0.050	-0.115	0.129
HQ Cumbria	-0.158**	-0.040	-0.010	-0.093	-0.061	0.031

	7	8	9	10	11	12
BusType	0.053	-0.086	0.016	0.002	0.062	0.050
TotalEmpl	-0.061	0.107	-0.076	0.030	-0.018	-0.089
YearExp	0.088	0.056	0.109	-0.033	0.042	0.063
PSCust	0.056	0.006	0.124*	0.187**	-0.010	0.048
GenPST	-0.052	-0.020	-0.003	-0.057	-0.040	0.060
CumbriaPST	0.021	0.028	-0.081	0.015	0.038	0.033
HQ Cumbria	-0.031	-0.015	-0.103	-0.113	0.038	0.008

For definition of variables, see appendix

³ For detailed definitions of variables, see endnotes

FINDINGS FROM IN-DEPTH INTERVIEWS WITH LOCAL AUTHORITY SUPPLIERS

As a follow-up to the questionnaire survey, a number of firms were approached to take part in in-depth interviews. The purpose of these interviews was to provide a means of documenting recent experiences of contracting with local authorities and to explore the implications of changes in procurement practices for SMEs in particular. Ten interviews were conducted with a range of different types of business including at least two representatives from each major sector (construction, business and professional services, care homes and construction). The interview also included examples of local SMEs and larger firms with HQs both within and outside Cumbria.

Contracting with Cumbrian Local Authorities

The replies to the postal questionnaire survey indicate that virtually all suppliers and subcontractors to Cumbrian Authorities combine this with work for private sector customers. Furthermore, for the majority of respondents, contracts with Cumbrian Authorities actually account for less than half of their total turnover. Superficially, this finding seems to imply that most businesses have relatively low levels of dependency on these contracts. The interviews, however, raised many points that would question this conclusion particularly as it applies to small independent companies.

There are still some businesses (care homes, for instance) where income from the public sector is dominant. For others where perhaps one third of income is derived from Local Authorities, these contracts provide an important degree of stability of income over time that is vital for business planning. For several small transport providers, for instance, "school runs" involve contracts awarded for periods of years around which is it possible to bid for work in the private sector (school trips, private hires). In other cases, contracts with Local Authorities are vital to enable businesses to work all-year-round; the numbers of school trips and visits, for instance, tend to decline in the winter months which might cause problems with continuity of employment and income. These examples indicate that the significance of public sector contracts for business survival cannot simply be measured in terms of proportion of turnover. This conclusion is also supported by the postal questionnaire which shows that "provides long term business" is the single most commonly identified advantage of working for the public sector.

There was widespread comment on the nature of the tendering processes currently used by Cumbrian Authorities. Most described a process that is competitive involving one-off, closed and fixed price bids. Around this common feature, there are many variations in terms of contract length, types of information required and the use of "pre-selection" tender lists. Many of these differences reflect different practices in sectors and the varied characteristics of services (care homes linked to Social Service, transport linked to schools and the LEA, construction work contracted via Capita).

Interviewees were asked to comment on their experience of the tendering process with Local Authorities. Most businesses had worked for Cumbrian authorities for many years and were presumably accustomed to dealing with the level of bureaucracy involved in bidding for contracts. While there was general recognition that formal processes were important for transparency and accountability in use of public funds, most questioned the appropriateness of some procedures.

"The information they ask for is odd at times out-of-date specifications. They ask for details that will never be used. The price of spares that, these days, will never need replacing.... "

"The bureaucracy is large, but not specific enough to the product"

Decisions can be "overridden by ... the need to justify decisions via the bureaucracy. This introduces criteria that are irrelevant"

These comments suggest that for some businesses, there is a perception that some information is gathered and then not used for any obvious purpose. Some interviewees also expressed views on the apparent levels of co-ordination and timing of issuing tenders. Several noted that invitations to tender arrive in large numbers in short periods of time which makes it difficult to respond in a timely fashion and may actually reduce the quality of bids received.

"Tendering process seems rather uncoordinated. They send out tender forms all at once and give us only four weeks to respond"

"Tender documents seem to arrive all at once in May...nothing for the past three months and then ten at once. This makes it difficult to respond"

In some cases, the reasons for these peaks and troughs were understood, as for instance with contracts to carry out building work on schools during school holidays. However, others noted this pattern and could offer no justifiable explanation and suggested a lack of coordination as one possible reason.

"The way the Council(s) do this is not joined up. Different parts of the system tend to work independently"

It was clear from replies that businesses are very aware of their competitive position with regard to winning public sector contracts. There was a widespread perception particularly across transport, construction and professional services that Cumbrian Authorities (and the public sector in general) tends to be much more focused on price as a selection criterion compared to private sector clients. This was expressed in a variety of ways:

"Price is the key variable" (Independent transport company)

"Price is the key factor. Local Authorities are just price-orientated" (Independent transport company)

"The main information they ask about is always the price" (Small electrical contractor)

"They may check other things – flexibility, capabilities, responsiveness, but the key factor is price" (Independent professional service)

"Price is the key factor The public sector generally is too price-focussed" (large transport company)

These comments could easily be dismissed, perhaps, as predictable complaints that simply reflect the widespread use of competitive tendering in Local Authority contracting. However, some interviewees were able to elaborate on these points using comparisons with their private

sector experience. Several interviewees argued, for instance, that over-emphasis on price arises in some situations because those involved in decisions on procurement are not necessarily the end-users of the service or product. As a consequence, for some types of purchase there may be a lack of technical knowledge of the product or service which makes it difficult to judge "quality". In the absence of this knowledge, the purchaser may fall back on "price" as a "reasonable" way of justifying a decision.

"They do not have the expertise to make the decision, so tend to fall back on price or low cost. Best value is not understood. Price, cost and value are misunderstood. Cheapest is not necessarily best value" (Construction company)

"Local Authorities tend to misunderstand value for money because they are not specialists. It is easiest to measure things in pounds" (Professional service)

"Councils talk about best value but measure it in price. The concept of added value is missing" (business service)

In some instances, interviewees made a distinction between their relationships with users of products or services and the way in which users interact with the bureaucracy that supports procurement. In most cases, the former do know what products and services are required and have knowledge to make judgements about the purchase. There is a perception, however, that these end-users are not sufficiently involved in the detail of decision-making and the award of contracts and that this may lie behind some of the outcomes discussed above on the relationship between price and value. Some of these points were made with comparisons to the private sector:

"The end-user of our service is the school – the head teacher knows that we know their buildings. The client is the school as well, not just the Local Authority" (Small construction company)

"In the early stages, we may be approached by the user who knows what they want. By the time it goes through the system, it comes out as something else...We do not get this problem with the private sector. We deal directly with people who know what they want" (Transport services)

"The bureaucracy is large, but not specific enough to the product. Links in the chain of departments introduces errors and misunderstandings. There needs to be more involvement with users" (Business service)

Finally, businesses remarked on the influence of political factors and public accountability on purchasing decisions. For some, there is a perception that the tendency to emphasise price in decision-making is also influenced by these factors. These include the possibility that decisions made on "price" may be easier to justify to public fund-holders. The way in which public funding operates can also convey an impression that Local Authorities "do not know exactly what they want".

"Professional judgements sometimes appear to be overridden by other factors, including the need to justify decisions via the bureaucracy. This introduces criteria that seem irrelevant..... Projects can also change because funding rules change rather than use reasons"

Purchasing strategy, local supply and supplier development

Finally in the discussions, interviewees were asked to comment on changes over time and their awareness of issues surrounding public procurement and supplier development. Overall, interviewees had very low awareness of the Government's public sector procurement agenda nationally or regionally and the potential for change in procurement practices in future. This reaction from interviewees tends to support the conclusion that these businesses have not been greatly affected by changes in procurement practice in recent years and were not anticipating major changes in the near future.

When prompted on issues concerning the likelihood of competition from larger national companies in future, managers of SMEs believed that this was not of immediate concern. Only one (construction) company noted that bigger contractors *"have taken a lot out of the system and tend to work with architects in Preston and Manchester"*. Many questioned whether large national firms could provide a better service using arguments derived from their perceptions of their own source of local competitiveness.

The Councils may think that they "get better service from a bigger company. I do not know why they think so" (Professional service)

"We are already in competition with larger firms – big corporates – but if you go that way, there is a loss of corporate memory – big firms coming in lack understanding of local area" (Business service)

"Big national companies operate in a 'hotel style' – they have a different niche market than ours" (Care home)

As regards supplier development and retention of suppliers in Cumbria, the current practice of competitive tendering appears to generate a fairly "arms length", competitive and adversarial environment between Cumbrian Authorities and their suppliers and subcontractors. Some interviewees made suggestions that might improve this process but stopped short of questioning the approach entirely; there seemed to be a general resignation that some form of competition is required and a degree of bureaucracy is necessary. Some of the improvements related to communication:

"Whatever happened to 'meet the buyer events'? Councils do not let people know what is required. There is poor communication of information"

Others suggested that specification of products and services could be improved by introducing a two stage process and getting more interaction between supplier, purchasing system and end user:

"A two-stage process ...would result in better tailoring of contracts to requirements"

"There needs to be more involvement with end users"

In terms of procurement processes, interviews suggest that businesses of all types are experiencing an increase in formal bureaucratic procedures in tendering and delivery of contracts with an widening range of types of information required as part of bidding processes. This was frequently coupled with the observation that much of this additional bureaucracy involves information that appears to have little bearing on the ability of companies to deliver

goods and services. The focus on “price” as the key criteria in determining awards was also widespread. Managers also noted that the growth of complex procurement systems and procurement departments within public authorities can create a barrier between the supplier and the actual end-user of products and services. These observations can clearly be linked to the fact that Government policy in the UK is increasingly placing greater demands on public procurement to achieve objectives that go beyond the specific purpose of the transaction itself.

DISCUSSION

The empirical findings presented in this paper tend to confirm the results of recent studies that show the vulnerability of SMEs in local economies to the current trend towards more formal and transparent approaches to public procurement and an emphasis on a fairly narrow definition of “value for money”. This can be interpreted as one consequence of the paradigm shift that has affected public administration over the past 20 years or more in which traditional forms of purchasing based on informal systems and local trust relationships have been increasingly perceived as inefficient and ineffective. Hence, while government aspires to support locally-based SMEs, “other developments in procurement – such as collaboration and rationalisation of the supplier base – emphasise the narrower interpretation of ‘value for money’ and are working against the small supplier” (Loader, 2007 p. 313).

The survey and interviews in this paper provide illustration of the dichotomy that persists between transactions based on both informal and formal procedures with locally-based firms that are built on long-standing associations, local social capital and local knowledge and more formal regulation of larger scale contracts with national companies. This interpretation, however, tends to associate SMEs with local “informal” approaches to contracting and assumes that larger national contracting is more structured and formalised needs tempering. Evidence in the survey suggests that SMEs are increasingly being drawn into formal systems of tendering while the award of more complex formal contracts with national suppliers tends to operate via networks of contract service managers involved in bidding for contracts at local regional and national levels. As Reimer (1999) has suggested, this can be interpreted as a conflict between different social realms involving competing ideologies.

This emphasis has been driven also by ideological considerations that emphasise the desirability of outsourcing and the move towards a “leaner state” which creates a tension between the demands for continuous improvement in the efficiency of procurement processes alongside pressures to take into account a widening array of socio-economic impacts. Erridge (2007 p. 1024) argues that the potential for procurement to achieve the socio-economic goals of government “has been restricted by an overemphasis on market-driven commercial goals, valuing economy and efficiency over social welfare and public value”. One response to this has been a tendency for procurement to operate in a risk-averse manner that places emphasis upon the adherence to increasingly complex sets of rules and regulations, an interpretation that seems consistent with the evidence presented in this paper.

The question as to whether the observations made in this paper in the context of a relatively remote rural area with small centres of population in Cumbria can be generalised needs to be considered. Reimer (1999) has noted that the earlier period of “contracting out” was marked by large private firms concentrating bidding on more profitable contracts with larger authorities particularly in the South East region. These were then used by some to “fund loss-leading contracts in northern regions” (p. 127). Given the relatively small size of local authorities and the fragmented structure in Cumbria, it is unlikely that the County was subjected to the same early interest from large national suppliers of goods and services as experienced in the larger more

urbanised sub-regions. There are interesting questions to pursue in this regarding the socio-economic processes that lead to regional and sub-regional variations in the levels of penetration of local authority markets by large national suppliers. These variations also have consequences for other aspects of business change. Reimer (1999), for instance, notes that early phases of “contracting out” from local authorities were accompanied by increased rates of acquisition though as small firms were taken over by large businesses in their effort to develop capacity to deliver services in different regional markets. There are also longer term consequences for local authorities that are faced with periodic negotiations with larger private firms that are able to exercise greater influence over terms and conditions.

REFERENCES

- Arino A, de la Torre J, Smith-Ring P (2001) 'Relational quality: Managing trust in corporate alliances' *California Management Review* Vol. 44, No. 1, pp. 109-131
- Bennett, P (2006) 'Competing for the Island Lifeline: European Law, State Aid and regional Public Services'. *Regional Studies* Vol. 40, No.8, pp. 953-966
- Boyett L, Robinson P, Brown A and Finlay D (1996) 'Supplier-purchaser relationships within a quasi-market: The case of British Rail and British Steel Track Products' *European Journal of Purchasing and Supply Management* Vol. 2, pp. 145-151
- Bryntse K (1996) 'The Purchasing of Public Services: Exploring the Purchasing Function in a Service Context' *European Journal of Purchasing and Supply Management* Vol. 2, pp. 193-201
- Byatt I (2001) *Devolving Better Services for Citizens: A review of local government procurement in England*, Sir Ian Byatt June 2001
- Caldwell N, Walker H, Harland C, Knight L, Zheng J, Waleley T (2005) 'Promoting competitive markets: the role of public procurement'. *Journal of Purchasing and Supply Management*, Vol 11, 242-251
- Czepiel J A (1990) 'Service Encounters and Service Relationships, Implications for Research'. *Journal of Business Research* Vol. 20, pp. 13-21
- Connolly S (2004) "'Mainstreaming' and the Mapping of Mainstream Resources – Identifying the Challenges" in *Business Review North East* Vol. 16, No. 1, pp. 18-25
- CRED (2006) *Mapping Resources in Cumbria* Final report to Cumbria Vision, Centre for Regional Economic Development, UCLan
- Deakin S and Walsh H K (1996) 'The Enabling State: The Role of Markets and Contracts' *Public Administration* Vol. 74 No. 1, pp. 33-48
- Erridge A and Nondi R (1994) 'Public Procurement, Competition and Partnership' *Journal of Purchasing and Supply Management* Vol. 1, No. 3, pp. 169-179
- Ferlie E (1992) 'The Creation and Evolution of Quasi-Markets in the Public Sector: A Problem for Strategic Management' *Strategic Management Journal* Vol. 13, pp. 79-97
- Furlong P, Lamont F and Cox A (1994) 'Competition or Partnership? CCT and EC Public Procurement Rules in the Single Market?' *European Journal of Purchasing and Supply Management* Vol. 1, No. 1, pp. 37-43)
- Gershon P (2004) *Releasing Resources to the Front Line. Independent Review of Public Sector Efficiency*, Sir Peter Gershon CBE July 2004
- Han H and Shum M (2002) 'Increasing Competition and the Winner's curse: Evidence from Procurement' *The Review of Economic Studies* Vol. 69, pp. 871-898
- Haywood-Farmer J (1998) 'A Conceptual Model of Service Quality' *International Journal of Operations and Production Management* Vol. 6, No. 8, pp. 19-29
- HM Treasury (1998) *HM Treasury Procurement Guidance* HM Treasury London
- HM Treasury (2005) *Public Expenditure Statistical Analyses 2005*, National Statistics

- HM Treasury (2007) *Transforming Public Procurement* HM Treasury London
- Johnson F P and Leenders M R (2003) 'Gaining and losing pieces of the supply chain' *Journal of Supply Management* Vol. 39, No. 1, pp. 27-40
- Kavanagh I and Parker D (2000) *Contracting of local government services in the UK: A study in transactional costs*, Aston Business School Occasional Paper
- Lian P C S & Laing A W (2004) 'Public sector purchasing of health services: A comparison with private sector purchasing' *Journal of Purchasing and Supply Management* Vol. 10 pp. 247-256
- Loader K (2007) "The Challenge of Competitive Procurement: Value for Money versus Small Business Support" *Public Money & Management*, November, pp. 307-314
- MacBeth D K (1994) 'The Role of Purchasing in a Partnering Relationship' *European Journal of Purchasing and Supply Management* Vol. 1, No. 1, pp. 19-25
- McLean I (2003) *Identifying the Flow of Domestic and European Expenditure in to the English Regions* Report to ODPM and the Treasury, HM Government
- McAfee R P and McMillan J (1988) *Incentive in Government Contracting* University of Toronto Press (Toronto)
- McCrudden C (2004) "Using Public Procurement to Achieve Social Outcomes" *National Resources Forum* 28, 257-267
- Pettijohn C and Qiao Y (2000) 'Procuring Technology: Issues Faced by Public Sector Organisations' *Journal of Public Budgeting, Accounting and Financial Management* Vol. 12, No. 1, pp. 441-461
- Pinch, P; Philip L. and Patterson A (2006) 'Public Sector Restructuring and Regional development: the Impact of Compulsory Competitive Tendering in the UK'. *Regional Studies* Vol. 34, No.3, pp. 265-275
- Rajagopal S and Bernard K N (1994) 'Creating Strategic Change in Procurement Orientation' *European Journal of Purchasing and Supply Management* Vol. 1, No. 3, pp. 149-160
- Reimer S (1999) 'Contract Service Firms in Local Authorities: Evolving Geographies of Activity' *Regional Studies*, 33(2), 121-130
- Sanderson J (1998) 'The EU Green Paper on Public Procurement: A Better Way Forward or a Missed Opportunity' *European Business Journal* Vol. 10, pp. 64-70
- Vincent-Jones P (1977) 'Hybrid Organisation, Contractual Governance, and Compulsory Competitive Tendering in the Provision of Local Authority Services' in Deakin S & Michie J (eds.) *Contracts, Co-operation and Competition*, Oxford University Press, (Oxford) pp. 143-174
- Zitron J (2006) 'Public-Private Partnership Projects: Towards a Model of Contractor Bidding Decision-Making' *Journal of Purchasing and Supply Management* Vol. 12, pp. 53-62

Appendix: Definition of Variables

Variable	Description
Bustype	1=Independently owned business operating from one site 0=Part of larger company
TotalEmpl	From less than 100 employees To more than 1000 employees
PS Cust	From 0 PS customers outside Cumbria To >20 PS customers outside Cumbria
YearExp	From 0 years subcontracting with PS To >20 years subcontracting with PS
GenPST	From 0% turnover generated by PS contracts in general To >75% turnover generated by PS contracts in general
CumbriaPST	From 0% turnover generated by PS contracts in Cumbria To >75% turnover generated by PS contracts in Cumbria
HQ Cumbria	1= HQ located in Cumbria 0= HQ located elsewhere