

Government outsourcing

When and how to bring public services
back into government hands

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About this report

Over the last four decades, successive governments have extended the role of the private sector in government work. But there is now growing interest – in government departments, local authorities and the NHS – in bringing public services back in-house. This report examines when insourcing can achieve benefits and offers lessons on how to do it.

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Summary

After four decades of successive governments extending the role of the private sector in government work, there is growing interest in bringing services back into government hands.

The coronavirus pandemic has forced government to intervene in several areas. The NHS has negotiated an agreement with private hospitals under which their entire capacity will be used to treat coronavirus patients, in effect “putting the whole private hospital sector under government contract”.¹ The Treasury has stated it is prepared to take back risk on Private Finance Initiative (PFI) contracts.² The Department for Transport has bailed out train and bus operators, taking back revenue and cost risks as passenger numbers have dropped rapidly.³ The Cabinet Office has told all public bodies to continue paying suppliers as normal even if services have been interrupted.^{*,4}

These measures are intended to be short term. Their aim is to ensure key services can continue during the crisis and to protect companies whose operations have been disrupted such that they can restart when public health restrictions are lifted fully. The government has also taken steps to help key contractors manage high levels of staff absence, due to illness or self-isolation.** Further measures may be needed as the crisis continues and if suppliers face severe financial problems.

The pandemic also contributed to the Ministry of Justice’s decision, in June 2020, to bring probation services in England and Wales fully back in-house from June 2021; the justice secretary, Robert Buckland, cited the need for greater “flexibility, control and resilience” to manage the impacts of the virus.⁵

But enthusiasm for government taking greater control of outsourced services was increasing before the pandemic.

Interest in what is often called ‘insourcing’ – which we define as government bringing services under greater control, either by bringing them fully in-house or by establishing a wholly or jointly owned organisation to manage them – extends across the political spectrum, and is found in different layers of government and public bodies, including the NHS.

* The guidance covers all services until June 2020. It states that payment by results contracts should be paid on the basis of previous invoices.

** For example it has set up a “clearing house” for furloughed staff to be redirected to critical outsourced services experiencing unprecedented demand, such as hospital cleaning, NHS 111 and welfare call centres. Kleinman M, ‘Coronavirus: Ministers tell outsourcing giants to pool workforces’, *Sky News*, 26 March 2020, retrieved 29 March 2020, <https://news.sky.com/story/coronavirus-ministers-tell-outsourcing-giants-to-pool-workforces-11964237>

It is particularly strong in local government, where services were first contracted out in the 1980s and procurement is most prevalent.* Labour- and Conservative-led local authorities are bringing a range of services back in-house, including cleaning, housing repair, highways maintenance, waste collection, IT and social care.

In 2018, the Cabinet Office acknowledged that government had not always got decisions to outsource right – and that at times this had resulted in poor value for money.⁶ It initiated reforms to address this, which included a more rigorous process for deciding whether to outsource in the first instance, outlined in its *Outsourcing Playbook*, published in 2019.⁷

The Ministry of Justice had already decided, in May 2019, to bring the *management* of offenders back in-house, recognising that outsourcing the probation service had not worked.⁸

Surveys and many local government officials would suggest insourcing is already a rapidly growing trend. But available spending data suggests more modest changes: for example, in adult social care and children’s services the level of in-house provision has been flat; and in waste collection there has been a small fall in outsourcing. In IT there is no spending data available, but case studies show government departments and public bodies have brought a wide range of large IT contracts back in-house.

Where services have been insourced, it is mostly driven by pragmatism, rather than ideology. Potential benefits include reduced costs, improved quality, better-integrated services, or increased flexibility over how services are run.

In some cases, government bodies have decided that outsourcing has not worked or has ceased to work. For instance, service quality or reliability has declined, the relationship with a contractor has broken down, or costs have become unsustainable. Some local authorities also cite improving pay and conditions and investing more money locally as reasons to insource.

In other cases, outsourcing has worked – achieving savings or quality improvements – but a government body believes that insourcing can achieve further benefits or will be better suited to future challenges, such as residents requiring more of different services.

In our 2019 report *Government Outsourcing: What has worked and what needs reform?*, we showed that many parts of the public sector have become more efficient in response to outsourcing.⁹ This is an important benefit of competition, but it has eroded one of the key arguments in favour of private provision as in many cases there is now little difference in cost with in-house delivery.

* Procurement accounted for 47% of spending in local government in 2017/18 compared with 28% in central government. Davies N, Chan O, Cheung A, Freeguard G and Norris E, *Government Procurement: The scale and nature of contracting in the UK*, Institute for Government, 2018, www.instituteforgovernment.org.uk/publications/government-procurement

Interviewees from both government and industry told us that the old outsourcing model developed since the 1980s that focuses narrowly on cost reduction is “outdated”; government bodies are now more interested in improving quality and gaining greater flexibility to change the design of services.

Private sector companies have also started insourcing services that they had contracted out to other companies for similar reasons: they believe they can run them better or more cheaply, and with more innovation, themselves. For instance, Lloyds Bank and TSB have both insourced large parts of their IT operation in the last two years.¹⁰

However, while insourcing services may offer government bodies benefits, these should not be overstated. The private sector will continue to have expertise, capability and a capacity for innovation that government does not. And while many believe greater insourcing will deliver large cost savings, there is limited robust evidence to support this, and some expect the costs of insourced services to rise over time.

Government must approach decisions about how to deliver services in a rigorous way to ensure benefits are realised – and avoid favouring in-house or outsourced provision on the basis of ideology alone.

Switching back to in-house delivery after years or decades of outsourcing will also be hard: people, systems, culture and ways of working will be deeply embedded and difficult to uproot. Many services have been outsourced for a generation. Without careful planning and the right management and staff capability, efforts will founder.

All public bodies should regularly assess whether each of the services they provide is achieving value for money. They should be able to switch back and forth between their own and contracted-out provision, without being captured by either approach.

In this report, we set out recommendations to guide decisions on when and how to bring services back in-house, drawing on interviews with local government, central government, public bodies and suppliers.

In our previous work, we set out conditions in which outsourcing is most likely to return clear benefits.¹¹ These included a competitive market of suppliers offering structural advantages – such as expertise, economies of scale or new technologies – that can achieve efficiencies; the ability to measure the value added by a supplier; and the service in question not being integral to the purpose of government.^{*12} Where these conditions are not met, outsourcing is less likely to work.

* We argued that some services are inherently governmental, including those that involve: making key policy decisions such as on regulation, tax and spending; applying coercive authority to maintain law and order; and making decisions intimately related to the government’s duty to protect the public.

Here, we set out conditions where insourcing is likely to be a better option. These include when:

- the market from which government is buying a service is not a healthy or competitive one
- government needs flexibility to make frequent or significant changes to the design and scope of a service, in view of changing policy and budget priorities
- government lacks the commercial skills to procure or manage a contract successfully
- a service could be improved and/or savings made by integrating it with another service.

We then set out lessons for politicians and officials on how to insource successfully. We recommend that all government bodies considering insourcing should:

- **conduct a thorough review of how the existing service operates, its budget and staffing arrangements**
- **assess their management capability and plan necessary senior recruitment early**
- **prioritise insourcing projects based on a pragmatic assessment of their staff capacity and which return the most benefit**
- **consider paying more to hire experienced managers**
- **assess the costs and benefits of full insourcing against setting up a wholly or jointly owned company to manage the service**
- **begin planning for transition at least two years before insourcing**
- **build support with service users, local residents and unions**
- **run a pilot first if the service is of national scale or particularly complex.**

Should a government body decide to insource a service, we also recommend that it:

- **monitors the cost and quality of the insourced service**
- **regularly assesses whether in-house delivery remains the best option**
- **evaluates whether insourcing has achieved projected cost savings and quality improvements.**

Lastly, we recommend that:

- **the Cabinet Office includes detailed practical guidance on whether and how to insource in its next update of the *Outsourcing Playbook***
- **the Cabinet Office works with the Local Government Association (LGA) and other bodies to develop training and support for best procurement practices in local government and the wider public sector**
- **local authorities develop standards and training to improve benchmarking**
- **the Cabinet Office and the LGA develop a plan for addressing gaps in the evidence on the outcomes and effectiveness of insourcing.**

1. Introduction

To understand the growing interest in bringing services back in-house, it is necessary to understand how and why they were contracted out in the first place. This includes the different models services use and the laws and regulations that cover outsourcing and insourcing.

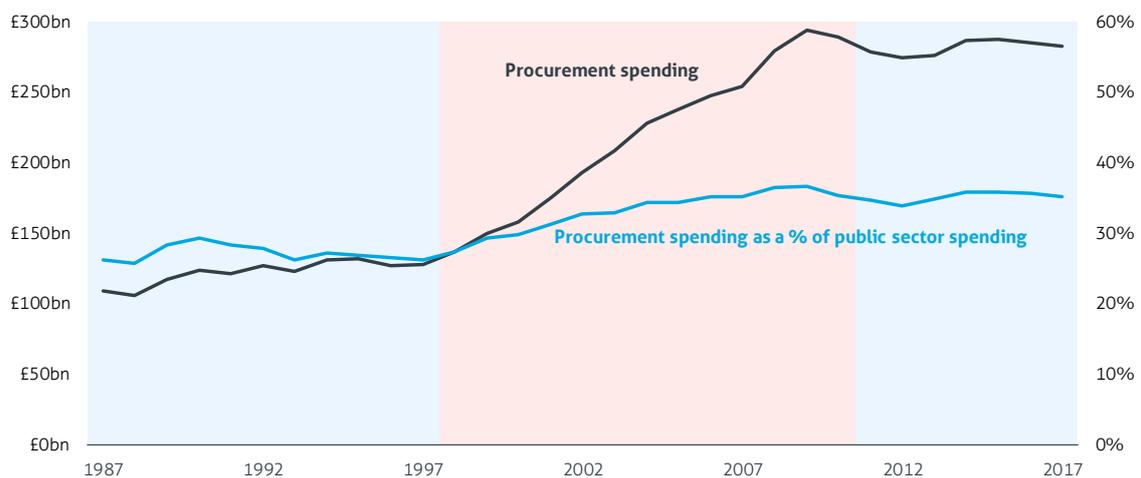
Outsourcing has been expanded significantly over the last four decades

Beginning in the 1980s with local government services such as waste collection, successive governments extended the role of the private sector to more complex areas including the running of prisons and hospitals, and major IT projects.*

Figure 1 shows the rise in public sector *procurement* spending – which includes goods, works and services – rather than just *outsourcing*, which includes only services (the way the data is collected does not allow for a simple tracker for outsourcing alone). But it illustrates the growing role of independent providers, including private companies, charities, and mutual and social enterprises, over this period.

Government currently spends £292 billion – more than a third of all public spending – on procurement, up from £112bn in 1987 (2019 prices).¹

Figure 1: Public sector procurement spending (2019 prices), 1987 to 2017



Source: Institute for Government analysis of data from the Office for National Statistics' Blue Book dataset. Figures are shown in June 2019 prices.

Private companies now do everything from operating prisons to providing NHS operations; cooking school meals to collecting waste; and running IT systems to staffing call centres. All were previously done almost exclusively in-house.

* We describe this history in more detail in our previous *Outsourcing* report. See: Sasse T, Guerin B, Nickson S, O'Brien M, Pope T and Davies N, *Government Outsourcing: What has worked and what needs reform?*, Institute for Government, 2019, www.instituteforgovernment.org.uk/publications/government-outsourcing-reform

Conservative and Labour governments – under Thatcher, Major, Blair, Brown and Cameron – all extended outsourcing with a largely consistent rationale: that applying market mechanisms and private sector expertise to the work of government could reduce costs, raise quality and improve efficiency.

Our previous *Outsourcing* report found that in some areas outsourcing delivered clear benefits.² When services such as waste collection, cleaning, catering and maintenance were first outsourced they returned large savings, sometimes up to 20% of operating costs. Outsourcing prisons helped introduce innovations and raise performance across the prison estate. The introduction of private sector treatment centres and providers that deliver routine operations such as knee and hip replacements has allowed the NHS to pay less for ad-hoc purchases of services needed to meet demand.

In other areas, though, outsourcing has been less successful. Contracting out the management of probation, benefits assessments and asylum accommodation led to services that were unreliable and poor quality, harming those trying to rebuild their lives. And across all services, many of the savings have been achieved by reducing the pay and conditions of staff.

We identified several factors that consistently resulted in contracts going wrong or failing to meet their objectives. These included low competition, an inability to adequately measure performance, inappropriate risk transfer and poor contract management. We also found that government had often outsourced services for the wrong reasons – in pursuit of unrealistic cost savings and without a reasonable expectation that companies could deliver efficiencies, innovations or service improvements.

But the extension of the market has reached a high watermark – and state intervention may increase in response to coronavirus

Up to the May government, every government for almost four decades extended the scope of outsourcing, but it appears to have reached a high watermark.

No political party has plans to extend the role of independent providers – the last to do so was the Cameron government, with probation, in 2015. In the December 2019 general election, the Labour Party campaigned to restrict the role of private providers and “end all privatisation” in the NHS.³ It may update this policy under new leadership, but it appears unlikely to return to the enthusiasm for private contracting it displayed in the Blair and Brown years.

The Johnson government has begun re-evaluating areas where the introduction of the market has not worked or has ceased to work (including in probation, the NHS and rail franchising). Before the outbreak of coronavirus, it supported plans drawn up by NHS England in September 2019 to change requirements that force NHS bodies to open contracts exceeding a certain value to competition.⁴

Questions about the appropriate roles of the state and market have now become sharper and more urgent. Restrictive public health measures have made the normal operating model of some of government's providers unsustainable. In many areas, only government has the ability to manage a freeze in activity lasting several months.

Several interventions have been announced. The Department for Transport (DfT) has temporarily introduced a new franchising system for Britain's rail providers; operators are paid a management fee but government bears all cost and revenue risk. While this is a short-term measure, it may prove to be the government's preferred longer-term option.⁵ DfT has also announced a bailout for bus operators, while the Treasury has announced plans to take back risk on Private Finance Initiative (PFI) contracts.⁶ The Cabinet Office has also issued wider guidance on supplier relief to public bodies to ensure continued payment even if services are interrupted.⁷

Much will depend on how quickly the public health crisis subsides. But it is inevitable that coronavirus, and the government's response to it, will have an impact on government contractors. Service areas such as construction, transport and catering have been hit hard; others such as IT or office support have seen demand remain steady, or even increase.^{**} If certain suppliers or markets are weakened, government may be forced to step in to maintain services.

Government does not have the capacity to take large swathes of services back in-house. As with wider business continuity policies, it will want to preserve healthy businesses so that they can continue to provide key services to the public once restrictions are lifted. Private providers also have a crucial role during the crisis itself: cleaning hospitals, providing additional healthcare capacity, operating NHS 111, staffing Universal Credit call centres and more.⁸ The Cabinet Office has announced specific measures to support these suppliers, including a 'clearing house' for furloughed staff to help companies to manage high staff absence.⁹

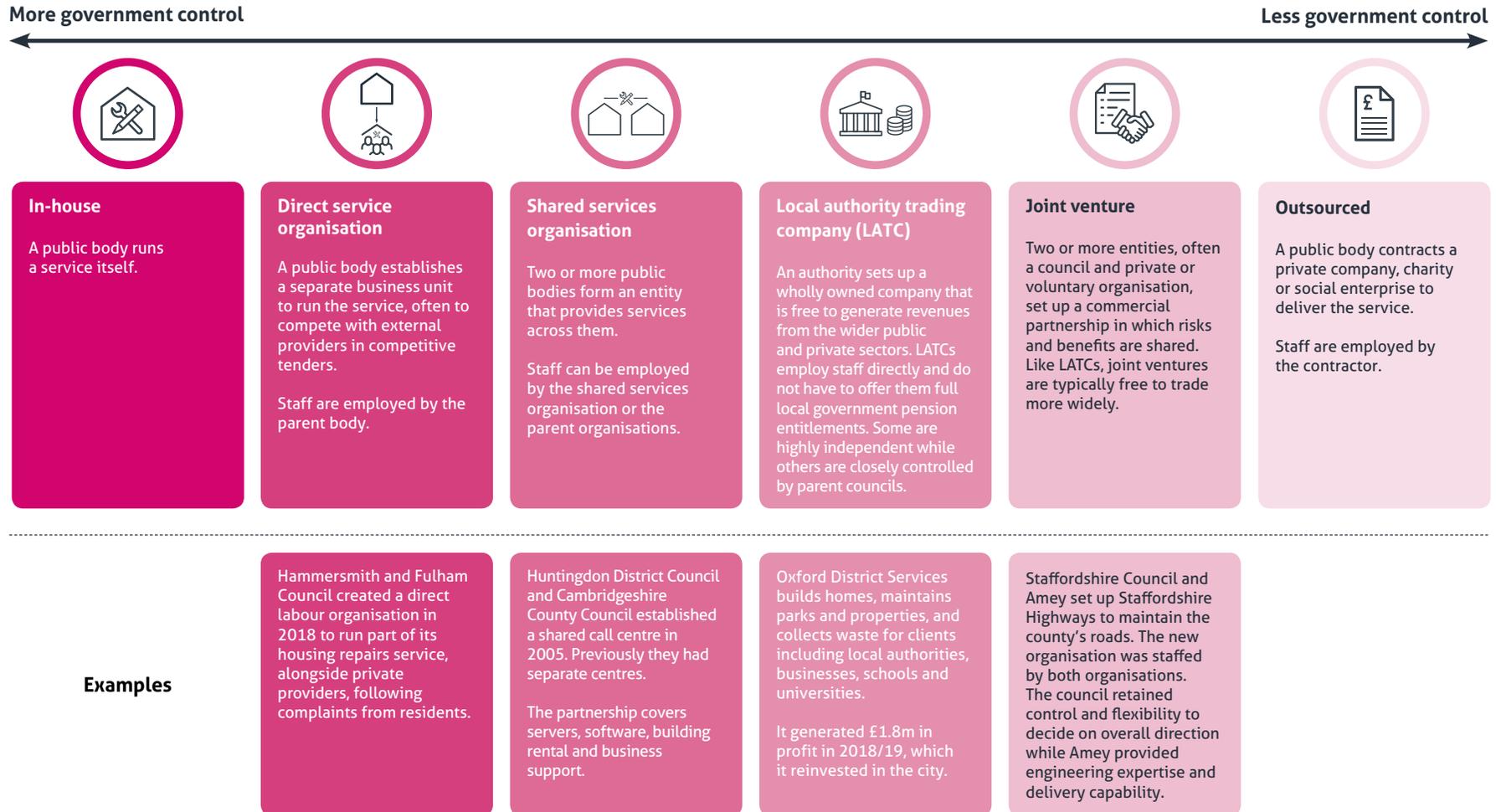
There is a range of models for delivering services from in-house to outsourced

There is not a simple dichotomy between publicly and privately run services. As Figure 2, overleaf, shows, there is a range of ways that government manages services, including through direct service organisations, shared service organisations, local authority trading companies and joint ventures. These vary in terms of the level of government control.

* The guidance covers all services until June 2020. It states that payment-by-results contracts should be paid on the basis of previous invoices.

** This general picture was according to our interviews but see, for example, Serco's trading update on 2 April 2020. Serco, 'Trading update regarding coronavirus', 2 April 2020, retrieved 3 April 2020, www.serco.com/media-and-news/2020/trading-update-regarding-coronavirus

Figure 2: Ways of delivering services



Source: Institute for Government analysis of DCMS, Alternative delivery models explained, GOV.UK, 28 March 2017; Amey, Staffordshire Highways; ODS, *Annual report 18/19 - A doing good company*; Hammersmith and Fulham, 'H&F to return its housing repair service to council control', press release, 18 October 2018; Local Government Group, *Shared Services and Management: A guide for councils*, 2011.

The process for insourcing is different from outsourcing, but should be guided by similar principles

When a contracting authority outsources a service, a range of laws and regulations govern the process. The contracting authority must open contracts that exceed a certain value to competition; follow prescribed procurement processes; judge bids based on an agreed criterion that balances price, quality and other factors (including social value); and award the contract to the bid that offers the best value for money.

The process for insourcing a service is different: here, the contracting authority can decide on it without running a full procurement process.*

But the basis for the decision should be the same. Government bodies all operate under a 'best value duty' that applies to services they run themselves or through a wholly owned organisation, as well as those they outsource. This states that they must secure value for money and have regard to a mix of economic, environmental and social benefits.¹⁰

Their decisions are subject to scrutiny: if they do not appear to meet this threshold, they may be challenged by an audit committee or an opposing political party, or subject to judicial review on behalf of a private provider.

There are various ways organisations can develop evidence that the option they choose offers the best value for money, including benchmarking activities (where costs and performance are compared against comparable organisations) and market analysis. The Cabinet Office updated its best practice guidance for making these 'make vs buy' decisions when it published the *Outsourcing Playbook* in 2019.¹¹

This is the key difference. In theory, outsourcing ensures there is a comparison of different options (unless there is only one bidder) – and this competition drives down the price and encourages innovation.** For insourcing, this comparison relies on officials and those with scrutiny roles performing their functions properly.

This creates a risk that the costs and benefits of alternative proposals will be less rigorously assessed. But as we noted previously, the competitive process for outsourcing has often not been a good mechanism for selecting the best value option either.¹² Government has often shown a bias towards the lowest price bid, with little regard to other factors.

As Figure 2 described, different models are subject to different rules around pay and employment benefits. For instance, direct service organisations have to offer staff a full local government pension scheme but local authority trading companies do not.

* Organisations can voluntarily decide to run a competitive tendering process in which an in-house bidder competes against external providers, but this is used relatively rarely.

** A significant proportion of public sector contracts, just under a quarter in 2018, are awarded to the sole bidder. We discuss this more in Chapter 4.

However, all organisations are covered by regulations that protect workers' terms and conditions when a service changes hands. Whether a service is being fully outsourced, delivered through a hybrid model or brought back in-house, the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) mean employees are guaranteed that their existing entitlements will be maintained, if more than 50% of their work is on a service that is changing hands.¹³

The Johnson government has indicated that after the end of the Brexit transition period it intends to diverge from some EU procurement rules. A green paper setting out options is expected in summer 2020, with the government considering changes to rules on prioritising domestic businesses, transparency, procedures, remedies and evaluation criteria.

2. The extent of government insourcing

Interviews and surveys with local government officials suggest insourcing is a rapidly growing trend. Spending data shows a smaller increase, or no increase at all, in some services, although in several areas data does not allow a comparison. Case studies indicate some large contracts have been insourced, particularly in IT. In this chapter, we set out the available evidence on changing patterns of public service delivery.

Interest in insourcing is growing – but there is little sign the volume of local government insourcing has grown substantially

Our interviews and available survey evidence point to a growing enthusiasm for insourcing. Officials and councillors told us that the traditional model of government outsourcing – highly specified contracts focused on returning large savings – was “outdated”, as those savings have now been made and the public sector has become more efficient in response. This model also does not offer much flexibility and, in some areas, quality has been poor. As such, councils are increasingly looking to service providers to adapt or switching to other models of service delivery.

Survey evidence supports this. In a 2018 survey, 39% of local government officials said they would outsource less in the future, while only 15% said they would outsource more.¹

In 2011, a survey of 140 local authority officers and elected members reported that 57% of respondents said they had brought a service back in-house, were in the process of doing so, or were considering it.² By 2019, a survey of 208 local authority officers and elected members reported that 73% of those surveyed had either insourced a service or were in the process of insourcing one.^{3,*}

Some councils have established an ‘insource by default’ policy and brought many services in-house over several years. Hackney Council, in London, has insourced its waste collection, street cleaning, housing benefit administration** and IT digital and support services; neighbouring Islington Council brought back waste collection, housing repairs, cleaning, education and concierge services.

* There are some methodological discrepancies between the surveys that could hamper their results: in the 2011 survey, 65.3% of respondents were service directors or senior management staff, whereas in 2019 only 42% were. It is also not clear whether the questions were consistent between the two surveys. Nevertheless, they suggest in broad terms that local government interest in insourcing has increased.

** Housing Benefit will be replaced by Universal Credit (where rolled out); however local authorities will still deal with ‘legacy’ recipients of housing benefit for some time.

Others have been more selective, bringing back one or two services that require attention: Derby City Council insourced its road maintenance service; Staffordshire County Council insourced part of its adult social care and children’s residential care market, and set up a joint venture to run its highways. Some councils we spoke to said there had been a marked increase in insourcing in local government over the last two to three years; others felt there had been a slow and steady growth over the last decade.

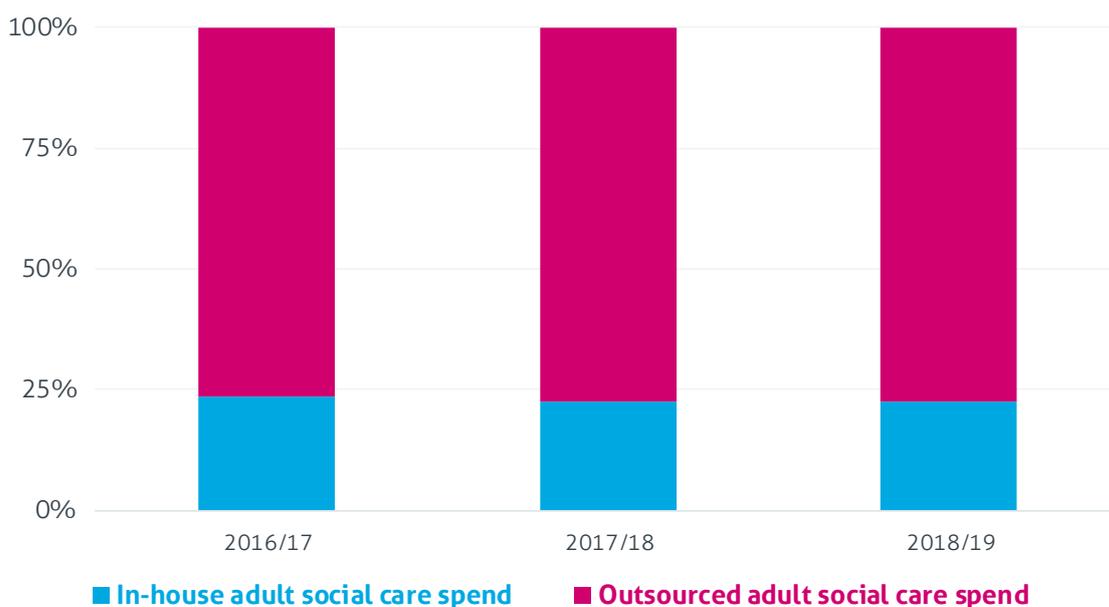
There has also been an increase in the use of hybrid models, where services are operated by council and private sector providers. In 2018, there were an estimated 743 local authority trading companies in England, Scotland and Wales, with 59.2% of local authorities operating at least one. There was a big increase after legislation extended powers to trade in 2011;⁴ only 15% of local authorities were operating a trading company in 2010.⁵

However, while interviews and surveys suggest increased interest in insourcing, in most areas of local government spending it is not possible to back this up with data. In the areas where data is available, including adult and children’s social care and waste collection, there has not so far been a meaningful shift in favour of insourcing.

Adult and children’s social care

Adult social care and children’s services account for two fifths of local authority spending on services, excluding education.* Figure 3 shows that just under a quarter of the money spent on adult social care goes on in-house providers – but this has been relatively flat over the last three years (data from before 2016 was collected using a different methodology).

Figure 3: Percentage of local authority spending on adult social care, 2016/17 to 2018/19



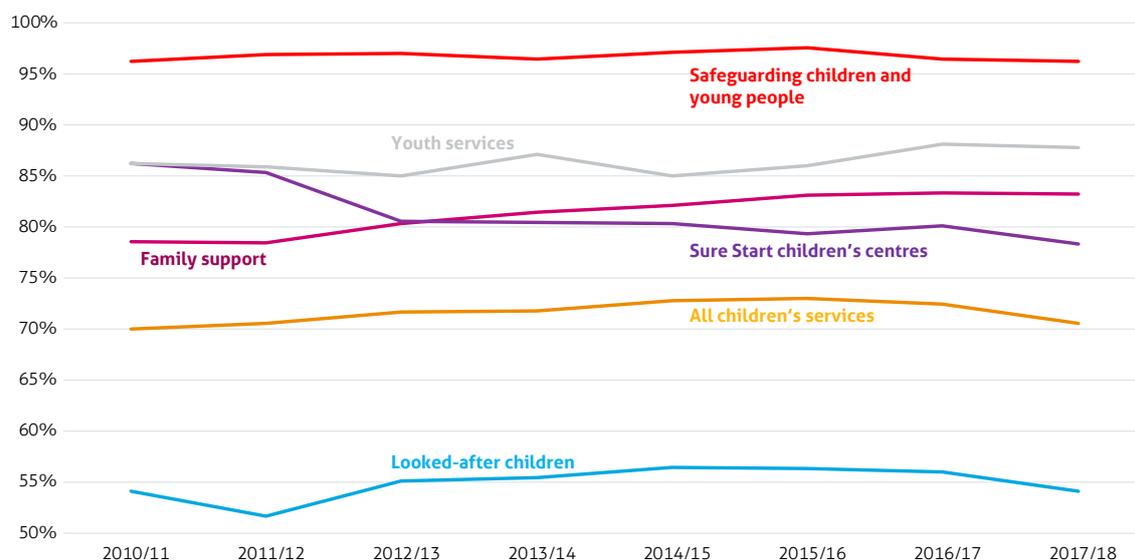
* Education services are excluded because funding for those services has changed significantly since the introduction of academies.

Source: Institute for Government analysis of NHS Digital, *Adult Social Care Activity and Finance Report, England – 2016/17, 2017/18 and 2018/19*.

Several local authorities we spoke to who had insourced other services, such as Hackney, told us that they had avoided insourcing adult social care because they felt it was too risky, citing the rising cost (at the point of insourcing) and complexity of the services, the statutory and regulatory requirement for some care services to be provided independent of councils and the need to provide social care users with service options.* Institute for Government analysis from November 2019 supports this, showing that rising demand and constrained funding have forced councils to reduce access to care.⁶

A much larger proportion of children’s services are delivered in-house, but the proportion in most areas has also remained relatively steady (see Figure 4).^{**}

Figure 4: Percentage of children’s social care spending with in-house providers, 2010/11 to 2017/18



Source: Institute for Government analysis of Department for Education, 'LA and school expenditure', 2010/11–2017/18. We have excluded two categories of children’s services: 'Youth Justice', because the spending data is not split by provider type; and 'Other children’s and young people’s services', because it amounts to only around 1% of overall spend.

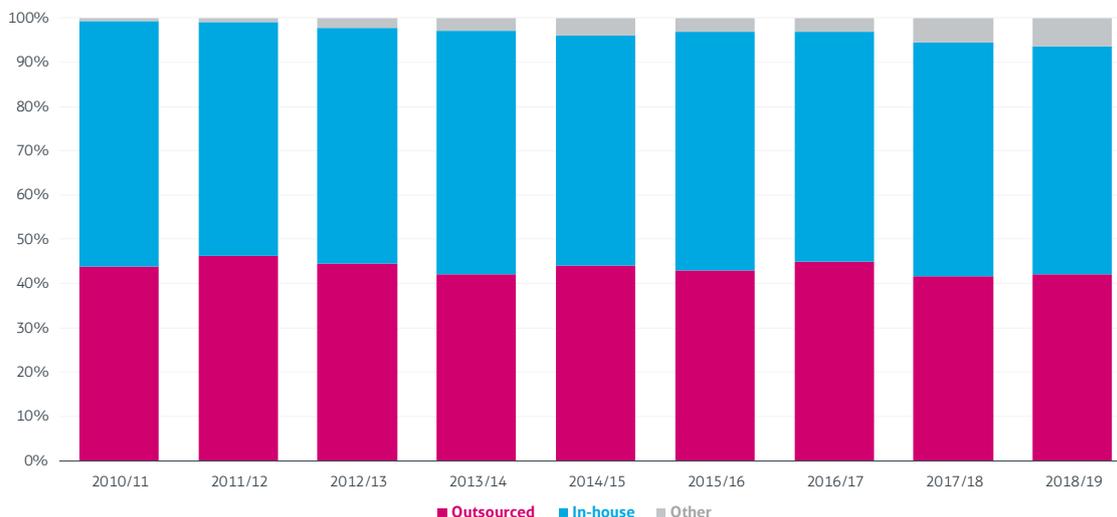
* The Care Quality Commission has highlighted market failure, particularly in the domiciliary care sector. Care Quality Commission, *The State of Health Care and Adult Social Care in England 2018/19*, CQC, 2019, www.cqc.org.uk/sites/default/files/20191015b_stateofcare1819_fullreport.pdf

** We define children’s social care as local government spending on 'looked-after children', 'safeguarding children and young people' and 'family support'. These three spending categories are used as a proxy for children’s social care, as they exclude most spending on non-social-care children’s services. The categories are consistent between 2012/13 and 2017/18. For earlier years, we adjusted the categories used at that time to replicate the three categories as closely as possible.

Waste collection

Waste collection was one of the first services to be outsourced, in the 1980s.⁷ English local authorities spent £476m on waste services in 2018/19, but the proportion of spending on outsourced providers has been relatively consistent over the last decade, falling from a peak of 46% in 2011/12 to 42% in 2018/19 (see Figure 5).

Figure 5: Proportion of waste collection outsourced and in-house, 2010/11 to 2018/19



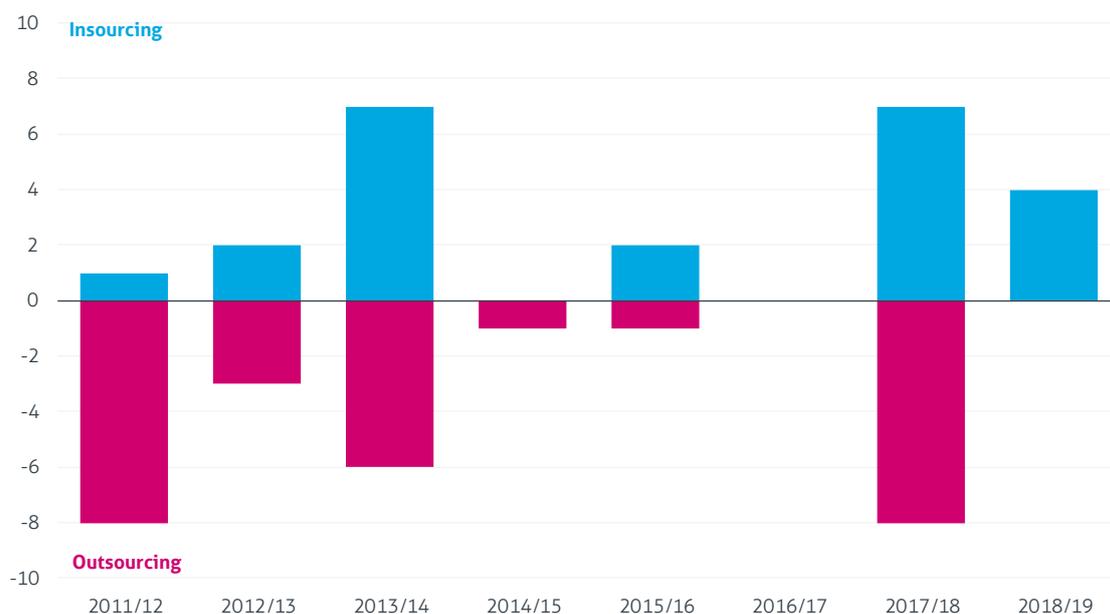
Source: Institute for Government analysis of the Waste and Resources Action Programme (WRAP), 'Local authority waste and recycling scheme data', 2010/11–2018/19.

Over that period the proportion of spending that went on local authority trading companies rose from 1% to 6%.^{*} We heard several examples of this, including Redbridge council, in London, which created a trading company to collect waste in 2019, having outsourced the service for two decades.

In 2011/12, eight local authorities outsourced waste collection (including via a hybrid model), while only one insourced (see Figure 6). However, since 2012/13 there has been more insourcing than outsourcing (22 and 19 councils respectively).

^{*} The category 'other' refers primarily to companies trading under the Teckal exemption. A 'Teckal company' is a term for an organisation, such as a local authority trading company, that is wholly owned and controlled by a parent body and does most of its work (more than 80%) for that body. It is named after the 'Teckal exemption' in EU procurement regulations, which allows organisations to award contracts to such companies without running tenders. Forster L, *Teckal – the basics explained*, CIPFA, 2016, www.cipfa.org/policy-and-guidance/articles/teckal-the-basics-explained

Figure 6: Number of councils insourcing or outsourcing waste collection services, 2011/12 to 2018/19

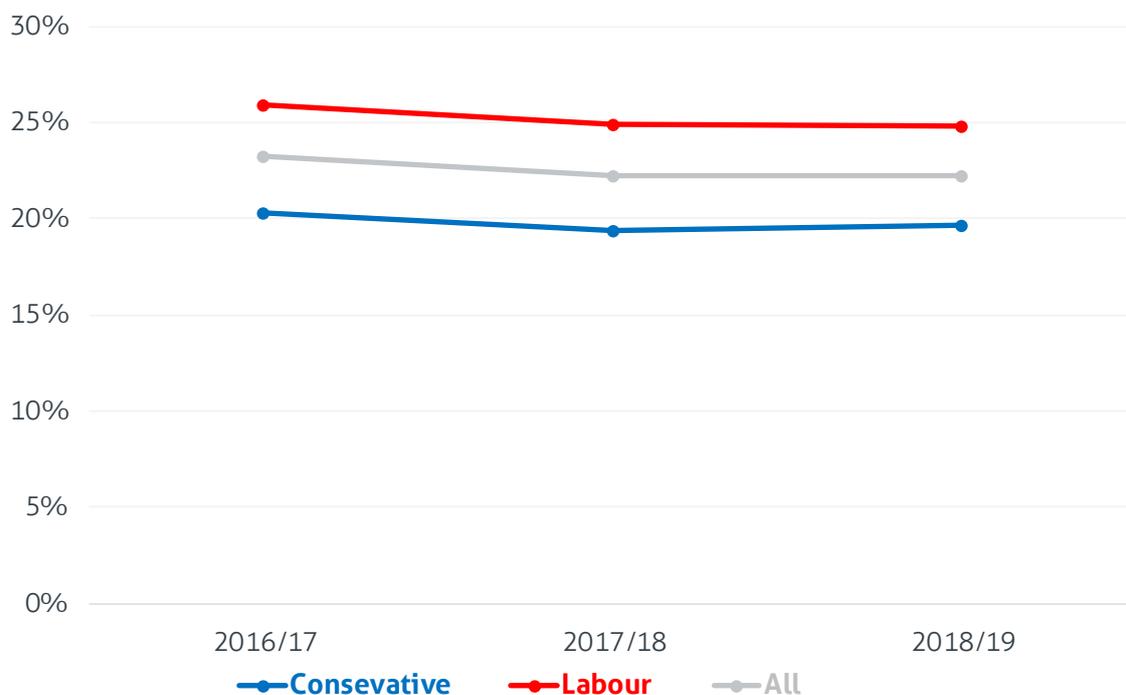


Source: Institute for Government analysis of Ministry of Housing, Communities and Local Government, 'Local authority revenue expenditure and financing England, individual local authority data', 2011/12–2018/19. We categorised councils moving into the 'other' category according to their previous delivery model. A council using a local authority trading company that had previously used a fully outsourced waste management company was categorised as having insourced the service, whereas a council using a local authority trading company that had previously used a direct service organisation was categorised as having outsourced the service.

Both Labour- and Conservative-led councils are insourcing services

Decisions to insource services do not appear to be party political. Labour councils provide a slightly larger percentage of their social care in-house than Conservative councils, but the proportion of spending with in-house providers in each has been steady (see Figure 7).

Figure 7: Percentage of local authority adult social care spending with in-house providers, by political control, 2016/17 to 2018/19

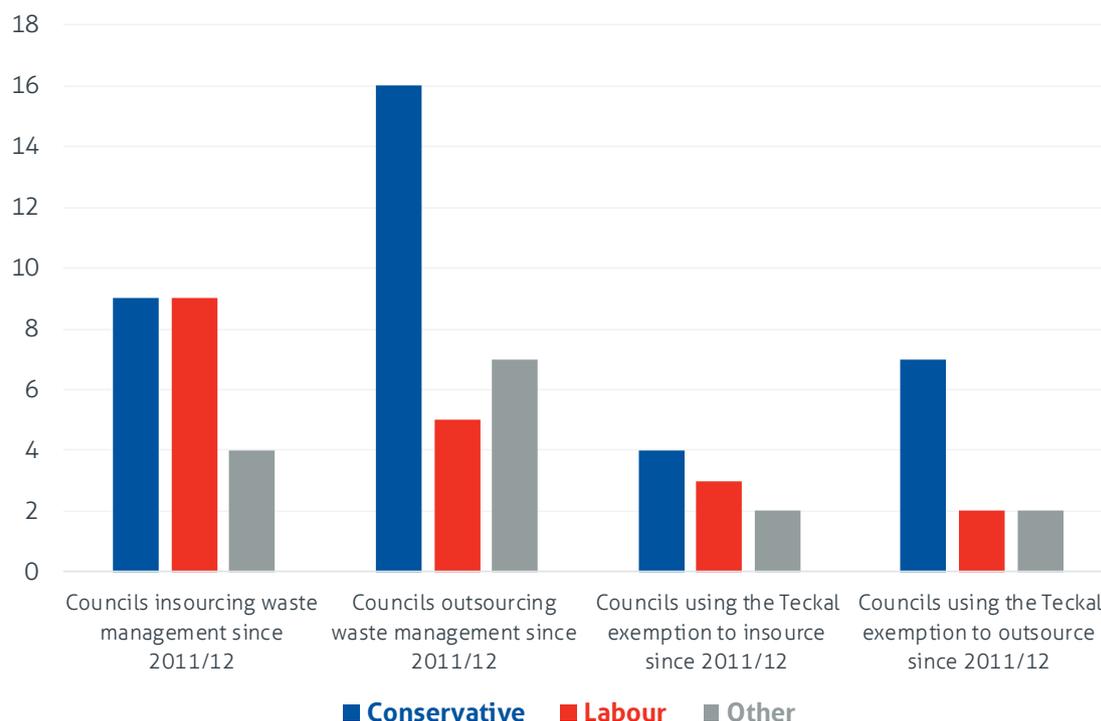


Source: Institute for Government analysis of NHS Digital, *Adult Social Care Activity and Finance Report, England – 2016/17, 2017/18, and 2018/19*, and Institute for Government analysis of local authority political control.

A 2019 report by the Association for Public Service Excellence (APSE) reached similar conclusions. It estimated that slightly more Labour councils (42%) than Conservative ones (36%) were in the process of insourcing, but that insourcing was being undertaken by both – and largely on pragmatic rather than ideological grounds.⁸

Figure 8 shows that, between 2011 and 2019, one more Conservative than Labour council insourced waste management (either running the service in-house or using a Teckal company) but three times as many Conservative councils outsourced services (or outsourced them using a Teckal company).

Figure 8: Local authorities insourcing and outsourcing waste collection by political control, 2011/12 to 2018/19



Source: Institute for Government analysis of Ministry of Housing, Communities and Local Government, 'Local authority revenue expenditure and financing England, individual local authority data', 2011/12–2018/19, and Institute for Government analysis of local authority political control.

The small sample size* and the fact that there is not an equal number of Labour and Conservative councils mean we should be careful about drawing firm conclusions from this data.** But overall, the evidence suggests that insourcing is broadly non-partisan, although Labour-led councils may be slightly more likely to insource.

* Of the local authorities that changed how they ran their waste collection services between 2011 and 2019, 26 were Conservative-led, 14 were Labour-led and 11 were led by other parties or had no overall control. Of the 148 non-unitary county, London borough and unitary councils in England responsible for delivering adult social care that we analysed, 66 were Labour-led, 47 were Conservative-led, 30 had no overall control and 5 were led by other parties, at the time when they changed provision.

** In 2019, of the 408 local authorities in the UK, 141 were run by the Conservatives, 96 by Labour, 37 by other parties and 134 had no overall control. Our dataset was smaller: we analysed the 353 councils in England which have responsibility for waste collection, excluding 29 counties for which no WRAP (Waste and Resources Action Programme) data was reported. See www.wrap.org.uk.

Central government and public bodies also insource services – but interest is patchier

The strongest and most consistent interest in insourcing we found was in local authorities, where services were contracted out first and procurement is most prevalent. We also found enthusiasm in central government and public bodies, but it was patchier and concentrated in a few areas, such as IT and underperforming frontline services.

Central government has insourced major IT contracts

Interest in insourcing across the IT sector grew between 2015 and 2018.⁹ Several central government departments and public bodies have broken up large IT contracts and brought them partly or wholly back in-house in the last five years:

- Since 2015, HMRC has taken back responsibility for parts of the management of the IT infrastructure that underpins the annual collection of some £500bn in tax income.*
- The Department for Work and Pensions (DWP) created a wholly owned company, BPDTS Ltd, in 2016 to replace a number of outsourced digital contracts.¹⁰
- The Ministry of Justice (MoJ) decided in 2018 to bring technology management in-house, building on its policy of breaking up its large IT contracts into smaller, shorter contracts.^{11,12}
- The Department of Health and Social Care (DHSC) brought work on the NHS Spine platform in-house through the Health and Social Care Information Centre (HSCIC) in 2014, and moved the Secondary Uses Service and the Care Identity Service IT systems from BT to HSCIC in 2015.¹³
- The Driver and Vehicle Licensing Agency (DVLA) brought the majority of its IT functions in-house between 2014 and 2017, including high-demand online services for viewing and renewing driving licences, which had been outsourced for more than 20 years, with the support of the Government Digital Service.¹⁴
- The Legal Aid Agency has also insourced much of its IT capability in the past five years.¹⁵

* In January 2015, HMRC took over the management of Aspire subcontracts with Accenture and Fujitsu that Capgemini had previously managed, worth around £250m a year. In December 2015, three Aspire services were brought directly in-house. In 2019, HMRC announced that it was extending Capgemini's role for a further two years, in which the company would support the department to increase its IT capability in order to take further responsibilities in-house. Davies N, Chan O, Cheung A, Freeguard G and Norris E, *Government Procurement: The scale and nature of contracting in the UK*, Institute for Government, 2018. www.instituteforgovernment.org.uk/publications/government-procurement; Consultancy.uk, 'Capgemini receives contract extension from HMRC', 11 October 2019, retrieved 15 June 2020, <https://www.consultancy.uk/news/22648/capgemini-receives-contract-extension-from-hmrc>

Central government has insourced some underperforming frontline services

In May 2019, MoJ announced that the management of offenders on probation would be brought back in-house (though independent providers would continue to deliver some rehabilitative services).¹⁶ In June 2020, it announced that the whole probation service would be brought in-house, citing flexibility to deal with coronavirus as a key factor.¹⁷ Large parts of the probation service were outsourced in 2015, against the advice of many organisations, including the Institute for Government.¹⁸ The reforms were driven through by Chris Grayling, then secretary of state for justice.

The decision to bring most services back in-house was a recognition of the fact that a major attempt to create a market in a multi-billion-pound public service market had failed. The outsourced services were consistently poor quality and unreliable; under the 'payment-by-results' model, many services were loss-making and inspections showed providers cutting corners to reduce losses.¹⁹ Senior civil servants within MoJ felt "burned" by the experience and the new 'make or buy process' included in the *Outsourcing Playbook*²⁰ enabled them to make the case for bringing some of the services back in-house.

DWP sharply reduced the scope of its outsourced Work Programme after its own payment-by-results system failed to provide adequate support to the hardest-to-help jobseekers.²¹ It launched the replacement Work and Health programme in November 2017 with a budget less than a quarter of the size of the previous scheme (£130m rather than £540m).²² Most of the working-age support previously delivered by the Work Programme returned in-house under the remit of the Jobcentre Plus network within DWP.²³

Insourcing is not currently widespread within the NHS – but that may change

There is no clear evidence that insourcing is increasing within the NHS. DHSC spent just over £9bn, or 7.3% of its budget, on purchasing health care services from the private sector in 2018/19. This was the same as the previous year, and down from 7.7% in 2016/17.²⁴

However, the government has expressed support for plans to put services out to tender that exceed a certain value.²⁵ The proposed changes were developed by NHS England to reduce requirements on local NHS bodies, and would reverse reforms introduced in 2012 by Andrew Lansley, then health secretary. The government is yet to signal when it will introduce them.

NHS staff told us that in-house provision is likely to grow, particularly in previously more frequently outsourced, non-clinical services like IT. As more clinical commissioning groups merge and amid a wider emphasis on integration within the health service, NHS organisations increasingly see benefits in taking greater control of core IT services, as other government bodies have done.

Several NHS trusts have set up trading companies: Guy's and St Thomas's Hospital Trust established the firm Essentia to manage its facilities and generate revenues by selling facilities management services to other hospitals.

3. The evidence on government insourcing

Local authorities and other public bodies are largely insourcing services for pragmatic, rather than ideological, reasons. Those we spoke to consistently highlighted potential benefits, including reduced costs, improved quality and greater flexibility. Many cited examples where insourcing had helped produce these improvements.

These claims are largely credible and realistic. While the outcomes of insourcing projects have so far not been subject to detailed study, we heard about numerous examples from councillors (Conservative and Labour), local government officials, civil servants and external organisations where clear benefits had been achieved. The lack of quantitative comparative studies is mostly a reflection of the relatively short time that insourcing has become popular, and councils not collecting necessary data: absence of evidence rather than evidence of absence. Better data and comparative studies of services before and after insourcing are needed to fill this gap.

We are more sceptical that insourcing will guarantee large cost savings over sustained periods – as some organisations claim. While we have confidence that insourcing can return savings in some areas, it also creates additional costs. Modest projections of savings are more realistic (as we have argued about large projections of savings from outsourcing, too).

Insourcing is being driven by pragmatism

While some oppose the role of the private sector in government work on principle, the recent drive in insourcing appears to be driven largely by pragmatism. Commissioners cited benefits including:

- **Cost reductions:** officials believe they can reduce costs by integrating services and reducing management overheads. The desire to reduce costs is often driven by budgetary pressure, particularly in local authorities, which have been exposed to particularly steep cuts as a result of austerity since 2010 and, unlike central government departments, have a legal requirement to balance their budgets.
- **Quality improvements:** in many cases, insourcing is driven by a desire to address unacceptable problems with service quality, which external suppliers proved unwilling or unable to address.
- **Better staff conditions:** some interviewees argued that by raising the standards of staff conditions, they improved staff retention, lost fewer days to sickness and improved motivation.

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- **Boosts to the local economy:** councils believe that by having greater control over where a service or local authority department spends money, and by paying local staff more, they can support their local economy in a way that outsourced provision with a large provider does not.

Interviewees told us insourcing produced these outcomes by offering:

- **Greater flexibility:** insourcing provides greater control over the nature of a service, which can allow organisations to be more responsive to changes in demand, budgetary pressures and the labour market.
- **Integrated services:** officials believed they could generate efficiencies and quality improvements by bringing services, such as street cleaning and waste collection, together.
- **Supply-chain efficiencies:** partly as a result of integration, local authorities felt they would be able to get more value from their supply chains. For example, two (or more) separate contractors may both procure vehicle maintenance services, but the parent body can get a better deal if it negotiates one contract.
- **Reduced management costs:** some interviewees felt that by insourcing services they could reduce management duplication – for instance by cutting part or all of the management tier in each individual outsourced service (which often exists in addition to the management required in-house to oversee the contract) – and reclaim profit margins.
- **Improved contract management:** building up internal understanding of a service can improve an organisation’s skills as a client, and so lead to better management of contracts that remain outsourced.

The coronavirus pandemic has also shown many existing outsourcing models to be unsustainable in a crisis. This presents another possible reason for bringing a service in-house, or for government taking back responsibility for risks.

In the first months of the coronavirus pandemic the government has taken only limited steps to keep providers of outsourced services afloat so they can pick up their contracts once restrictions are lifted (on top of wider measures to support businesses). However, it may have to consider further measures – such as stepping in to directly provide services as the length of restrictions and the medium- to long-term impacts of the pandemic become clearer.

More detailed studies are needed to assess potential savings

Several local authorities and public bodies have cited or forecast substantial savings from insourcing services. Islington council, which has adopted an 'in-house by default' policy, says it made net savings of £14m by insourcing £400m of services since 2010.¹ The DVLA forecast that it would achieve at least £225m in savings over 10 years when it insourced services in 2013/14.²

A 2011 report by APSE for UNISON lists 20 examples of government bodies forecasting cost savings from insourcing services between 2009 and 2011.³ These included Coventry City Council, which forecast savings of £5m per year by bringing IT in-house in 2011, and Banbridge Council, estimated it would save £3m over three years by insourcing waste collection.⁴

There are good reasons to think insourcing can produce savings in some circumstances. As well as those set out above, broader research suggests that in many areas where outsourcing has worked over the last 40 years, such as waste collection and cleaning, the comparative advantage of the private sector has reduced – or disappeared – as the public sector has got more efficient.⁵

But more work is needed to examine to what extent savings are realised. We were able to make our own independent assessment of the DVLA. In a 2016 report, we found that the agency had achieved a £78m (19%) reduction in its net operating expenditure between 2013/14 and 2015/16, while successfully delivering a transformation which improved the quality of services.⁶ While staff costs increased by 13% over this period (around £11.8m), DVLA saved more than £60m in two years, largely driven by reduced spend on IT contractors.⁷ Elsewhere, however, councils and bodies have produced rough estimates of savings, which it is not possible to independently assess.

We found no examples of rigorous comparative studies of the cost and quality of services before and after insourcing. Nor did we find any studies that robustly assessed whether projected savings had been realised. In addition, several interviewees were sceptical that claimed savings could be sustained over time, arguing many estimates did not fully account for rising long-term costs due to pensions and insurance.

The absence of evidence is not surprising. Comparative studies are difficult to do because a service can change in scope and nature when it changes hands.⁸ (There is more evidence on the impacts of outsourcing because it has been studied for longer, though it is still often weak or outdated for similar reasons.)⁹

Some local authorities said they could only monitor spending through normal budget management processes, which did not allow them to accurately capture the full cost of an insourced service. When a service is insourced, responsibilities will often be shared between different departments or staff will be allocated to the project for only a small proportion of their hours. Other interviewees said they simply did not have the resources to conduct robust comparisons.

One local authority we spoke to had attempted to measure efficiency and productivity. Its highways maintenance productivity rose 55% after insourcing, largely due to service integration and better planning. This figure was determined by measuring area of potholes filled by hours worked – a metric that had also been used by the previous contractor. But these efforts did not form part of a wider evaluation.

In several of the examples we looked at, councils explicitly acknowledged that costs would increase as a result of insourcing. However, they saw this as a worthwhile trade-off for the anticipated benefits. Many highlighted that where the comparative saving from outsourcing had fallen to a marginal amount, say 1–2%, councils saw paying slightly more as a small price for improved quality or greater control of services.

There is some evidence that insourcing improves service quality and achieves wider benefits

Similarly, few studies have been conducted to examine whether insourcing improves service quality but many interviewees highlighted examples that are broadly credible and realistic.

Interviewees acknowledged that tracking performance could be challenging, particularly for more complex services that require staff to establish and master new metrics and monitoring systems. Developing evidence about the quality of outsourced services in these areas has proved difficult too.¹⁰

But in less complex services, we heard several examples of quality improving after insourcing. Three Rivers District Council measured a 20% per annum reduction in the number of missed bins after insourcing its waste collection service in 2002.¹¹ It was also able to measure improved performance against clearly defined recycling targets. Hammersmith and Fulham council reduced the number of complaints on its housing repair service after establishing a trading company to take over from an outsourced provider. Hackney council significantly reduced the average waiting time on housing benefit applications, from 117 days under an outsourced contract to just 13 in 2017/18.

Others highlighted wider benefits, such as improvements in working conditions leading to better morale and retention. For example, one large local authority said it improved retention significantly by setting up a wholly owned adult social care company. Several others noted that insourcing enabled them to offer staff proper career progression through the organisation.

These benefits are important. There is strong evidence from across the public and private sectors that improved retention, morale and staff engagement contribute to better organisational performance.¹² But it is difficult to assess their impact on the quality of the service itself with any precision.

Insourcing is often championed as a way to invest more in the local economy.¹³ But there are various methods councils can use to do this: as well as insourcing services they can also prioritise spending with local businesses, as shown by the so-called 'Preston Model' developed by Preston council.¹⁴ It is not clear that insourcing will always be the most cost-effective way of investing locally.

Better evidence is needed on the effects of insourcing

While practitioners consistently cite benefits from insourcing and offer examples from their own organisations of these being realised, there is much more work to do to measure these benefits. Conducting such analysis would help inform decisions about when and how to insource services. We make recommendations on how to fill these evidence gaps in the Chapter 4.

4. When should government insource?

All public bodies should regularly consider which method of service delivery will secure the best value for money. Too often, however, organisations become stuck in their ways and fail to consider whether their current model – whether in-house or outsourced – is most appropriate.

In this chapter, we identify four circumstances in which insourcing could be beneficial:

1. The market from which government is buying the service is not healthy or competitive.
2. Government needs flexibility to make frequent or significant changes to the design and scope of the service, in view of changing policy and budget priorities.
3. Government lacks the commercial skills to procure or manage an outsourced contract successfully.
4. The service could be improved and/or savings made by integrating it with another service.

The presence of one or more of these does not mean that a public body *should* insource a service. For instance, government might be prepared to forego some level of flexibility (or pay extra for contract variations) where the outsourced alternative is significantly cheaper than in-house provision, or where it does not have the expertise to run the service itself. But it is an indication that it should carefully assess the case for insourcing. We also identify instances where government should not insource a service.

The market for the service in question is not healthy or competitive

When outsourcing has worked, it has often been because the competitive pressure of a tender process results in lower costs for government or draws in expertise or investment that would not have otherwise been available. Previously, we identified the lack of a competitive market as a frequent cause of outsourcing failures.¹ When competition dries up, public bodies should consider insourcing.

Increased market concentration, and companies being unwilling to bid for contracts that appear risky or unprofitable, have reduced the pool of quality suppliers for some services. This has been a widespread trend across government contracting, reflecting weaknesses in the sector: 23% of all public sector contracts awarded in 2018 went to the sole bidder, up from 15% in 2016.*

* Part of this change was accounted for by an increase in the number of low-value contracts. See: Plimmer G, 'Sole outsource bidders win more public sector contracts', *Financial Times*, 13 January 2019, retrieved 24 May 2019, www.ft.com/content/0ecee894-15a5-11e9-a581-4ff78404524e

Two recent large contracts demonstrate this problem. In May 2018, the Scottish government awarded a £238m, eight-year contract for escorting prisoners in Scotland to the only bidder after G4S and Serco, both of which have experience running similar contracts, pulled out.² When the Home Office retendered its Asylum Seeker Accommodation and Support Services the same year, agreeing a contract worth £4bn, only one firm that was not already working on the existing contract submitted a bid.³

In local government and public bodies, interviewees highlighted problems with low competition in areas including IT and children's residential care. In IT, a small number of vendors and the high cost of switching between them often lead to vendor 'lock-in'. One local government director of IT called the local government IT market an "oligopoly [with] little competition between two or three vendors". This was particularly acute for more 'strategic' IT functions, where some government buyers felt traditional software providers did not offer products matching government's ambition to add value to other services through technology, or priced services far above their actual cost. A DVLA official interviewed for a previous Institute for Government report said they were quoted £26m by a supplier for two services, both of which they then built in-house (along with two more) for less than £5m.⁴

Local government interviewees told us that children's residential care is a "providers' market" because demand greatly outstrips supply. This is particularly the case in some parts of the UK, because private providers have tended to invest where property is cheapest.⁵ Several local authorities told us they had insourced all or part of their residential children's care because they were not getting the right price and quality from the market. One explained that a provider was "pricing much too high for OK quality" because there was little competition.

Buyer characteristics can also dictate whether the market will meet demand. One smaller council in London told us its size made it a less attractive proposition for IT companies, and that it was unlikely to receive competitive bids for innovative, transformative IT services.

Government needs flexibility to make frequent or significant changes to the design and scope of the service

In nearly all of the case studies we examined, commissioners cited the ability to make changes to service design or scope as a key benefit of insourcing. While making such changes is possible when a service is outsourced, it is more difficult and can be prohibitively expensive. Where services are likely to require frequent or significant changes, insourcing may be the best option.

Interviewees told us it is hard to foresee the changes that might be required and build the necessary flexibility into many contracts. There is an inevitable trade-off: flexibility in contracts means uncertainty and risk, which providers would have to price in. Government has consistently shown a bias towards selecting low-price bids, which means less flexibility.

But on contracts that require flexibility, upfront savings can be illusory. When the need to make changes materialises, companies typically apply substantial 'contract variation charges'. Industry executives told us that such charges are often what makes a contract profitable. As Ed Welsh, former executive director in the Cabinet Office, explained at an Institute for Government event, suppliers end up bidding low in order to win a competition and hide costs elsewhere in the contract, such as in variation charges.⁶ Behaviour on both sides had led to a "lack of honesty" about costs in many procurements and contractual relationships, he said.⁷ Public bodies also have to cover legal fees and internal staff resources needed for a renegotiation of contract terms.⁸

It is also more difficult to effectively make subtle changes to the scope or design of a service through a contract renegotiation than to do so directly. Often discussions will be legalistic and narrowly focussed on terms and phrasing in the contract specification, particularly when a relationship has become adversarial.⁹ It can be difficult to discuss, or reflect on, changes to *how* a service is run – and the cost attached to each change can act as an incentive against testing new approaches.

Some services are particularly likely to require changes. For example, it has proved difficult to forecast demand accurately for frontline services where the policy or delivery context is unstable. In 2012, the Home Office signed an asylum accommodation contract worth half a billion pounds over five years with G4S, Serco and the Clearsprings Group, predicting there would be around 20,000–25,000 asylum seekers each year. By 2016, the companies were accommodating more than 38,000 people, partly as a result of changes in asylum policy – many in centres where standards were found to be poor and unsafe, causing real hardship to asylum seekers.⁹ The companies had agreed to take on the demand risk but made heavy losses due to the number of people and penalties resulting from poor service quality. Serco has said it lost more than £100m on the contracts, while G4S reportedly lost almost £50m.¹⁰

Conversely, probation demonstrates how an outsourced contract can also fail when government *over*-estimates demand. After services were outsourced in 2015, providers were referred far fewer low-risk offenders than expected – in some cases up to 48% less than MoJ had forecast – partly because district judges did not have confidence in the services being provided.¹¹ This meant many struggled to cover costs, and contributed to deteriorating service quality as companies sought to cut corners and make up losses.¹²

The coronavirus pandemic has made it even more difficult to predict what services the government will want, how and where these should be delivered, and in what volume. Robert Buckland, the secretary of state for justice, framed his decision in June 2020 to bring probation fully in-house (going beyond the previous plan to bring the *management* of offenders in-house) as necessary to gain greater flexibility to manage the impacts of the virus.¹³ The same rationale may apply to other services where it is difficult to design flexibility into contracts.

* This has led to calls for more 'relational' contracting – meaning relationships more focussed on collaboration and shared goals – but so far such approaches have not been widely adopted.

As well as scaling up or down a service, government may need to redesign a service. For example, the Department for Environment, Food and Rural Affairs (Defra) is developing new standards for recycling,¹⁴ which will necessitate changes to outsourced waste collection contracts. These tend to be lengthy (we were told 10 to 15 years is standard) and policy uncertainty can make contracts less viable for private providers, and in the end, more costly for government. One council we spoke to decided to insource waste collection at the end of its contract, in part because they judged that the prospect of service changes made the economics of the contract uncertain and they were therefore unlikely to receive competitive bids.

Rapid changes in technology also make flexibility important. In the 2000s and early 2010s, 'full spectrum' IT and services contracts were popular across government. These were typically very long-term, lasting 10 years or more, included upfront investment from a supplier and covered everything from IT hardware and support to HR and customer services. But bodies often found themselves locked into technology choices which turned out to be poor, and unable to modernise their services in the way they wanted to (without it being hugely expensive). As Iain Patterson, former chief technology officer of the DVLA, put it: "You can't transform what you don't control."¹⁵

Outsourced contracts also lock public bodies into spending a fixed portion of their budgets, sometimes for many years at a time. The loss of flexibility is particularly acute for councils, which unlike central government, must balance their budgets each year and have had their budgets squeezed by austerity.¹⁶ This has forced councils to make savings in individual services and to reconsider and reprioritise how they allocate funds across all their services. Bringing contracts back in-house gives public bodies greater flexibility to do so.

This control means government has the freedom to increase or decrease service provision in response to fluctuating demand, change the service design where a shift in policy direction is warranted, or cut costs when overall budgets are under pressure, without having to negotiate changes to a contract. The more likely a government is to need flexibility to change a service, the more likely bringing a service in-house will be the best option.

Public bodies lack the commercial skills to procure or manage an outsourced contract successfully

Successive reviews have identified the lack of commercial skills as a key reason for government outsourcing failures.^{*17} In a recent report, we found that the Cabinet Office has succeeded in improving capability in central government in the last five years, including by hiring in senior leaders from the private sector and rolling out a tough examination that officials have to pass to become an accredited commercial professional.¹⁸ But there is less capability and capacity in local government, public bodies and the NHS.¹⁹

Interviewees for this report told us that, while some large councils have strong commercial capability, many smaller councils lack the skills and resources to negotiate, design and manage contracts in a way that achieves value for money. Such organisations are less likely to have skilled commercial negotiators or legal experts, which leaves them at a disadvantage when they sit down to agree contracts with large outsourcers. This is particularly the case for complex, long-term contracts where agreeing payment structures and liabilities can require deep expertise.

One council gave the example of a contract it held with Carillion. It agreed to pay the company for the costs it incurred completing work on highways, plus an additional fee. Carillion lacked an incentive to keep costs down and the contract ended up being so costly that the council had to bring it in-house.

A service director from a London council pointed to several long-term contracts across London councils that were losing hundreds of thousands of pounds a year because they had been poorly negotiated. "If you don't have the skills to evaluate or write tenders, you can come unstuck", he said.

While central government can often influence the behaviour of suppliers due to its significance as a buyer,^{**20} many local authorities feel less able to influence the behaviour of large contractors – for whom they are often a relatively small client. One local authority described the difficulty of holding "wily commercial operators" to account.

Several officers also told us their councils seemed to believe contracts would "manage themselves" and refused to devote resources to contract management – although some noted these roles had been cut along with wider staff reductions as part of austerity. Others said their organisations lacked the confidence to demand management information and challenge suppliers when contracts were faltering.

* In 2013, Institute for Government research found patchy capability in procurement, contract management and commissioning; in 2014, a review by the National Audit Office found that contract management was often weak. The civil service itself acknowledged in 2016 that commercial skills in government remained "scarce"; and internal reviews at the time identified that "substantial value and money had been lost [due to] insufficient business acumen and capability".

** For example, the Cabinet Office forced several large IT companies to repay what it considered to be "excessive profits" in the early 2010s.

One NHS trust told us that its failure to enforce a contract meant it only discovered a facilities management contractor misreporting its own performance after several years. Rapid turnover of officials can also mean contractors have better corporate memory and more information about the contract than their government clients.*

Where an organisation lacks the skills and capacity to successfully negotiate and manage contracts, insourcing is likely to be a better option. Running the service itself will bring its own challenges, but the organisation will be less exposed to the potential hazards of the open market. It is likely to be more straightforward, and cheaper, to build delivery capability than commercial capability – and if the service is failing, it will be easier to get a grip of the problems directly than through an adversarial contractual relationship. One council told us that only by bringing a service in-house had they realised it was previously failing because they had “weak client-side capacity”.

The service could be improved and/or savings made by integrating it with another service

Integrating services can improve quality and save money, but can be much harder when these are outsourced. Individual contractors lack an incentive to do work that does not have an immediate impact on their own service – and revenue – and we were told it can be hard to get separate contractors to work together without offering additional payment.

One waste services director explained that when their outsourced waste collection provider missed collections it created a greater workload for the separate street cleaning service provider, who passed on the additional costs to the council. The two services were managed separately, and each provider lacked any incentive to prevent problems for the other service. Bringing both services in-house meant they could be managed as part of one service, and the council also made significant savings by reducing duplicated layers of management.

Several local authority IT departments told us of the benefits of integrating IT with frontline services and treating it as a “core strategic function”, not a back-office service. This allowed them to innovate and find ways of using technology to improve the user experience in other council services – for example, improved online customer services to benefits claimants, or equipping their waste teams with better software to allow them to identify and record issues, such as fly tipping or missed collections, for other teams to see more easily.

Nonetheless, integration and co-operation do not automatically flow from different services being managed by the same entity. Even councils with positive experiences of integrating services told us that ‘information silos’ and competitive relationships can exist between in-house services.

* This is a problem across government – and commercial roles have seen high levels of turnover in central government as well as local government and public bodies. Sasse T and Norris E, *Moving On: The cost of high staff turnover in the civil service*, Institute for Government, 2019, www.instituteforgovernment.org.uk/publications/moving-on-staff-turnover-civil-service

5. How to insource successfully

Identifying the circumstances in which bringing services back in-house could improve them is important – but no guarantee of success. Government bodies also need to design processes and develop the capabilities to ensure insourcing works, and avoids potential pitfalls. In this chapter, we set out 10 principles for insourcing successfully and how to ensure these are adopted.

Develop a rigorous process for making decisions

The Cabinet Office has acknowledged that outsourcing has often not worked because the initial 'make-vs-buy' decision was wrong.¹ In several cases, such as probation, outsourcing a service without proper consideration has resulted in costly and harmful failures.

The *Outsourcing Playbook*,² published in January 2019, sets out a more rigorous process for deciding whether a service should be outsourced. This includes a detailed analysis of the costs and benefits of each option; an independent peer assessment to assess assumptions and timelines; and a presumption that there should be a pilot when a service is being outsourced for the first time.

Insourcing should be no different. Insourcing projects can also often suffer from over-optimistic assumptions about costs and timelines, insufficient capability to take on services and inadequate scrutiny of how they will work in practice.

But interviewees told us that many insourcing decisions are not guided by such analysis. Several councils told us they had not undertaken rigorous make-vs-buy analyses before deciding to bring a service back in-house, or properly assessed their own ability to deliver a service effectively. One industry expert told us they doubted many local authorities had the skills to carry out "should-cost modelling" (a total estimation of the cost of taking on an outsourced service in-house), which the Cabinet Office considers best practice. Another told us insourcing decisions were usually taken on an 'ad hoc basis'.

Rushcliffe Clinical Commissioning Group's (CCG) decision to bring the Nottingham Treatment Centre in-house in 2019 was highlighted as an example. The centre, which is the largest in Europe and conducts 240,000 NHS operations a year, had been run by a private company, Circle, for more than a decade and was judged to be 'good' by the Care Quality Commission.³ However, Rushcliffe CCG insourced it, awarding it to the Nottingham University Hospitals (NUH) NHS Trust, despite the trust being reportedly underprepared for taking on and operating the service.⁴ Circle challenged the decision, arguing that the procurement process was flawed and highlighting NUH's poor performance on other contracts. The contract was awarded to NUH in July 2019 after a lengthy legal battle.^{5,6,7}

We heard mixed views about whether robust make-vs-buy decisions were happening in central government. Several suppliers argued that the insourcing of probation services announced in 2019 – the most high-profile example of central government taking back responsibility for services – had not been properly piloted.⁸ The MoJ argued it had piloted the new model in Wales and undertaken extensive analysis and market engagement, while noting that more guidance may be required on what constitutes a pilot. More widely, officials warned us there is a danger of the make-vs-buy decision being “gamed” to produce the desired result.⁹

The *Outsourcing Playbook* has not so far been applied to local government or the NHS and awareness of it is limited.¹⁰ There is also no equivalent effort to produce standardised guidance beyond central government, although the Local Government Association (LGA) does offer training, including on should-cost modelling, and shares best practice.

In an update to the *Outsourcing Playbook* published in June 2020, the Cabinet Office set out brief advice on considerations government bodies should make before insourcing, including their ability to acquire the expertise and assets needed to deliver the service and potential exposure to risk.¹¹ This is welcome – and aligns with the lessons in this chapter.

But it should go further. Elsewhere in the updated version, the Cabinet Office has provided more practical guidance – for example, on what constitutes a pilot – in response to feedback from suppliers and departments that the principles in the first edition were too high-level and left room for confusion.¹² In the next update, it should do the same to the guidance on insourcing: working with local authorities to provide more detail on processes that should be followed, backed up with examples.

Several local authorities have started to develop more formal processes and guidance already. Hackney council has produced a guidance paper on insourcing decisions, which sets out a make-vs-buy assessment focussing on five areas: local policy and business strategies; performance of the service; quality improvement and value for money; workforce issues; and risks.¹³ Islington council published an insourcing policy and established a formal process by which different committees scrutinise and sign off plans.¹⁴

Interviewees told us that these efforts are important for ensuring decisions are supported by robust analysis. One explained that when a service has been outsourced for a long time, it is easier for an official to re-tender the service with small changes to the service specification, rather than bring it in-house, which may entail a complete redesign and a disruptive transition.

Similarly, several interviewees highlighted that councillors may be strongly in favour of bringing services back in-house based on personal principle, and a formalised process can help ensure any political decisions are also based on practical considerations.

In addition to establishing guidance, government bodies also need to ensure that staff have the resources and capabilities required to follow it. We have found this is a reason why the *Outsourcing Playbook* is not always being followed.¹⁵

This is particularly difficult for councils. Local government budgets were reduced sharply under austerity, with central government funding almost halved between 2010 and 2018.¹⁶ The local government workforce fell from 2.8 million in 2010 to around 2 million this year – and interviewees told us procurement teams had often been among the first hit.*

In this context, investment in rigorous decision making will not happen without political backing. In one local authority, the mayor had committed in their manifesto to review all outsourced contracts.¹⁷ Officers suggested that this made it easier to devote resources to (often time-consuming) comparisons of the benefits of public and private provision – and establish a proactive rather than a reactive policy.

- **In its next update of the *Outsourcing Playbook*, the Cabinet Office should include further practical guidance on whether and how to insource.**
- **The Cabinet Office should work with the LGA and other bodies to develop training and support for best procurement practices in local government and the wider public sector.**

Review the outsourced service

Government bodies should try to understand an outsourced service as much as possible before deciding to bring it back in-house. This is especially important when a service has been outsourced for a long time and the organisation has retained little understanding of how to manage it.

Several interviewees highlighted that commissioners often know relatively little about services once they are outsourced. There is often an 'out of sight, out of mind' attitude – and weak contract management can mean bodies have limited performance data and relatively little idea of what is happening on the ground.¹⁸

One interviewee told us about a cleaning contract which specified that particular areas must be vacuumed but did not include any requirement to repair broken equipment. The council only discovered when they brought the service back in-house that the cleaners had been pushing a broken Hoover around for two hours each morning. Another told us they insourced a housing maintenance contract without understanding the terms the staff were employed under, including contracted hours per week.

Major problems can arise if government insources a service it does not fully understand. For instance, not understanding the business model could lead to

* The Office for National Statistics (ONS) figures includes police, education and health and social care staff, and some of these roles may have been outsourced. ONS, 'Public sector employment, UK: March 2019', www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/bulletins/publicsectoremployment/march2019

making inaccurate cost projections and taking on excessive risk. Not understanding employment terms and conditions can result in insufficient staffing capacity and unplanned costs.

One former finance director said: "Before insourcing, councils need to understand the price, quality, service model, marketplace and costs." This is vital if government bodies are to develop a long-term plan for the service, especially if it has been outsourced for a long time and there is little or no in-house institutional memory about how the service was previously delivered. Many local authorities that outsourced waste collection in the 1980s or 1990s, for example, have few employees with direct experience of running this service.

Organisations will need to talk to incumbent providers to gain this understanding. This can be difficult: often bodies insource a service because it is failing, efforts to improve performance have not worked or the relationship has broken down. Suppliers, in turn, might feel bitter about the contract coming to an end, and have little incentive to co-operate once they know there is no chance of renewal, especially if relations with the body have soured markedly.

But no matter the state of the relationship, the previous supplier is still best placed to provide useful knowledge about the service, including the needs of different service users, patterns of demand or the wider supply chain. It is foolish not to draw on this.

As long as the insourcing process is dealt with fairly, suppliers should co-operate to maintain their reputation in the market and ensure they are considered for future contract opportunities, particularly if they retain other contracts with the public body. One local authority that insourced a road-maintenance contract told us a "smooth transition" was only possible because they maintained a strong relationship with the supplier throughout.

- **Government bodies should conduct a thorough review of how the existing service operates, its budget and its staffing arrangements before considering insourcing.**

Prioritise projects based on finances and staff capacity

A poor-quality or underfunded outsourced service often *should* cost more to deliver in-house, not least because of the necessary increase in staff capacity to oversee the transition and manage the service. This means organisations will need to prioritise services where insourcing could have the most benefit.

One local authority highlighted the importance of prioritising how additional funding should be allocated when finances are constrained. They told us that their outsourced contract for housing repairs had received numerous complaints from residents because it was unreliable and poor quality. Establishing an in-house team required significant investment but – following some resistance to increased spending from executives – it was agreed insourcing was necessary. Councillors at the local authority also wanted to insource the security services in their council offices and put the staff

on better terms and conditions. But doing so would cost several hundred thousand pounds and it was not a priority for local residents; the council decided it could not afford to do it in the short term.

The same point applies to staff capacity. Bringing services back in-house requires a huge amount of work, from analysing costs through to workforce planning and preparation. It is unlikely that small organisations will be able to successfully insource multiple large services at once – nor would it be desirable to try to do so. One council – which had insourced the ‘regular upgrades’ part of its housing repairs contract while leaving open the possibility of bringing the more difficult rapid response services in-house in future – explained it wanted to “walk before it could run”.

- **Government bodies should prioritise insourcing projects based on a pragmatic assessment of their capacity to deliver them and where they will have most benefit.**

Choose the right approach for insourcing

Government bodies also need to choose the right approach for insourcing, from bringing a service fully in-house to establishing a trading company or joint venture. Each has pros and cons. Full insourcing offers the greatest degree of control and scope for integration with other in-house services. But it is likely to involve higher staff costs, particularly as a result of public sector pension schemes, which are typically more generous than private sector ones, unless staff numbers are reduced. Other models offer less direct control but allow government bodies to generate revenue while also continuing to benefit from external expertise.

One council, which set up a local authority trading company to take back responsibility for a failing waste collection contract, told us that full insourcing would have cost an additional £800,000 per year. This was made up of £500,000 in extra pension contributions to put staff on the Local Government Pension Scheme (LGPS) and around £300,000 in overtime as the local authority contracts were for 36 hours work per week, compared with 40 under the previous contract. Councillors had originally planned to fully insource the service, but officials persuaded them they could not afford to.

Many of those we interviewed highlighted the trade-offs involved with moving staff onto the LGPS. Several council officials said it made bringing services fully in-house risky or unaffordable, or would reduce their ability to retain all staff. The LGA acknowledged in 2018 that there is a question over affordability, while the Chartered Institute of Public Finance and Accountability (CIPFA) has said councils face a “perfect storm” of rising pension contribution costs, rising demand for statutory services and cuts to funding.¹⁹

However, other councils we spoke to said they could afford to offer the LGPS by making savings elsewhere. They also highlighted wider benefits: full pay and pension entitlements can aid long-term improvements in staff retention and career progression, leading to better performance – whereas introducing a ‘two-tier system’, with different groups of staff receiving different entitlements, can harm morale.

Councils can also negotiate with workers and unions to work towards offering equivalent pension entitlements that are spread over time to avoid being hit with an upfront cost they cannot manage. There are other longer-term benefits, too. Workers “retiring into poverty” ultimately become a drain on council resources.

There is no one right answer with regard to different approaches to insourcing and pension costs. The best option will depend on the characteristics of the service being considered, a council’s overall financial position and organisational culture, and wider factors including the local labour market. But organisations should include an honest appraisal of the benefits and costs of each approach.

Models such as joint ventures or trading companies can deliver benefits beyond lower pension costs. For instance, Staffordshire council and Amey established Staffordshire Highways, a joint venture, in 2010. Previously, Amey had run the service under an outsourced contract. The council wanted more control of recruitment, design, specification and assessment, and the ability to respond more nimbly to residents’ concerns (for instance about potholes and roadworks), while continuing to benefit from the company’s scale and engineering expertise. One official described it as the balance of work between the supplier and the council moving from 90:10 to 60:40.

Trading companies and joint ventures can also be used to generate additional revenues that can be used to support other areas of work. For instance, Oxford District Services generated £1.8m in profit 2018/19 that Oxford City Council, its parent organisation, was able to invest in other services.²⁰

- **Government bodies should assess the costs and benefits of fully insourcing a service or setting up a wholly or jointly owned company.**

Hire or redeploy experienced managers

Good managers are crucial to successful insourcing. The services being brought back in-house are often large and complex, and the transition can involve significant risk and uncertainty. Those overseeing changes need to earn and maintain the trust and support of politicians, unions and staff.

One local authority, which insourced its waste collection with positive results, explained that it had been heavily reliant on a newly hired manager with long experience of running similar services for private contractors. The manager had a strong understanding of the sector and enabled the council to make key decisions with confidence.

But this is not always easy. Our interviews suggested parts of government, and particularly councils, can struggle to get the right people in place. Local authorities often have to hire in new managers when insourcing because senior staff on the outsourced contract choose not to make the transition. They also tend not to have experienced staff working on other service areas who can be redeployed, especially if historically the council has outsourced lots of functions.

It can also be difficult to recruit people at short notice from the private sector. One council, which created a direct service organisation to conduct housing repairs, told us that senior recruitment was their biggest cause of concern. An unsuccessful recruitment campaign left them short of options and time – and they were ultimately unable to find a suitable candidate and had to appoint a temporary manager on a six-month fixed-term contract.

This is a particular problem for roles where there is a large disparity between public and private sector pay. For instance, an interviewee from the north-west told us they struggled to directly employ strategic urban planners as all expertise sits in the private sector and they did not have the resources to compete.

Government bodies considering insourcing should:

- **assess their management capability and plan senior recruitment early**
- **consider paying more to hire experienced managers .**

Build support among politicians, service users and unions

Insourcing projects can be bumpy. Even with detailed planning and experienced managers, transferring a large or complicated service from one provider to another will always involve many unknowns. Dips in service performance should be expected as new arrangements bed in – and some benefits may only be realised over the longer term. Before insourcing, government bodies should build support for their proposed service change among key groups.

First, politicians' support is essential. One director of IT recalled an example of insourcing IT management and upgrading the infrastructure. Early in the project, an attempt to improve the old system led to the council losing its entire IT services for a day, meaning most staff were unable to work. While this was understandably unpopular with staff and councillors, politicians were bought into the long-term vision for improving the IT system and understood the difficulties of tinkering with a system designed and maintained by someone else. (Several interviewees involved in insourcing IT systems that had been poorly maintained raised similar problems with legacy systems.)

This is especially important for large government insourcing projects. Interviewees involved in bringing the DVLA's IT in-house told us that it took around a year to build the necessary political support. Long before the decision to insource was taken, key DVLA officials put considerable energy into providing encouragement and reassurance to the key politicians and officials in Whitehall, who had major doubts about whether the DVLA had the skills to run its own IT.

Second, support from local residents and service users is also key, particularly if insourcing involves making changes to the scope and nature of the services they use. Often a service is insourced due to complaints from residents, but improvements might be slow to materialise when the service requires investment or redesign.

Moving services online can be particularly disruptive and government should ensure that changes are well explained and backed up with customer support to ensure non-digital users are not penalised. Government bodies should be transparent about changes and why they are being made, and give service users the opportunity to comment via consultations or questionnaires.

Third, government bodies should consider other important groups, such as the relevant union. For councils setting up new local authority trading companies, this relationship is critical. While unions may support insourcing overall, they might oppose a model that does not provide for full pension entitlements. One service director told us they had gained union support for a trading company by making a convincing argument that it was the best way to preserve jobs and adding clauses into the new contract that strengthened engagement between the council and the union.

- **Government bodies should build support with politicians, service users, local residents and unions before considering insourcing.**

Maintain a threat of competition

A key argument for outsourcing is that competitive pressure makes providers reduce costs and raise performance.²¹ Our research showed it does not always work like this: some markets are not competitive, and commissioners often focus too heavily on price when they select bids, which can lead to a reduction in service quality.²² But competition *has* improved efficiency in many areas. In the prison sector, for example, it has contributed to innovation and improved performance in both publicly and privately run prisons.

There is a danger that these competitive benefits will be lost when services are brought back in-house and that, over time, services will become less efficient. Government bodies should take several steps to avoid this.

First, they should monitor cost and quality. Outsourcing provided a compelling reason for defining and measuring performance. But many parts of government previously struggled to assess the cost and quality of services run in-house and have continued to do so when assessing what services should cost.²³ The *Outsourcing Playbook's* recommendation that commissioners produce a 'should-cost model' was aimed to improve this, but, as highlighted above, this is often not carried out, particularly in local government.²⁴ When organisations insource services, they need to ensure the cost and quality of services are subject to ongoing review, such that progress can be assessed over time.

Second, they should benchmark these measurements against other organisations. Benchmarking is a tool for evaluating price and performance against a wider standard, typically market performance. To be effective, organisations need to find comparators that have similar characteristics (such as demographics and local economic factors) and adjust for any differences. Despite some criticism that benchmarking between highly variable areas will always be flawed, broadly there is consensus from various

countries that benchmarking across local and regional governments is a valuable tool in performance management.²⁵ Evidence from various sectors, including utilities, schools and hospitals, supports this view.²⁶ Gary Sturgess, an Australian academic and leading expert on government outsourcing, has argued that benchmarking can be used to replicate the “competitive threat” of outsourcing for services that are delivered in-house.²⁷

But it needs to be done well. Sturgess highlights the UK Ministry of Justice’s 2014 ‘Benchmarking Programme’ for prisons as an example of bad practice.²⁸ The exercise was entirely focussed on reducing costs, mismanaged and rushed, meaning there was little consultation with management, staff or unions to agree an approach.²⁹

Identifying and accessing the right data is crucial. A 2013 study found that inter-local authority benchmarking in England, Scotland and Wales relied heavily on a narrow band of metrics derived from administrative data and statutory performance indicators, which offered little insight into outcomes.³⁰ Interviewees felt there had been little appreciable improvement since; in 2019, the Infrastructure and Projects Authority reported that “sourcing, validating and managing robust and complete data”, needed for benchmarking, was a key challenge.³¹

Several interviewees from local government agreed that benchmarking is currently done poorly, with staff lacking skills or resources. To illustrate this, one procurement director gave an example of an officer trying to benchmark a social care home in London against a comparator in the north-west of England, where staffing costs are very different.

Third, councils should continue to expose insourced services to the wider market. While insourcing may return benefits over the short to medium term, that does not mean that it is guaranteed to be the best solution indefinitely. Managers should continue to test whether insourcing remains the best option – for instance by conducting market testing and retaining relationships with suppliers – and seek to keep up to date with innovations happening elsewhere.

- **Government bodies should monitor the cost and quality of insourced services.**
- **Local authorities should develop standards and training to improve benchmarking.**
- **Government bodies that insource a service should regularly assess whether this remains the best option.**

Plan for transition

The transition to insourcing will always be difficult. Some problems are hard to address before the first day of the new model. But organisations can make it easier by planning effectively. A key problem is that organisations often have limited contact with the workforce that is being moved over in advance. Some interviewees told us that they did not even know who they were getting and what terms and conditions they were on. Suppliers can “game the TUPE (Transfer of Undertakings – Protection of Employment) rules” by adjusting who is on which projects at the point of transfer to ensure they keep their best staff.

Beyond the workforce, there are multiple other areas that need to be planned for before transition. Supply arrangements – such as cleaning products or the maintenance of equipment – are often not handed over. There may be health and safety issues with taking these responsibilities back: for instance, new staff may need to pass a course to handle industrial cleaning products. If the contract requires equipment or vehicles, these will need to be purchased or leased in advance – and lead times are often longer than expected.

This means it is important to prepare as much as possible before beginning the insourcing process, whether that is going to be at the end of a contract or when it is terminated. In most cases, organisations will need to begin planning at least two years before they want to bring the service in-house; for larger, more complex services it is likely to be longer. This is needed to allow time to conduct an informed make-vs-buy assessment, and make adequate preparation should it suggest insourcing.

One local authority, which triggered the six-month break clause on its housing repairs contract with little advance preparation, compared its decision with the UK government triggering Article 50 in the Brexit process: they were forced into making sub-optimal decisions having left themselves scrambling against the clock with reduced bargaining power. In areas such as senior recruitment and workforce planning, limited time and options led to poorer outcomes.

While there may be political pressure to address a failing service, and even when negotiations with suppliers may reach a point of breakdown that makes triggering a break clause attractive, organisations should resist the impulse to begin insourcing when they are unprepared.

They should also try to maintain a strong relationship with the previous supplier, as set out above, to understand the nature of the service and plan effectively for transition. In general, this will be harder if the contract has been terminated rather than allowed to reach its agreed end point.

- **Government bodies should begin planning for transition at least two years before insourcing.**

Pilot major changes before implementing them

Where government departments are considering large-scale and potentially disruptive insourcing projects, particularly of national-scale services, they should pilot changes before implementing them. The newly updated *Outsourcing Playbook* states that it is good practice to consider a pilot when there is a “significant transformation of service delivery (including insourcing)”.³² As the guidance sets out, this can identify potential problems that might be encountered and ensure adaptations are made before the full-scale roll-out.

The decision to bring the whole probation service back in-house from June 2021 is a good example.³³ Currently, 21 community rehabilitation companies oversee hundreds of thousands of cases and employ thousands of staff, operating out of hundreds of sites. They are run by six companies and scores of sub-contractors, with different processes, terms and conditions, and working cultures. The National Probation Service (NPS) is expected to take on responsibility for all of this, across the country, on a single day.

Given the potential for major disruption, MOJ would be wise to pilot changes in probation in one or two areas first (as it failed to do when it outsourced services in 2015). At the very least, it should stagger the transfer of staff and cases from the community rehabilitation companies to the NPS. The same applies to any other large or complex service that is brought back in-house.

- **Where government is considering insourcing large or complex services, it should run a pilot first to identify problems before full roll-out.**

Evaluate whether savings or quality improvements materialise

As Chapter 2 showed, while there are reasons to believe insourcing can produce benefits, the evidence is currently weak. Collecting the data needed to build the evidence base will be vital if government bodies are to know when and how to insource.

We found very few robust studies that compared the cost of services before and after insourcing or assessed whether projected savings had in fact been realised. One council had not evaluated whether savings had been realised and had simply expected that a service would “stand out” if it had not performed as expected. Others explained that once a service is provided in-house it is spread across multiple budget lines, preventing a comparative calculation.

When it came to quality, several organisations had conducted evaluations, but fewer had done so for more complex services. No attempt had been made by government or other bodies to analyse the cost or quality of insourced services systematically.

Limited evidence is understandable, given insourcing has only started to become more popular in the last decade. But it will undermine decision making. Key data should be collected as standard, including the overall cost of services and their key components, their performance on quality and outcome metrics including reliability and resident satisfaction, and other impacts such as benefits to the local economy.

- **Government bodies should evaluate whether insourcing projects achieve projected cost savings and quality improvements.**
- **The Cabinet Office and the LGA should develop a plan for addressing gaps in the evidence on the outcomes and effectiveness of insourcing.**

6. Conclusion

Over the last 40 years, the UK has been at the forefront of an experiment in extending the role of the market in government work. Its approaches have been copied around the world. As we showed in our 2019 *Outsourcing* report, those reforms have delivered substantial benefits: cheaper, more innovative services and improved public sector efficiency chief among them.¹ But there have also been many cases where outsourcing has been done poorly or where the market was not the best option, resulting in costly failures which harmed those reliant on services.²

Four decades on, there is growing interest in bringing services back into government hands. This is true among officials in all parts of government and politicians from both main parties, driven largely by a pragmatic desire to improve services. The coronavirus pandemic may further stoke enthusiasm for greater government intervention. This is welcome. All public bodies should regularly examine whether the services they provide could be better.

There are good reasons for government bodies to think they can run services better themselves. Having found efficiencies by contracting out, many believe they can repeat the trick in reverse by integrating services and reducing management overheads, aided by a more efficient public sector.

By giving them greater control, insourcing can allow them to respond more nimbly to changes in demand, technological advances or feedback from residents and service users. Where service quality has been consistently poor or unreliable, they can take responsibility for improving it themselves.

But just as with contracting out, government bodies must be clear about where they can do things better – and where they cannot. Private and voluntary providers will continue to have many capabilities and areas of expertise that government does not. And there is limited evidence to back up claims about the savings generated from insourcing. Decisions about how services are delivered should be based not on whim, assumption or ideology but on rigorous cost-benefit assessment.

Government bodies must also build the capability to successfully manage services, some of which they will not have been responsible for for a generation. That means taking the time to really understand the service; hiring experienced managers; prioritising projects based on capacity; building support for changes among service users, politicians and unions; and planning carefully for transition.

The ultimate ambition should be that for each service they run, government bodies are able to switch from more use of external providers to more direct control, and vice versa, based on their assessment of the circumstances they face.

Such an approach would hold on to what has worked over the last 40 years while allowing government to run better, cheaper services itself where it can.

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5. Conclusion

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