



Getting a better deal in outsourced services

Why this issue is important

Many of our schools, care homes, prisons, and other public services are now run by private providers and charities that compete for the right to provide services and receive taxpayers' funding. The public services industry is worth approximately [£90 billion](#) today, and is still growing. The next government will only be able to deliver on promises to improve services and reduce costs by working with these providers more effectively.

Despite well-documented successes in some parts of the public sector such as [refuse collection](#), central government's overall track record in managing providers is still [seen as poor](#). In some areas, government has failed to spot or tackle poor performance or overcharging for many years (as in the [Serco and G4S tagging scandal](#)). In others, government has been forced to step in when providers have failed to deliver ([G4S Olympic security](#)). Government also regularly struggles to ensure providers remain focused on users' needs ([Train2Gain](#)) and regularly finds itself relying on just a small pool of providers ([courts translation](#)).

Recent scandals have undermined the public's trust in outsourcing and some politicians advocate bringing certain services back in-house. However, others [claim](#) that greater private and voluntary sector involvement is the key to improving public services.

Early challenges and how they can be addressed

- **Avoid costly conflicts:** Existing contracts may constrain the ability of new ministers to make changes unilaterally and as quickly as they might like. Reacting to delays with frustration and ultimatums can be counterproductive, risking unnecessary litigation and undermining the collaborative relationships needed to deliver long-term outcomes. For instance, legal proceedings are still ongoing over the termination of the e-borders contract with Raytheon in 2010, which could leave the government liable for £224m in damages.
- **Harness ideas for better service models:** Ministers and officials should be clear on their priorities for services but draw on the experience of private and voluntary sector providers to understand how services might be best delivered. Providers often know which of their activities add least value for customers and can be cut – and can spot ways of providing more seamless services.
- **Be savvy about costs:** While providers have plenty of ideas for improvement, it is important to make hard-nosed judgements about whether the money paid for changes to services provides good value for the taxpayer. Draw on the advice of those with [commercial expertise](#) and be open to the possibility that the price of change may be too high to pay. For instance, within a week of being elected in 1997 the Labour Government [went back](#) on its pledge to bring all contracted out prisons back under public sector control because of the legal and cost implications.
- **Don't rush in-sourcing or outsourcing:** However desirable it might be to act quickly, switching from in-house to outsourced provision (or vice-versa) is not a trivial undertaking. It

not only requires relocating staff, systems, and skills from one place to another, but a fundamental shift in the role and capabilities of the government. Although providers will often say ‘yes’ to rapid outsourcing and tight budgets, going too quickly will simply limit who can compete for contracts and increase the likelihood that they will struggle to deliver. Building in time for discussion about what is feasible – and phasing implementation – helps the market to prepare and ensures government does not get locked into unsatisfactory arrangements that lead to expensive renegotiations or government bailouts.

Longer-term reform priorities

Long-term improvements ultimately rely on improving government’s overall capacity to design and manage outsourced services effectively. To make faster progress:

- **Increase transparency over costs, performance, and subcontracting arrangements:** Routinely publishing information about the amount paid for services, the performance of providers, and major sub-contracting arrangements will reassure the public, and ensure government and providers can be held to account. Transparency will also increase competition by making it easier for small businesses and other alternative providers to spot new business opportunities. The Institute’s [standardised transparency provisions](#), which have wide support in government and industry, should be adopted as a default in all future contracts.
- **Improve scrutiny of new outsourcing deals to ensure major programmes deliver long-term value:** All high-value outsourcing projects (and significant reforms to existing public service markets) should be scrutinised by the government’s Major Projects Authority (MPA). The MPA should require departments to conduct (or commission) a [market study](#), assessing market competition and capability, and seek independent advice from the Competition and Markets Authority when needed.
- **Take responsibility at the centre of government to improve commercial capabilities:** The next government should build on existing tools for improving performance and capability such as the Commissioning Academy, the Major Projects Leadership Academy programmes, and the Crown Commercial Service. Further steps are needed, however, including:
 - Ensuring that the best commercial talent within and outside government is deployed on government’s highest value and highest risk projects – and retained.
 - [Reviewing competition](#) across all outsourced services to ensure a handful of providers do not dominate large areas of business in certain service clusters or geographies.
 - Building commercial awareness within the broader policymaking community and encouraging greater integration between the policy and commercial teams – as policymakers often play a role in initiating and advising ministers on major reforms.