

Insourcing update:

# The value of returning local authority services in-house in an era of budget constraints

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Report by APSE for UNISON



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## Foreword

The current orthodoxy about service delivery has a misplaced and unjustified belief that the private contractors are cheaper and more efficient than the public sector. The media would have us believe that this is the future and there is no alternative.

But privatisation can risk the pay, pensions, terms and conditions and jobs of the workforce, and in numerous cases it simply doesn't live up to the claims made for it.

Hard-nosed councils of all political persuasions are taking public services back in-house due to the failings of private contractors to deliver. The quality, accountability, flexibility, and hard economics of providing services in-house are some of the key benefits that have persuaded even true-blue Conservative councils to drop private contractors and look to their own staff to serve the public.

This research commissioned for UNISON gives the detailed evidence of major contracts being brought to an end and services coming back in-house, benefitting service users, workers, and council-tax-payers alike.

UNISON activists, politicians, and senior council officers should take note of the lessons from this research and, especially at a time of cuts to public spending, look at the economic and other benefits that taking services back in-house can deliver.

**Dave Prentis**

*General Secretary, UNISON*

## Executive Summary

### Background

Severe budgetary pressure faced by local authorities across the UK is encouraging councils to review their service delivery arrangements. Decisions as to how to respond depend upon both the overall strategic direction of the authority and pragmatic analysis of circumstances on a service-by-service basis. While some authorities are externalising as much as possible, there is evidence that others are bringing a significant number and range of services back in-house in order to gain maximum value from decreasing resources. APSE's 2009 publication examined the phenomenon of 'insourcing' in local government.<sup>1</sup> Evidence suggests that the phenomenon has continued and that insourcing is an increasingly positive option in an era of budget constraints.

### Survey responses

A survey was undertaken among local authority officers and elected members to determine which services are being insourced, why they are being brought back in-house and what outcomes this is delivering.

Out of 140 survey respondents, 57% had either brought a service back in-house, were in the process of insourcing or were considering doing so. The majority of respondents came from environmental disciplines, followed by housing and building maintenance. There was evidence of insourcing across a broad range of other services.

A need to improve efficiency and reduce service costs was the most frequently cited reason for insourcing with almost 60% of respondents saying that this has been a key reason. After cost, 44% of respondents said a need to improve service quality was critical to the decision to insource.

The advantages of insourcing were ranked as; greater flexibility, increased efficiency and

reducing costs and time associated with contract monitoring.

Insourcing was regarded as a means of delivering efficiency savings in the face of mounting budgetary pressure. The scale of savings was related to the scale of the function brought back in-house. Almost 13% of respondents reported that insourcing could deliver efficiency savings of up to £25k per annum, 8% reported savings of up to £250k per annum, and 6% anticipated savings in the region of £500k. A further 5% said that they envisaged savings of up to £1 million per annum.

### Staffing issues

The number of staff involved in transferring services back to in-house provision varied according to the scale of the contract. Half of the respondents to this question said they would restructure management and a further 46 % intended to multi-skill staff to do jobs differently or across boundaries. In most cases employees who had previously been transferred to external contractors were transferred back to the authority.

### Examples and case studies

The research honed in on some 50 examples of insourcing in a range of services areas across the UK. These examples examine reasons cited for insourcing, which centre around cost savings, flexibility, service quality improvements and ability to enhance local accountability.

Case studies in this report provide in-depth examples of the background behind the decision to insource, the outcomes achieved and the lessons learned. Examples from around the UK show where significant cost savings are being achieved as a result of insourcing. Survey findings on quality issues are borne out by case studies, which show that councils that have brought services back in-house are delivering higher quality services. The case studies also make clear the importance of increased flexibility, provided by insourcing, is particularly in the current, difficult financial times.

## The benefits of insourcing

Existing evidence, the quantitative survey, examples of insourcing and case studies have revealed a number of benefits that stem from returning services in-house. These include:

- Improving efficiency and reducing costs
- The ability to integrate a range of services
- Enhanced flexibility
- Minimising risk
- Regaining control
- Reducing cost and time spent managing contracts
- Boosting local engagement and accountability
- Greater staff motivation and improved service quality
- Maintaining expertise and capacity

## Lessons learned

A number of messages emerged clearly as lessons to be considered when insourcing.

Analysis of the research evidence showed that undertaking a thorough 'options appraisal' and taking time to reach decisions and implement them is important at the outset. Early involvement of staff and trades unions is vital to successfully returning services in-house. Bringing services back in-house has been a chance for authorities to redevelop internal expertise and capacity at the end of a contract. It can be linked to new smarter working to eliminate waste and design services efficiently around user needs.

Local accountability and resident engagement has benefited from councils that have insourced by having readily identifiable in-house teams providing highly visible services. Insourcing can therefore have a value in terms of council reputation as well as delivering positive outcomes.

## Conclusions

Our findings from the latest research on insourcing conducted by APSE show:

- The case for insourcing has grown even stronger since APSE's insourcing guide was published in 2009.
- Councils of all sizes, locations and political control are continuing to bring more services back in-house.
- Intense budgetary pressures are acting as a key driver in insourcing.
- Insourcing is viewed as a flexible means of delivering services within the difficult and dynamic context in which local government is operating.
- Environmental services are the most likely to be brought back in-house, followed by housing, but a broad range of services are being insourced nationally.
- Councils are finding that insourcing contributes towards: accountability; flexibility; efficiency; cost effectiveness; service improvement; strategy and synergy; added value; risk minimisation; and workforce morale.
- Staffing issues are a vital consideration when insourcing and lessons learned from case studies show that consultation and communication is a key factor when returning services back in-house.

## Introduction

APSE's publication in January 2009, *Insourcing: A guide to bringing local authority services back in-house*, identified a trend for services that had been outsourced to be returned to direct provision. This discussed reasons for insourcing, identified benefits it could bring and offered practical advice for councils considering returning services in-house. This new *Insourcing Update* publication presents the latest information on local government's return of services in-house within the current context of budgetary pressures and shows examples of insourcing and evidence of benefits it can bring.

Research has found: which authorities are bringing which services back in-house; why insourcing is considered the best option; and the benefits it can bring in these current, difficult times. It has drawn upon survey and case study evidence to explore the argument that in-house delivery can be a positive option at a point when councils face pressure to provide the most efficient, and cost-effective, and flexible services possible in the context of unprecedented reductions in resources. This has uncovered common messages and lessons for authorities considering insourcing services.

This Report on the findings of the research is divided into sections:

- The Context: The first section outlines the context in which further insourcing is taking place.
- The Evidence: The second section presents the findings of the on-line survey and provides examples of insourcing and case studies.
- The Analysis: The third section analyses the key themes that have emerged from research and outlines lessons learned and conclusions reached from examining the evidence.
- Finally, the report identifies a checklist for future action at a local level.

## Insourcing: the context

This section looks at previous policies that have impacted upon service delivery decisions, the current pressures facing local government and ways in which insourcing can be a positive option in an era of budget cuts.

### Previous policies

National policy on local government contracting has been subject to changing political perspectives over the past 30 years.

The Compulsory Competitive Tendering regime introduced by the Conservative Government in the 1980s led to the separation of client and contractor roles in councils and the application of market based principles to service delivery. This was replaced by the Best Value system under Labour, which took account of quality as well as cost. A pluralist approach prevailed for the first decade of the 21st century. Economist DeAnne Julius's review for the department for Business, Enterprise and Regulatory Reform in 2008, found that the 'public services market' was worth £79bn annual (BERR).<sup>2</sup> APSE's insourcing research in 2009 found that decisions to bring services back in-house were taken on a pragmatic basis at local level rather than being driven by ideology, with insourcing taking place in councils across the political spectrum.

### Current pressures on local government

The current financial climate in which local authorities have to operate is well-documented. The position is made worse by front-loading the 28% cuts to local government in year one of a three year financial settlement. The severe pressure of having to make drastic budget cuts is leading to rapid decisions to remodel service delivery options.

Local government is at a crossroads in responding to:

- CSR 2010 budget cuts

- Greater demand for services
- Cuts in personnel
- Need for ever greater efficiency and cost savings
- Need to maintain performance improvements
- The localism agenda

This means authorities need to find the best possible means of achieving service transformation and ongoing efficiencies within extremely challenging circumstances.

The Coalition Government's stated vision upon coming to power was to promote 'Big Society', devolution of power to communities and greater provision of public services by third sector bodies. However the intention of expanding private sector provision of services is now becoming increasingly evident. In December 2010, Cabinet Office minister Francis Maude announced the abolition of the two-tier code, which ensures outsourced public sector staff and new employees work under no less favourable pay and conditions, as discussed below.

<sup>3</sup> Both APSE and UNISON expressed concerns that this meant a return to some of the worst practices of the Compulsory Competitive Tendering regime. <sup>4</sup> At the time of writing, the Government is also reviewing the "Fair Deal" protection for the pensions of staff outsourced from Local Authorities.

The Prime Minister David Cameron's Daily Telegraph article in February 2011 spoke of breaking down 'monolithic' public services. <sup>5</sup> A forthcoming 'Open Public Services White Paper' will set out the government's plans for increased marketisation and competition. Local authorities have called for the pluralist approach to service delivery to be maintained. <sup>6</sup> Publication of the White paper was delayed until after local elections in May, with commentators suggesting this was due to a desire to reduce internal strife within the Coalition Government over this controversial issue. <sup>7</sup> Media reports of leaked governmental memos reveal that the appropriate scale of public service privatisation is now being hotly debated by Coalition ministers. <sup>8</sup>

## Workforce issues and employment protection

Local authorities that outsourced services in the late 1980s and early 1990's faced considerable opposition as legal uncertainties prevailed over the application or otherwise of the Transfer of Undertaking Protection of Employment Regulations (TUPE). Successful legal challenges confirmed that in the vast majority of cases, where public services are transferred to private sector providers, TUPE would apply. However, outsourcing still created serious employment issues. The emergence of the 'two tier workforce' whereby new starters were employed on less favourable terms and conditions of employment than transferred staff, leading to an overall diminution in pay and conditions, led to demands for better employment protection on outsourced public service contracts. In response to these concerns, the Code of Practice on Workforce Matters came into effect in 2003 to further protect transferred staff from the development of a 'two tier' workforce.

Interestingly however, case studies identify that in many cases staff still faced low morale, a lack of training and development and that service delivery and customer satisfaction suffered as a result. This appears to support the ability of the council to play a role as a standard setter in employment terms, with training and workforce development, a critical element of the success factors in delivering high quality public services. In other words, even where the Code of Practice and other elements of employment practice were applied to outsourced contracts, there was still a negative impact on service delivery.

In future, as the Government has announced a review of employment regulations and the Code of Practice on Workforce Matters (as it applies to English local authorities) has been unilateral withdrawn by Government, one might expect to see a more serious impact on employees' pay and pensions, and therefore service delivery in future outsourced contracts. Communities secretary Eric Pickles confirmed in March that the local authority two-tier code, which ensures new employees receive the same terms and conditions as staff



previously transferred to external contractors, was being abolished with immediate effect. Unions and think-tanks have issued warnings that this will impact on the quality of services delivered.<sup>9</sup>

At the time of writing, the Government is consulting on a replacement 'memorandum of understanding' as to how those contracted to deliver public services would be minded to treat employment matters. This may prove to further weaken the case for outsourcing or renewal of external contracts given the potential for poorer outcomes in workforce training and development, morale and service delivery.

### **Insourcing as a positive response to current challenges**

Against this backdrop, councils facing unprecedented financial constraints might be tempted to look for short-term responses, particularly if the message from central government is to encourage privatisation. APSE's publication in 2009 *Insourcing: a guide to bringing local authority services back in-house* found local authorities questioning whether contracting out was automatically the best option however. It provided tangible evidence that those councils that decided to 'insource' were reaping rewards. Limitations and risks involved in externalising services were recognised. In light of current challenges it would appear that returning services in-house is an increasingly positive option for consideration. Indeed, one of the authorities that had decided to focus on a 'commissioning' role rather than directly providing services has put its controversial plans to outsource a raft of services to the private sector on hold<sup>10</sup>. Prominent academic Tony Travers pointed out that the extensive outsourcing of services it had planned would prove so difficult it would take ten years rather than the few months the authority had envisaged.<sup>11</sup>

The limitations of outsourcing have been documented by a number of independent sources. International accounting firm Deloitte has argued that, outsourcing 'often introduces complexity, increased cost, and friction in to the value chain,

requiring more senior management attention and deeper management skills than anticipated'<sup>12</sup>. Its report on local government's experiences of IT outsourcing advised councils to take 'proper ownership' and ensure good governance.<sup>13</sup>

***The value of keeping things simple, avoiding friction in the value chain, conserving management time and ensuring local accountability are therefore key factors to consider when councils are assessing service delivery options.***

In the USA, a study<sup>14</sup> found a fifth of all previously outsourced services were brought back in-house. President Obama's views on keeping USA jobs local as opposed to outsourcing has been much publicised. His administration is looking at insourcing key services since he has said that in many government agencies outsourcing has gone too far and eroded their core capacity to manage contractors effectively.<sup>15</sup>

***The value of maintaining core capacity in public services is also therefore a key factor to consider when councils are assessing service delivery options.***

Insourcing is not always a response to negative experiences with external providers. APSE's previous research found that, in a number of cases, councils regarded insourcing as way of: responding positively to changing policies; joining up services at the neighbourhood level; or helping meet strategic goals, such as tackling climate change. Insourcing also gives councils the ability to shift resources quickly to tackle local needs and emergencies.

***Insourcing can therefore be regarded as a flexible option for local authorities responding to a range of current policy drivers.***

An Audit Commission report '*For better, for worse*' in 2008 highlighted the complexities involved in outsourcing and strategic partnering.<sup>16</sup> It also questioned some of the reported efficiencies arising from outsourcing. Authorities that had entered into large scale long-term strategic partnerships



had found it difficult to negotiate efficiencies required under Gershon efficiency targets, as they were contractually committed with private sector partners who did not want this to impact on their profits.

APSE's 2009 publication *'Insourcing: A guide to bringing local authority services back in-house'* remains the most comprehensive analysis of the insourcing phenomenon in UK local government to date. This set out benefits that the option of returning services in-house can deliver and provides valuable primary data.

The research found decisions to bring services back in-house were taken for pragmatic reasons rather than any ideological stance. It focused analysis on some 50 examples. Reasons cited behind decisions to return services in-house were that it offered: a way of addressing poor performance; a means of being more responsive to changing policy agendas; an opportunity for making efficiency savings and reducing costs; a way of achieving greater service synergy; a means of improving low staff morale, due to poor terms and conditions and short-term contracts that impacted upon service quality; and a need to improve customer satisfaction and local accountability. Dealing with contractors was also found to take up more senior management time than anticipated.

***Insourcing can therefore be viewed as a means of improving efficiency, staff morale and service quality.***

Insourcing can be a means of delivering benefits while minimising risks. Zurich Municipal's report 'Public sector supply chain: risks, myths and opportunities' in June 2009, said local authorities are 'unaware and under prepared' for outsourcing risk.<sup>17</sup> Senior managers and risk assessment officers feel unclear and ill equipped to manage the resulting risks, according to this report. The report warns of the 'potentially catastrophic' implications on local government services as councils dramatically increase reliance on back office outsourcing and frontline partnership working. It sets out potential financial, legal and

reputational ramifications for local authorities of supply chain failure. Examples of risks cited are; supplier cost overrun; data privacy breaches; and mismanaged social care contracts. This is an increasingly important factor given volatile global market conditions and high profile collapses of companies providing public services. The council remains responsible for services regardless of who delivers them and in-house delivery can therefore ensure control and stability in the face of unstable private markets.

***Insourcing can therefore help to minimise risk in the delivery of local government services.***

APSE has been gathering examples of ways in which in-house services are responding to the need to deliver efficiencies and cost savings in response to budget constraints. Its 2011 publication *Avoiding the Road to Nowhere* drew together examples from around the UK showing how in-house delivery can be a means of delivering efficiencies and producing cost savings in local government.<sup>18</sup>

Further objective information on the benefits of bringing services back in-house emerged in May 2011 from the Society of Information Technology Managers (SOCITM), which represents public sector ITC managers. SOCITM's report<sup>19</sup> *Costs of Outsourcing – Uncovering the Real Risks* outlines evidence that outsourcing technology services is usually more expensive than retaining them in-house. It concludes: 'On a like-for-like basis, the outsourced operations are usually more expensive'. It highlights the 'hidden costs' that can be associated with external delivery. The report compares costs between outsourced and in-house services and finds that although the outsourcer will incur similar costs to the client, it will typically charge more as a result of risk premiums and the cost of borrowing in the private sector. Costs associated with tendering and preparation, and a profit margin on the whole sum must also be taken into consideration.

In SOCITM's view, in-house council teams are capable of providing economies and efficiencies. A key point of the report's findings is that local authorities that cannot deliver efficiencies from

in-house services are unlikely to find efficiencies when managing a contract. It also shows there is a danger associated with losing in-house skills.

***In-house services can therefore be a more cost effective option for delivering services.***

Having established the context in which insourcing is taking place, we now present the results of research showing the prevalence of insourcing, the reasons for insourcing and the advantages it can bring.

## Insourcing: the evidence

Having examined the context in which insourcing is taking place, we will now consider the factors influencing insourcing and new examples of services being brought back in-house since APSE's 2009 insourcing research. APSE undertook a review of existing material, a survey among council officers and elected members and interviews with case study authorities to examine: incidences of insourcing; reasons behind decisions to return services in-house; and the outcomes that are being achieved.

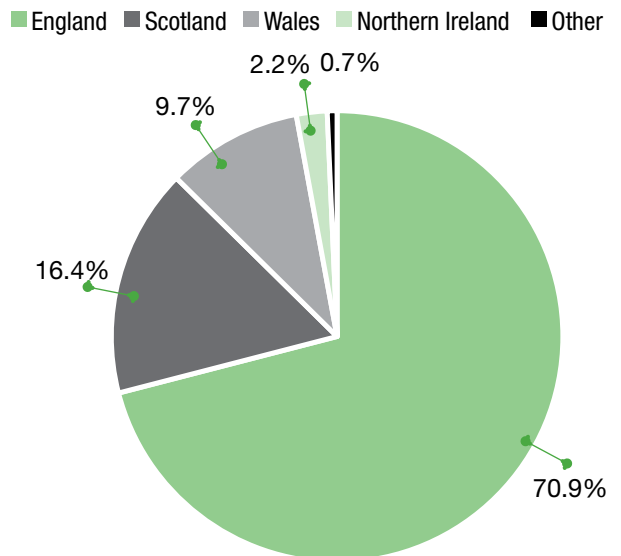
### Summary of survey responses and key findings

#### Respondents and council type

The survey received 140 responses with 65.3% of all respondents coming from a service director or head of service or senior management level. The majority of respondents were from English authorities making up 71% of all respondents with a further 16.9% from Scotland and 8.9% from Wales and 2.4% from Northern Ireland, (see figure 1).

**Figure 1**

#### Is your authority based in



Respondents were from a mixture of authority types with the highest proportion of 22.2% coming from English Unitary authorities and 16.7% from Metropolitan authorities and 15.1% from districts. 13.5% were from Scottish unitary authorities and 5.6% from Welsh County Councils.

### Insourcing by volume and service types

Of all respondents 57.3% had insourced or were in the process of insourcing or considering insourcing a service. 18.4% of respondents stated that they had never outsourced a service whilst 31.1% said that they had a plural approach to service delivery. On a cumulative basis 45.3% of respondents came from environmental disciplines followed by 18.8% from housing and building maintenance disciplines 16.7% from Roads and Highways services. The remainder of respondents were from a variety of different disciplines including leisure, transport and fleet, economic development and policy and planning.

### Councils considering insourcing

While services that have already been brought back in-house or have taken formal decisions to insource are in the public domain, a significant number of other authorities are considering bringing services back in-house. Services that are being considered

for insourcing include; grounds maintenance, transport and fleet, customer contact, and building cleaning. These authorities have requested anonymity due to commercial confidentiality and sensitivity over human resources issues.

### Reasons to insource a service

‘A need to improve efficiency and reduce service costs’ was the most cited reason for insourcing with 58.7% of respondents agreeing that this has been a key reason for insourcing, (see figure 2). A total of 42.9% of respondents also agreed that ‘A need to improve service quality’ was critical to a decision to insource. A total of 33.3% cited that they had taken the opportunity to insource a service when a contract had come to the end of its term, demonstrating that local authorities were taking the opportunity to thoroughly review value for money issues at the point of a contract determination, rather than simply renewing a contract.

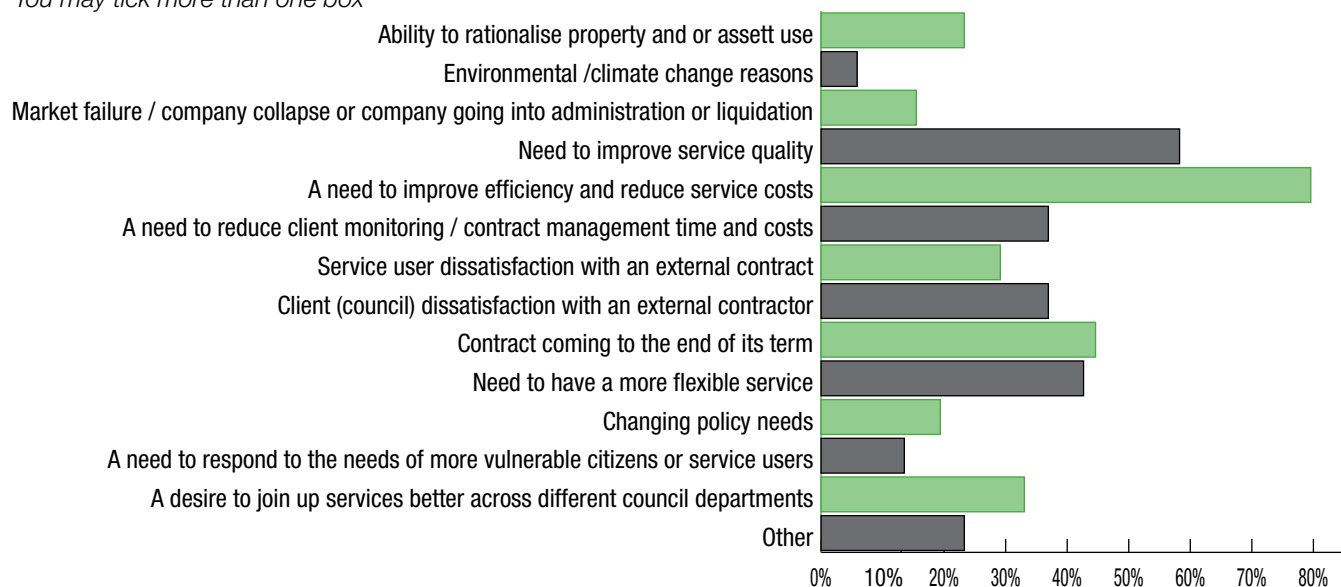
Interestingly the need for a more flexible service was also ranked by 31.7% of respondents and 27% of respondents cited that they wished to reduce ‘client monitoring and contract management time and costs’ through insourcing a service.

User and client dissatisfaction also featured highly, with 27% of councils reporting that dissatisfaction

**Figure 2**

**Please tell us from the list below what were / are the main reasons for insourcing the service(s)?**

*You may tick more than one box*



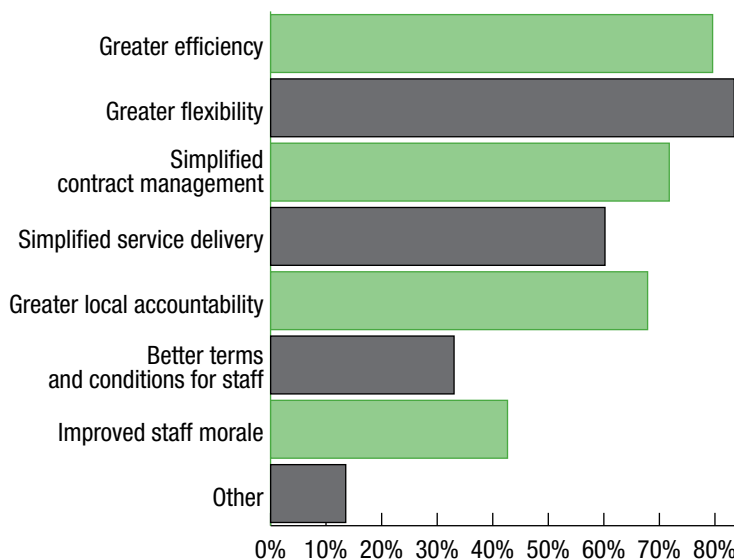
with a contractor was a primary reason for insourcing. The survey found 20.6% of respondents also reported dissatisfaction amongst end service users.

### Advantages of Insourcing

Some of the advantages of insourcing were listed as efficiency, flexibility and reducing costs and time associated with contract monitoring (see figure 3). This latter reason can be a cost and resource intensive activity that can be hidden from original contract cost benefit analysis. A total of 64.2% of respondents cited greater flexibility as being one of the main advantages of insourcing followed by 61.2% who cited greater efficiency from insourcing. In the context of reduced budgets this is noteworthy. The survey found 55.2% of respondents cited simplified contract management with 52.2% claiming greater local accountability as being an advantage of an insourced service.

Whilst workforce issues were listed they were less of a priority than other reasons for insourcing they were significant with 32.8% describing 'improved staff morale' as a positive outcome with 25.4% saying that they had seen improved staff terms and conditions.

**Figure 3**  
**What do you consider to be the main advantages of insourcing?** You may tick more than one box

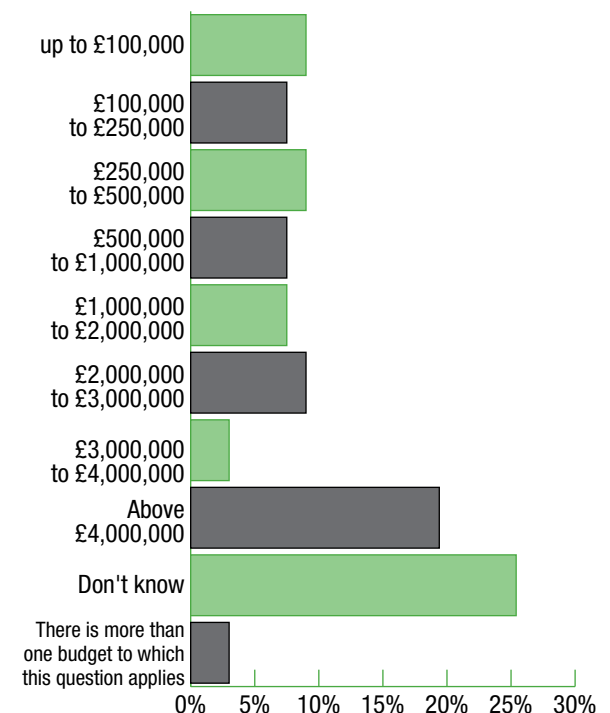


### Insourcing, efficiencies and financial considerations

It was important to establish through the survey whether insourcing was confined to larger or smaller budget areas or spread evenly across services and different budget values (see figure 4). 19.4 % of respondents reported budgets in excess of £4,000,000 with 3.0% reporting budgets between £3,000,000 to £4,000,000 and 9.0% of respondents reported budgets between £2,000,000 and £3,000,000 and 7.5% reporting budgets between £1,000,000 and £2,000,000.

**Figure 4**

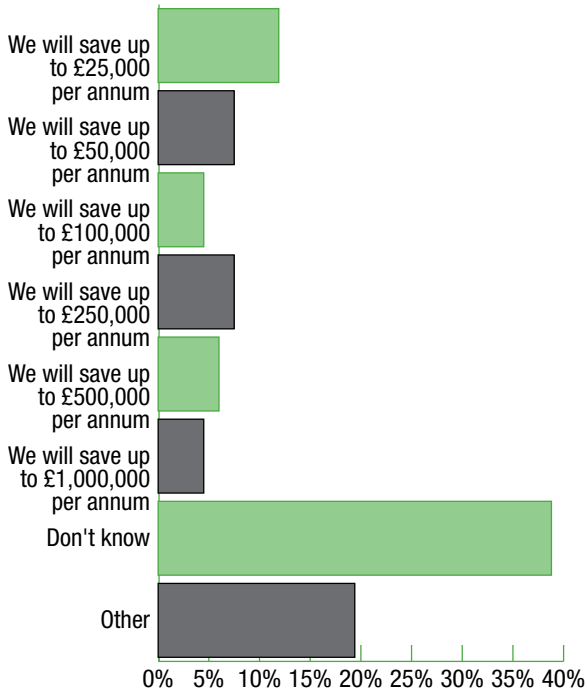
**What is the annual budget for this service?**  
Where you have insourced more than one service please add the budgets together but tell us how much for each of the services in the box provided if known



Respondents were also asked if savings were anticipated from insourcing a service (see figure 5). An overwhelming 57.1% reported that there would be no cost increases and in correlating responses to other replies it is clear that a primary driver to insource a service was the ability to deliver better financial controls alongside service improvement planning and changes to service provision.

**Figure 5**

**Do you anticipate saving money or generating efficiencies through insourcing? If so by how much PER ANNUM. Please tick one answer**



Respondents were asked specifically if they anticipated any per annum efficiency savings and a cumulative 63.4% of respondents said that they did anticipate financial savings from insourcing (see figure 5). 36.5% were unable to quantify a figure but 12.7% reported efficiency savings up to £25,000 per annum, 7.9% reported savings of up to £250,000 per annum, 6.3% anticipated savings in the region of £500,000 whilst a further 4.8% said that they envisaged savings up to £1 million per annum. These figures show that a key consideration for local authorities in bringing a service back in-house is the anticipation of financial savings, through more agile and flexible ways to manage local services.

These are interesting results which tend to support the use of insourcing to develop more cost efficient ways of designing and delivering services. Whilst 36.5% of respondents were unable to quantify budget or efficiency savings but this was due in part to some of the newer examples of insourcing where first year budget outcomes were yet to be finalised or where data had been

distorted by service merger or reorganisation of services post the insourcing taking place. However the cumulative figure of 63.4% of respondents anticipating budget savings supports insourcing as a means to save money.

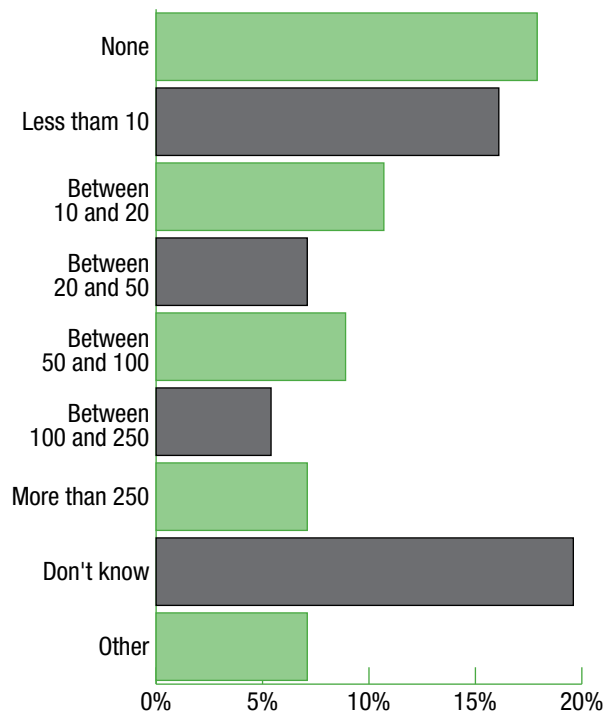
### Employment matters

TUPE applied in most cases of insourcing as would be expected. The volume of staff transferred during insourcing varied significantly with 16.7% of respondents stating that the numbers of people subject to transfer was less than 10 employees (see figure 6). This was particularly the case in small specialist contracts such as IT support services.

Higher numbers of staff were more typical in frontline service delivery with 7.4% of respondents reporting more than 250 staff transferees. On a cumulative basis 44.5% of respondents reported less than 100 staff transferred or would transfer upon insourcing a service.

**Figure 6**

**How many staff will be transferred?**



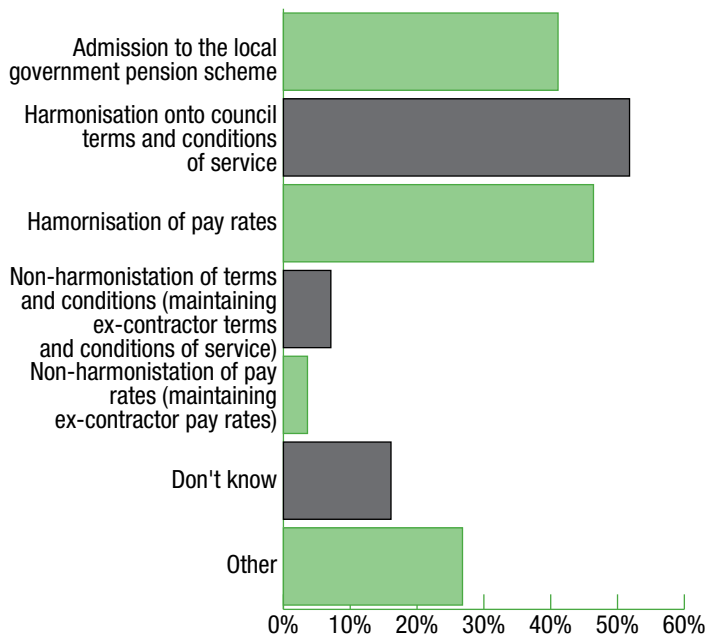
The survey also sought to establish what would happen to staff after their transfer to the local authority (see figure 7). A total of 53.7% reported that the intention or action was to harmonise terms and conditions of service with those of the local authority and 48.1% saying that they would also harmonise the pay rates with those of the local authority. Just 3.7% stated that they would continue to pay the ex-contractor pay rates and 7.4% saying that they intended to maintain the ex-contractor terms and conditions.

A total of 42.6% of respondents had also put in place arrangements to ensure staff would have access to the local government pension scheme (LGPS) but comments reflected that in some cases there was continuity of local government pension arrangements during the outsourced contract arrangements so this figure under-reports the volume of staff that would have access to the LGPS.

These responses perhaps better reflect the changes to the TUPE regulations in 2006, which provide a generally more permissive framework for reasonable variations. It is likely – though not evidenced – that the changes to harmonise to local authority pay, and terms and conditions would be advantageous to employees.

**Figure 7**

**Which of the following matters have or will be considered for transferred staff?**

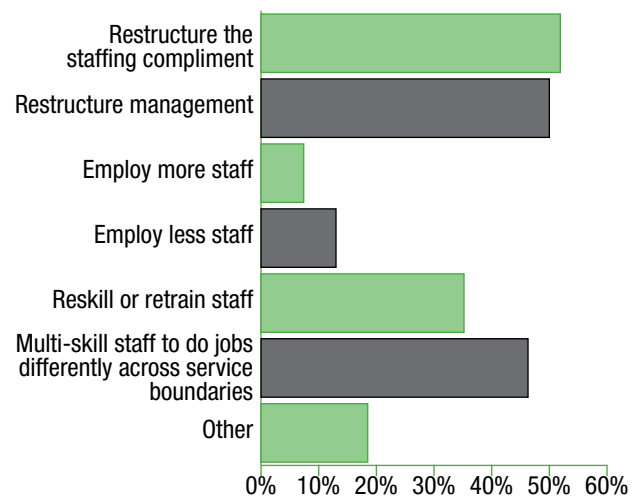


## Post transfer changes and service improvement plans

Respondents were asked about their specific plans for post transfer actions including whether they would restructure the staffing compliment, employ more or less staff, restructure management, retrain and or re-skill staff and multi-skill staff to work differently or across boundaries (see figure 8).

**Figure 8**

**Do you intend, following the transfer of staff and / or the service insourcing, to do any of the following? You may tick more than one answer.**



50% of respondents to this question said that they would restructure management and a further 46.2% intended to multi-skill staff to do jobs differently or across boundaries. Just 7.7% intend to employ more staff and 13.5% will employ less staff.

Overall 51.9% intended to restructure the overall staffing compliment but this is consistent with other responses within the survey that have stated that insourcing would be used as a means to develop service improvement plans, develop efficiency savings and provide more integrated service delivery options. It perhaps also reflects, though not evidenced within the survey, the silo nature of contracts that have been outsourced, particularly some of the earlier examples of outsourced contracts in environmental disciplines. These earlier outsourcing arrangements do not appear to reflect developments at a local authority level with, for example, moves towards holistic neighbourhood service teams rather than delivery of specific services such as street cleansing, grounds maintenance and recycling.

## Examples of Insourcing

Table: further examples of councils bringing services back in-house since APSE'S 2009 insourcing report

Local authority	Service area	Core reasons cited for return in-house
<b>ENVIRONMENTAL SERVICES</b>		
Banbridge District	Recycling	<ul style="list-style-type: none"> <li>– Council has decided to bring the service back in-house in March 2012 at the end of a contract</li> <li>– Council estimates this will deliver £3m savings over three years</li> </ul>
North Tyneside	Recycling collection	<ul style="list-style-type: none"> <li>– Rolling programme of returning services in-house from January to July 2009</li> <li>– New service delivery model</li> <li>– Improved service quality</li> <li>– Greater flexibility</li> </ul>
Lewes District	Kerbside recycling	<ul style="list-style-type: none"> <li>– Council decided that kerbside recycling in Lewes town and surrounding villages should come under direct provision from March 2011</li> <li>– To continually improve the service</li> <li>– To deliver cost savings</li> </ul>
Northumberland	Refuse collection and street cleansing	<ul style="list-style-type: none"> <li>– Services in Berwick returned in-house from contractor in Spring 2011</li> <li>– Fleet renewal, lower carbon emissions and improved customer service</li> <li>– Lower maintenance costs</li> </ul>
Rotherham	Grounds maintenance	<ul style="list-style-type: none"> <li>– Brought back in-house in 2010 at natural end of contract</li> <li>– Enabled the service to be integrated with street cleansing as part of the authority's Streetpride services</li> <li>– Improved performance, flexibility and customer satisfaction</li> </ul>
Thurrock	Waste and recycling	<ul style="list-style-type: none"> <li>– Large range of waste services put out to tender in 2010</li> <li>– Decision to take waste and recycling in-house expected to save £2m</li> </ul>
Wyre Borough	Street cleansing	<ul style="list-style-type: none"> <li>– Returned in-house in April 2012</li> <li>– Significant savings are anticipated</li> <li>– Part of council plan to save £312,000 overall</li> </ul>
Northern Metropolitan Borough	Grounds maintenance	<ul style="list-style-type: none"> <li>– Considering returning grounds maintenance in-house at end of contract</li> <li>– Need for greater flexibility</li> <li>– Responding to changing policy needs</li> </ul>
<b>EDUCATION AND SOCIAL CARE</b>		
Bradford	Education	<ul style="list-style-type: none"> <li>– Returned to local authority delivery in 2011 at contract end</li> <li>– In-house plans to improve educational attainment put in place</li> </ul>
Leeds	Education	<ul style="list-style-type: none"> <li>– Terminated external contract in March 2011 after ten years</li> <li>– Integrated children's social services and education department</li> </ul>



Local authority	Service area	Core reasons cited for return in-house
<b>EDUCATION AND SOCIAL CARE</b>		
Newcastle	Education catering	<ul style="list-style-type: none"> <li>– Service returned in-house in 2007</li> <li>– School came back to council service in January 2011 to cater for 1400 pupils</li> </ul>
Stoke-on-Trent	Education and social care	<ul style="list-style-type: none"> <li>– Returned in-house in 2010</li> <li>– Council taking back control</li> </ul>
<b>ITC</b>		
Broadland	IT	<ul style="list-style-type: none"> <li>– Decision in November 2010 to insource at contract end</li> <li>– Cost and quality of service</li> <li>– Increased flexibility</li> </ul>
Coventry City	IT	<ul style="list-style-type: none"> <li>– Returned in-house at the end of contract in March 2011</li> <li>– To centralise all ICT activity in a new department</li> <li>– To introduce clear, strong and effective governance arrangements</li> <li>– Business case for changes expected to deliver £5m a year savings</li> </ul>
Essex County Council	IT	<ul style="list-style-type: none"> <li>– Decision to return in-house in 2009</li> <li>– To deliver a more effective service at a better price</li> </ul>
Wiltshire	IT	<ul style="list-style-type: none"> <li>– Came in-house in 2009 to meet needs of new unitary authority after merging five councils</li> <li>– Part of a transformation programme</li> <li>– To deliver 27% cost savings in one year</li> </ul>
<b>ECONOMIC DEVELOPMENT</b>		
Bristol City	Economic development	<ul style="list-style-type: none"> <li>– To respond to needs of more vulnerable service users</li> <li>– Desire to join up services more effectively</li> </ul>
Telford & Wrekin	Economic development	<ul style="list-style-type: none"> <li>– Economic growth and tourism promotion back in-house in March 2010</li> <li>– To form a new integrated service One Telford to promote the area as a business location</li> <li>– To enable the council to be in control of the borough's future</li> </ul>
<b>HOUSING AND BUILDING MAINTENANCE</b>		
Basildon	Housing management	<ul style="list-style-type: none"> <li>– Cabinet approved return in-house from ALMO in Spring 2011</li> <li>– Option approved by tenants</li> <li>– Expected to make £1m savings annually</li> <li>– Successful bid for funding to improve properties</li> </ul>
Cotswold District	Housing advisory services	<ul style="list-style-type: none"> <li>– In-house service resumed in 2009</li> <li>– Yielding savings of £70k a year</li> <li>– Greater customer satisfaction and a fall in homelessness</li> <li>– Improved quality of overall service</li> </ul>
Ealing	Housing	<ul style="list-style-type: none"> <li>– Returned in-house from ALMO in April 2011</li> <li>– Expects to save £5m over four years</li> <li>– Tenants supported the move</li> </ul>

Local authority	Service area	Core reasons cited for return in-house
<b>HOUSING AND BUILDING MAINTENANCE</b>		
East Dorset	Housing advice and homelessness agency	<ul style="list-style-type: none"> <li>- Returned in-house in October 2010</li> <li>- Reviewed on grounds of cost and need for improvements</li> <li>- Need to increase capacity for delivery of strategic housing enabling service</li> </ul>
East Riding of Yorkshire	Building maintenance	<ul style="list-style-type: none"> <li>- Solid fuel servicing returned in-house in 2010</li> <li>- Trained up existing employees</li> <li>- Greater flexibility</li> <li>- Residents prefer to see the council's own staff</li> <li>- Cost saving of £120k a year</li> </ul>
Fife	Gas safety in housing	<ul style="list-style-type: none"> <li>- One in-house service across 27,000 properties as of October 2011</li> <li>- Service had previously been split</li> <li>- Estimated minimum of 5% savings over five years</li> </ul>
Hammersmith and Fulham	Housing	<ul style="list-style-type: none"> <li>- Returned in-house from ALMO Spring 2011</li> <li>- Expected to save more than £400K</li> </ul>
Hillingdon	Housing	<ul style="list-style-type: none"> <li>- Returned in-house from ALMO in Spring 2010</li> <li>- Resident consultation favoured this option</li> <li>- Cutting costs of duplication</li> <li>- Continuing service improvement</li> <li>- Expected to save a minimum of £300k a year</li> </ul>
Newham	Housing management	<ul style="list-style-type: none"> <li>- Returned in-house from ALMO in April 2011</li> <li>- Simpler</li> <li>- More efficient and effective</li> <li>- Supported by tenants</li> <li>- Cost savings anticipated</li> </ul>
Perth & Kinross	Premises management (Building cleaning, catering and security)	<ul style="list-style-type: none"> <li>- Came back in-house in early 2011</li> <li>- Part of overall £100k cost reduction measures</li> <li>- Council decided it was more economical to handle itself</li> </ul>
Rotherham	Housing	<ul style="list-style-type: none"> <li>- To be returned in-house from ALMO in 2011</li> <li>- To save the authority £1m a year</li> </ul>
Slough	Housing management	<ul style="list-style-type: none"> <li>- Returned in-house from ALMO in July 2010</li> <li>- Need to improve service quality and deliver greater efficiency</li> <li>- Reduced unnecessary overheads and increased value for money</li> </ul>
Surrey	Building maintenance	<ul style="list-style-type: none"> <li>- Returned in-house in April 2010 at end of contract</li> <li>- Better value for money</li> <li>- Improvements to service</li> </ul>
West Lindsey	Homelessness and housing advice	<ul style="list-style-type: none"> <li>- Returned in-house in 2009</li> <li>- Efficiency savings of £35k a year</li> </ul>

Local authority	Service area	Core reasons cited for return in-house
<b>HOUSING AND BUILDING MAINTENANCE</b>		
Scottish authority	Building services	<ul style="list-style-type: none"> <li>– Core service in-house and considering bringing elements that are currently external in-house when contract ends in late 2011</li> <li>– Need to save money and protect local jobs</li> </ul>
Northern Metropolitan Borough	Building maintenance	<ul style="list-style-type: none"> <li>– Considering bringing service back in-house as contract is coming to the end of its term</li> <li>– A need to improve efficiency and reduce costs</li> <li>– A response to changing policy</li> </ul>
<b>CORPORATE</b>		
Blaenau Gwent	Emergency call centre	<ul style="list-style-type: none"> <li>– Back in-house in May 2011 to reintegrate with CCTV and contact centre</li> <li>– Reconfigured internal staffing arrangements</li> <li>– Local knowledge and understanding provided by in-house staff</li> <li>– Cost efficiencies of £27k a year</li> </ul>
Cumbria	HR and payroll	<ul style="list-style-type: none"> <li>– Back in-house in 2009 having been part of ten year strategic partnership</li> <li>– Moving away from large scale outsourcing model</li> <li>– Opportunity to develop new service delivery model</li> </ul>
Middlesbrough	Accountancy	<ul style="list-style-type: none"> <li>– Returning in-house in June 2011</li> <li>– Considered a key strategic service that should be run by the council</li> </ul>
Middlesbrough	Property services	<ul style="list-style-type: none"> <li>– Returning in-house in June 2011</li> <li>– Service requires reconfiguration</li> </ul>
<b>CORPORATE</b>		
Milton Keynes	Procurement	<ul style="list-style-type: none"> <li>– Brought back in-house in August 2011</li> <li>– Council wanted strategic rather than process focused procurement</li> <li>– Will contribute to a range of departmental savings targets</li> </ul>
	Payroll	<ul style="list-style-type: none"> <li>– Brought back in-house in November 2011 after options appraisal</li> <li>– Improved value for money</li> </ul>
Redcar and Cleveland	Contact centre	<ul style="list-style-type: none"> <li>– Initially insourced in 2007 and subject to ongoing service transformation</li> <li>– Service improvements and cost savings delivered</li> <li>– Enabled new service points in libraries in 2010</li> </ul>
Southern authority	Call centre	<ul style="list-style-type: none"> <li>– Considering returning aspects of contract in-house</li> <li>– In response to reductions in funding</li> </ul>

Local authority	Service area	Core reasons cited for return in-house
<b>REVENUES AND BENEFITS</b>		
Ipswich	Revenues and Benefits	<ul style="list-style-type: none"> <li>– Partnership bringing in staff from two other authorities from April 2011</li> <li>– Greater efficiency and local accountability</li> </ul>
Southwark	Revenues and benefits	<ul style="list-style-type: none"> <li>– Returned in-house in April 2011</li> <li>– Desire for more direct control</li> <li>– To provide a modernised service in a cost effective manner</li> <li>– To improve performance</li> </ul>
<b>MISCELLANEOUS</b>		
Coventry City	City centre management	<ul style="list-style-type: none"> <li>– To be returned in-house at end of contract in 2012</li> <li>– To deliver estimated savings of £0.5m</li> </ul>
Middlesbrough	Front of house leisure services	<ul style="list-style-type: none"> <li>– Returning in-house in June 2011</li> <li>– Some staff were employed by a contractor and some were directly employed and it was considered better to bring them all in-house</li> </ul>
Sefton	Security services	<ul style="list-style-type: none"> <li>– Out of hours monitoring brought in-house 2009</li> <li>– Need to improve quality of service</li> <li>– Reduced costs by using existing staff</li> </ul>
<b>HIGHWAYS AND TRANSPORT</b>		
Ealing	Highways	<ul style="list-style-type: none"> <li>– Back in-house in April 2011 at end of contract</li> <li>– More flexible, resident-focused service</li> <li>– Estimated cost savings of £3.3m a year</li> </ul>
Cumbria	Highways technical	<ul style="list-style-type: none"> <li>– Brought in-house in 2011 when strategic partnership ended</li> <li>– Economic development</li> <li>– Ability to maintain expertise and client-side capacity</li> </ul>
<b>HIGHWAYS AND TRANSPORT</b>		
Cumbria	Highways maintenance	<ul style="list-style-type: none"> <li>– To come back in-house at end of contract in April 2012</li> <li>– Enables greater flexibility and control</li> </ul>
Rotherham	Highways	<ul style="list-style-type: none"> <li>– Contract not renewed when it came to an end in 2011</li> <li>– Allows flexibility in response to budget constraints</li> </ul>
Scottish authority	Transport and fleet	<ul style="list-style-type: none"> <li>– Considering returning transport and fleet in-house as contract is coming to an end</li> <li>– A need to improve efficiency and reduce costs</li> </ul>

## Case Studies

Following on from the quantitative survey and examples of insourcing, our research focused upon a series of in-depth case studies in order to examine the background to decisions to bring services back in-house, the outcomes that have been achieved and the lessons that have been learned from the insourcing process. Case studies were selected in order to provide a geographically representative spread, a reflective timeframe and cover a diverse range of services. Redcar and Cleveland has been included to demonstrate how an insourced service has responded to the transformation agenda and ensured continuous improvement over a number of years.

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## CUMBRIA COUNTY COUNCIL

### Human Resources and Payroll, Accounts, Highways and Economic Development

#### Key points:

- Insourcing is part of a programme to save £1.5m a year at the end of a strategic partnership deal
- Insourcing is part of business process re-engineering to improve services
- Bringing some of the services back in-house will allow more direct control and flexibility

**Quote: “Bringing it back in-house allows greater control and ability to deliver efficiency savings.”**

#### Background

Cumbria County Council was one of the first authorities in the country to enter into a large-scale strategic partnership with an external contractor in 2001. The contract was split into distinct blocks of services delivered by 540 transferred staff: highways technical services, economic development; property; pensions administration; occupational health; human resources; payroll and accounts payable.

With the £20m a year contract due to expire in February 2011, this provided a chance to review the council's service delivery arrangements. The Cabinet considered how services should to be delivered when the contract came to an end and an extensive period of options appraisal took place. After due consideration Cabinet recommended a 'mixed economy' approach – to strengthen the council's client-side capacity across some of the areas, procure and utilise framework contracts and explore shared services opportunities with other public sector bodies.

While the technical aspects of the council's highways services were delivered under the strategic partnership, maintenance work is delivered by a separate contractor under a contract that is due to expire in April 2012. It was decided that an integrated highways service is to be introduced in April 2012 which will further progress

work already undertaken in applying systems thinking methodologies to improve service delivery.

The council examined service configuration and took a conscious decision to go for a mixed delivery approach. Pensions administration is now delivered in partnership with Lancashire County Council. Occupational health is shared with Morecambe Bay Acute Hospital Trust. The other services have, in-effect been insourced and supplemented with some specialist call-off frameworks where appropriate. It was decided that the service delivery approach for future highways maintenance works should be on the basis of doing the core body of work in-house with arrangements with local contractors for specific projects where appropriate.

## Results

When Cumbria County Council first outsourced the extensive range of services under the ten year strategic partnership, hundreds of staff were transferred. Human resources and payroll were the first services formerly delivered by the strategic partnership that were brought back in-house in 2009. This enabled these services to be part of a modernised council structure and new technology to be introduced in order to improve efficiency.

The return of human resources and payroll in-house was followed by the return of 270 staff delivering highways and property services in February 2011. Employees were TUPE transferred and the council is now preparing for the implementation of single status arrangements. The authority has been moving away from the previous style of a large scale outsourced model and taking the opportunity to implement various new service delivery models for the five services.

Alan Ratcliffe, Cumbria's assistant director of organisational development, says: 'The partnership arrangement in 2001 was innovative and produced a number of benefits to the county council at the time. Things have changed a lot in ten years and the authority wanted to have greater control and flexibility to respond to the modernisation agenda. Bringing services back in-house

alongside innovative and flexible service delivery arrangements including working in partnership with other public sector bodies allows greater control over service delivery and the ability to deliver efficiency savings.'

When human resources and payroll were insourced two years ago it was part of a wider service reorganisation process. 'It was a key component in developing our people management service as it allowed us to put all our transaction systems together, which gives us control of the whole process from recruitment through to when people leave.' Replacing core finance, asset management, human resources and payroll systems allowed the council to design services around its core priorities and allocate resources accordingly. It gives greater flexibility.

Options appraisals were based on the delivery of council priorities, improvements to services and the generation of efficiency savings. Actions at the end of the strategic contact will save the council £1.5m a year through the range of measures described. Cumbria County Council has to save £44m this year as a result of cuts in its budget and approximately 600 staff have taken voluntary redundancy. The council is trying to maintain service provision with drastically reduced funds, which means changing business processes.

Mr Ratcliffe says: 'Our priority is to be as efficient and effective as possible. We have taken a business process reengineering approach. Systems thinking management tools have been applied to make services as lean and customer focused as possible. This approach also helps devolve service delivery to a very local level in an authority with geographically dispersed population and means we have more control and flexibility to adapt services to local needs.'

## Lessons

Having had an extensive range of services delivered externally for ten years, it was necessary to strengthen the council's client side. New arrangements have allowed technical expertise to be brought back into the council. This will also

enable it 'spot buy' on framework contracts where appropriate. As a cross-party body, the authority has taken a pragmatic, pluralist approach to how services are provided.

Lessons learned from the experience of managing the transition from the contract are currently being applied to the arrangements being put in place for Cumbria's highways maintenance service in 2012. Cllr Tony Markley, Cumbria County Council's Cabinet member responsible for highways, comments: 'Any contractor will always factor in any unknowns in the area of reactive maintenance – which means the price of the contract can become higher than delivering it yourself.'

'By bringing some of the services back in-house we will have more direct control and flexibility over the work our teams do. They will have a greater sense of pride and ownership in their work and will be able to work more locally than the current arrangements. We have been developing new ways of working, known as Better Highways, which aims to fix things right first time. Bringing the service in-house is the next logical step in this journey.'

**Trade union comment:** Deborah Hamilton Branch Secretary of UNISON Cumbria County Branch said 'What Cumbria's case study shows is that whilst decisions, for whatever reasons, have been made in the past, it does not mean Councils should not review and consider changes to outsourced contracts and branches have a critical role to play in pointing out where there are concerns over contracts. What may have suited Local Councillors ten years, ago in arriving at a decision to outsource, should not tie future or current Local Councillors, into replicating those decisions. A genuine review of what a service needs to look like in the future should be the foremost consideration.'

In respect of Cumbria UNISON our primary concerns was to ensure fairness for our members who were transferred back to the local authority. It was far from a bed of roses! Difficult decisions and negotiations had to take place including what the future workforce would look like. However my advice to branches, looking at changes to the way in which contracts operate or returning a service

inhouse, is to make sure you have appropriate training in place for stewards and branch offices. TUPE Is a complex issue and it certainly helped our branch in negotiations to be armed with all the facts. Equally I would say that if a council makes a decision to outsource a service that is not the end of the matter. We played a critical role in a long term campaign around outsourced services. Branches should not simply think because a service is outsourced it will never be run inhouse again. As we have proven in Cumbria having excellent skilled staff capable of running a service has given the local council genuine options and for us as a branch, whilst it has certainly presented challenges the campaigning work and the training we put into place ensured we were in a good position to support our members.

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## FIFE

### Building Services – Gas Servicing and Repairs

#### Key points:

- Repairs costs per house nearly 7% less than the external contractor.
- In-house was a more flexible option
- Management capacity was maintained which reduced risk to the council in fulfilling a legal duty
- Added value is being provided through enhanced accountability and engagement with tenants

**Quote: "Operating the service in-house has meant it can more fully integrated with other aspects of housing services and avoid duplication."**

#### Background

Fife is a unitary council in the East of Scotland, which serves 360,000 residents. The Building Services department employs 350 staff and is part of the council's asset and facilities management directorate. The department carries out around 150,000 repairs a year and transformation of the repairs and maintenance service has resulted



in continuous improvements across a range of performance indicators over the past decade.

The Gas Safety (Installation and Use) Regulations 1998 mean the council has a statutory duty to service gas appliances in the 27,000 properties it owns on an annual basis. Gas servicing performance is a key area for inspection by the Scottish Housing Regulator.

Gas servicing and repairs work was originally divided between three contractors using six geographically split contracts awarded by open tender. This split was to ensure that there was cover should any one contractor be unable to deliver on their obligations. The work was later split between two contractors, with the in-house Building Services team winning approximately half of the work in open competition.

The overall 2009-10 budget for gas servicing and repairs within the council's housing stock was just under £3.4m. A Review took place in early 2010. Tenants, contractors, Building Services, trades unions and other local authorities were consulted and a report was presented to the Housing and Communities Committee in April 2010.

The Review team found the back-office processes involved in supporting a mix of private and in-house contractors were proving complex and resource intensive. It said that benefits from a single Fife-wide contract included simplified management arrangements and flexibility in delivery. It said this should be a 'customer-focused contract, with specific performance requirements'. The Review concluded that delivering the service in-house was a more flexible option and meant that management capacity was maintained; an important factor as failure to have a gas contractor in place would be a significant risk to the council.

The in-house bid demonstrated that it offered best value in terms of both cost and performance. When in-house costs were benchmarked against other Scottish councils through APSE's performance networks, Fife Building Services' costs were lowest of seven councils providing a similar service. Building Services had also demonstrated a flexible

approach and attended to repairs work in the external contractor's area when that contractor deemed the work to lie outside the contract. Building Services repairs costs per house were nearly 7% less than the external contractor.

The contract covering the whole of Fife was awarded to the authority's Building Services department following submission and acceptance of a formal 'bid' for the new contract.

### Outcomes

The single contract was awarded for a five-year period. Delivering one in-house authority-wide service allowed a more seamless approach and management capacity to be maintained. The service came back in-house in October 2010. This decision was taken in order to deliver greater efficiencies and reduce the overall cost of providing the service.

Following the decision to insource the service, 20 engineers and three administration staff came over to the council who had previously been employed by private contractors. Increased flexibility meant an alternative service delivery model could be implemented with more flexible appointment times for tenants. Trades unions suggested using technology for mobile working from a single depot in their consultation response, a move that is being introduced to increase efficiency.

The target for gas safety is 100% inspections completed within 12 months of the previous check. This is a statutory requirement. The service 'cycle' has therefore been set at ten months to ensure compliance with the annual target. Contract standards include response to breakdowns within four hours, a minimum 80% of repairs to be completed during the first visit. It calls for 90% of parts to be available on the same day and provision of temporary heating for tenants where needed. It requires any complaints to be dealt with within ten working days and a 5% reduction in the number of complaints received year on year. The in-house team is meeting all the targets set.

It is also providing the service in a more cost-effective manner. The new contract means a better

service at rate of £4 pound per property less. The in-house contract bid set a fixed price for servicing and repairs with commitment to make reductions of 5% over the next five years.

The authority expects to make these savings on a year-by-year basis through efficiencies. It will have hand held technology in place by the end of the year as part of that efficiency drive. Management costs have been reduced because extra staff supervision has been taken on in addition to existing management responsibilities. Additional economies are being achieved with the sharing of accommodation, vehicles/fleet, IT, waste disposal and cleaning with existing services.

Added value is being provided through enhanced accountability and engagement with tenants, servicing by appointment, stock holding and flexible working. Other requirements that are being met as a result of in-house delivery include; improved information flows; quality management systems; and a clear set of actions when things go wrong.

While the new in-house contract has not been in operation for a full year, the authority reports that it has already seen improvements in service. The council's contracts manager, Steve Anderson, says, 'motivation among the staff was particularly evident during spells of bad weather at the end of 2010'.

Operating the service in-house has meant it can more fully integrate with other aspects of housing services and avoid duplication. For example housing repairs administration staff are now monitoring CP12 integration. Mr Anderson explains that the Building Services department has a large workforce that we can move around to get the best possible service where needed at a particular time and this flexibility provided by additional in-house staff benefits the department overall.

### Lessons

Staffing issues were the main factor to consider during the move back in-house. The authority has brought the transferred staff onboard with the same terms and conditions as existing employees. While those staff previously employed by an external

contractor were on slightly higher pay, they can gain from the council's other terms and conditions, such as better holidays, employee benefit schemes, sickness pay and pension scheme.

It was difficult for the authority to gain access to the external contractor's staff during the transfer process and this meant a lack of information prior to the actual transfer.

The authority engaged directly with trade unions and this proved very valuable in managing teething troubles. A particular difficulty has been that, while very capable, staff who were transferred over had not received the same level of training as the council's existing workforce. The authority had to ensure staff were trained and qualified to its standards in a short period of time.

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## HILLINGDON

### Housing Management

#### Key points:

- Tenants overwhelmingly agreed to the council taking over running the stock during an independent consultation
- Transferring the service in-house has achieved £300k savings estimated in the first year on governance and the cost of services has reduced by an additional £2.1m
- A 'lean thinking' management mechanism has designed the service around users' needs

**Quote: "We are exploiting the benefits of having services back in our control in conjunction with social care managers."**

#### Background

The London Borough of Hillingdon has 10,300 tenanted and 3,500 leasehold properties. Management of the housing stock was returned in-house in spring 2010, having been run by an Arms Length Management Organisation (ALMO) for seven years.

The ALMO, Hillingdon Homes, was set up in 2003 to manage the council's properties following a

stock options appraisal. The ALMO was awarded two stars for service performance from the housing inspectorate and had high tenant satisfaction levels. A stock investment programme backed by £60m Government funding enabled the Decent Homes standard to be reached in the council homes by 2008. With this programme of property upgrades completed, the council examined the best way of further improving services for residents and also where money could be saved. Hillingdon Council estimated it would save a minimum of £300k a year by taking the service back in-house.

Tenants overwhelmingly agreed to the council taking over running the stock during an independent consultation, which mirrored the consultation process the authority went through when it set up the ALMO. This included a series of events and meetings, interviews with a telephone sample and a postal survey sent to every tenant. The random telephone survey, which was statistically representative of all tenants and leaseholders, managed to contact 1,300 residents of whom 610 were in favour of returning to the council, only 57 were opposed and 582 did not mind either way. From the postal survey, of which there were 1,249 responses, 942 were in favour of returning housing management to the council.

Hillingdon was the first authority in the country to decide to move housing management back in-house. The official transfer took place on 1 October 2010.

## Outcomes

The principal reason for returning the service in-house was cutting costs. 'It costs money to run a separate company,' says Neil Stubbings, Hillingdon's deputy director of adult social care, health and housing. 'We are in a different economic climate nationally to that which prevailed when we set up the ALMO and every organisation is having to reduce expenditure. When you are looking at a separate organisation there is duplication and we felt it wasn't feasible to maintain that external body under financial constraints we were facing.'

Transferring the service back in-house has achieved the £300k savings estimated in the first

year on the cost of governance alone. The cost of services has reduced by an additional £2.1m. As part of the review of the ALMO, its management fee had reduced by £1.3m and the council developed proposals to cut the cost further.

Mr Stubbings says: 'We adopted the typical 'lean thinking' management mechanism. We have taken the service user's needs as the starting point and designed a sensible service based around them. The council was going through its own business improvement delivery programme and expecting that each of our cost centres would come up with proposals that would save in the region of 20%, through better commissioning of services taking lean thinking approaches and designing waste out of the system. So this move fits the council's wider, strategic approach.'

The authority immediately moved the repairs centre into the council contact centre. Every other section in Hillingdon is going through a process of looking at front end contact and moving that into the council's contact centre where possible. This delivers greater efficiencies and economies of scale.

The authority received no complaints that the service had been affected in any way as a result of transferring back, which was a good starting point. The in-house stock management service is in the top quartile for a range of performance measures to date. Data is being collated to examine performance in the first year. The authority is undertaking a review of customer consultation and involvement.

Bringing housing in-house has delivered added value because it has enabled a more holistic approach across the borough by integrating it with other services. Housing management now sits within the social care, health and housing directorate, which covers environmental health, homelessness and housing benefit, meaning they all work very closely together.

'We are exploiting the benefits of having services back in our control in conjunction with social care managers,' says Mr Stubbings. The authority has made significant savings as a result of moving older

and mentally ill people and those with learning difficulties from expensive residential social care facilities and into supported housing. This has the benefit of increasing their independence as well as cutting costs.

The council's telecare service has now been extended so it is available free for everyone in the borough aged over 85, which keeps people safe and supported in their own homes and, again, reduces care costs. 'The business case is compelling and it also has a therapeutic benefit,' according to Mr Stubbings. Savings on support service costs will be used to enhance services. The council is now working to make more efficiencies and improve linkages to other council services.

### Lessons

There were no major problems with the transfer process. Good interaction between the ALMO's board and the authority's senior management made it a smooth transfer. A total of 345 staff were transferred from the ALMO. Almost 70% of people who came over to the council had previously transferred to the ALMO. Staff who moved over from Hillingdon Homes Ltd under TUPE required only minor changes to their terms and conditions to be brought in line with council staff.

The service was returned in-house in response to changes in the policy and funding context in which it operated. Government funding for stock upgrades is no longer available to ALMOs and the housing finance system is being reformed nationally to give authorities who own and manage their stock greater freedoms and local control over business planning. This means the rationale for establishing an ALMO no longer prevails. While Hillingdon Homes did a good job of managing the council's tenancies, the council had to look at how it could continue to provide good quality, efficient services for residents. The impact of the recession and severely restricted budgets means it cannot justify running a separate company to manage housing when it could do it in-house.

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## ISLINGTON

### Building Cleaning

#### Key points:

- The council offered cleaning staff a contract and a guaranteed London Living Wage and local authority terms and conditions as part of its commitment to making the borough a fairer place
- Bringing the service back in-house saves money and leads to an improved service
- Estimated savings for 2011-12 are in excess of £100k
- The recent London Living Wage increase will be immediately paid to all relevant staff

**Quote: "It costs money to manage an external contract. Both sides will have a contract manager, and the council ends up paying for both. One advantage of bringing it back in-house is that the Council can save both of these costs."**

#### Background

Until 2009, staff who were cleaning more than 100 Islington Council buildings were either employed by a contractor or provided by agencies on a temporary basis. The 'temps' did not have contracts with terms and conditions or the right to sick pay. In September 2010, Islington Council's Executive took the decision to bring the service in-house rather than renew the existing contract. This meant the council offered cleaning staff a contract with the council and a guaranteed London Living Wage and local authority terms and conditions. Cleaning of the town hall, sheltered housing, early year's centres and council offices across the borough is now managed in-house.

Bringing the cleaning staff back in-house on a decent wage is part of the authority's overall theme of making the borough a fairer place. The Islington Fairness Commission was set up to improve quality of life in the borough by making it a fairer place for all who live and work in it. Professor Richard Wilkinson, author of *The Spirit Level*, which provides evidence that more equal societies deliver better outcomes across almost all indicators, was appointed to chair the Commission.

Despite the pockets of affluence for which it is known, Islington is the eighth most deprived local authority in England, with 18,000 children living in poverty and 73% of these children living in lone parent households. One in seven children is in a low income working household. As well as the cost of the burden of health and social problems, which local services have to cope with, widening income differences nationally have resulted in a weakening of community life, according to the Commission. The Commission reported: 'The council can pay its own staff at least the London Living Wage and provide leadership to local employers in both the public and private sectors to do the same. Amongst its own staff, pay differentials between the lowest and highest paid should not exceed 1:12.'

The authority also drew upon academic research by London University, which showed the benefits of paying a decent wage. When the authority examined costings, it found that by eliminating the doubled up contract management costs, and streamlining the management, it would be able to pay the staff a better wage, improve the service, and generate efficiency savings.

The potential for reduced costs and improved services means the council now considers the in-house option when external contracts come up for renewal.

## Outcomes

Cleaning staff were brought in-house in November 2010 at or above the London Living Wage of £7.85 per hour and the council is undertaking a process of harmonising in-house and agency rates. While the desire to put staff on fairer terms was the key driver in the decision, insourcing is also helping deliver a more efficient service. Andy Nutter, the council's director of financial governance and transformation, says: 'The evidence shows that where the workforce is paid a decent wage, their contributions valued, and their views are taken into consideration, motivation improves and there is a resultant increase in productivity'.

The council managed to increase the employees' wage rate while making a small saving on the previous cost by using its own managers to

run the service. 'It costs money to manage an external contract. The advantage of bringing it back in-house is that you can save a lot of wasted time being a client in terms of monitoring and performance indicators and the contract management regime. We will save more money in the future years, never mind the deeper benefits. There is both a hard and a soft saving' he says.

He believes service quality has improved because a contractor focuses on meeting the specific Performance Indicators regardless of the overall impact upon the quality of service. The benefit of an in-house workforce is that there is stability and staff know our buildings. They are committed to the organisation,' comments Mr Nutter.

'The council's duty to provide value for money is even more important at a time when public finances are being cut. Removing the bureaucratic costs of contract management and monitoring through in-sourcing is one of the options which we consider when contracts come up for renewal. Good public services depend on front-line staff who are well motivated and the fact that we have saved money on this service while paying our cleaners a living wage shows that in-sourcing can save money for local taxpayers as well as being fairer to staff' says Councillor Richard Greening, executive member for finance and Islington's deputy leader. He says: 'We pay the London Living Wage to all Islington Council employees. In return, we as a council get a better-motivated workforce, increased productivity and commitment.'

The council continues to honour its commitment to the low paid and is now in the process of increasing the wages of low paid staff to ensure they all now receive at least the new uplifted London Living Wage.

The council has rolled out 'smart working' across its workforce. Bringing the staff in-house has enabled efficiencies through reconfiguring the service to meet the new working arrangements. The council has managed to reduce the number of cleaners through natural wastage without any redundancies.

As a result of bringing the service in-house, the council is planning to offer the service externally in



due course once new arrangements have bedded in. It is also examining how to set up a pool of local workers who are prepared to work when needed at short notice and at times they have specified they will be available. This is a new way of providing work for individuals – especially women – who are often excluded from the job market due to childcare or other commitments at certain times of the day. There are now simple IT platforms which enables this to happen.

Islington Council faces £100m of cuts in the next four years – a third of its net total budget. ‘Having in-house staff has enabled us to respond flexibly and sustain an important front line service. We have a good relationship with the trade unions. If we are moving people around that is OK so far,’ says head of facilities, John Roberts.

### Lessons

The cleaners in Islington are working harder since they came back in-house. Since returning in-house, the council is looking to create career development opportunities for some cleaning staff. Mr Roberts, who manages 35 building contracts, says the council pays people to do various checks and functions and he is trying to create a few hybrid ‘cleaner plus’ job: ‘Career development helps build enthusiasm as well as saving on the cost of these functions and builds motivation.’

There were detailed discussions with elected members and trade unions prior to insourcing. It had to be done for at least the same price as the private sector. The council inherited staff in a rush and is being very careful to take things steadily. Over half of the 150 staff were agency staff. The contractor was using agency staff at a lower rate and making a larger profit. The 70 staff were TUPE transferred into Islington on the same or superior conditions. The agency workers were on worse terms and conditions previously. The council has transferred 19 of them into direct employment. There were problems with inherited terms and conditions, such as people doing 50 or 60 hours a week, to iron out. The authority has taken a gradual approach to things in order to get all the cleaners working a 35 hour week at a reasonable wage with access to the pension fund. The council and unions

are working to standardise terms and conditions. The anomaly of different contractual arrangements with individuals has to be brought into line.

Paying staff a decent wage can save the public sector overall on cost of benefits in the long-term and is better for the local economy. ‘At a time of economic difficulty, it is even more important that councils reject the false economy of poverty pay. Our fair wage is helping lift local families out of poverty and the benefit is then multiplied throughout our communities,’ Mr Nutter comments.

### Jane Doolan, Branch Secretary at UNISON’s Islington Local Government branch says:

‘Building cleaning is a service that tends to be staffed by low paid, part time women workers. The previous arrangements we had in Islington meant that the services was dominated by either agency or temporary workers. Employment was a secondary consideration to a price driven culture and we wanted to change that. The insourcing of the building cleaning service, to us as a local government branch, proves that councils can make a real difference in pulling local economic levers. It is possible to respect employment rights and pay a decent living wage to cleaning staff and have a cost effective and high quality service. It is a matter of local leadership to say that poverty pay should not be tolerated in the delivery of valuable public services and I am proud of the work that UNISON put into campaigning on this issue’.

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## NORTH TYNESIDE

### Recycling

#### Key points

- There has been an 18% increase in resident satisfaction, which is now up to 92%
- Recycling levels are up from 28% to 38% since recycling has been insourced
- Using an in-house team helps improve public perception of such a visible service

**Quote: “As well as improving the quality of the service, bringing it in-house means there is greater flexibility in responding to changes that are required as a result of policy or service users’ needs”**

## Background

North Tyneside is a unitary authority in the North East of England. The authority is responsible for refuse collection from 90,000 households.

Collection of materials for recycling was delivered by an external contractor, which also provided the service to neighbouring authorities. Issues around quality of service arose however and one neighbouring authority in particular had received a high number of complaints from members of the public. As a result of problems with reliability and littering, elected members in North Tyneside wanted to introduce new arrangements that reflected a more positive image of the council.

When the initial contract expired in 2008, the authority decided to seek a replacement service while extending the existing contract for two years to allow time to redesign, procure and implement the new service. The authority decided change the type of recycling containers used and move from black boxes to a 240 litre wheeled bin system to collect mixed recyclables with an 'in-bin' caddy for glass. Having assessed a range of options, it made the decision to insource at the same time as changing the type of container used. Bringing recycling in-house meant the service could be integrated with refuse collection, which was delivered by the council's own Clean Neighbourhoods team.

## Outcomes

The insourcing of North Tyneside's kerbside collection of recyclable material was rolled out between January and June 2009 and was completed on budget and ahead of schedule.

The authority now provides directly delivered integrated weekly refuse collection and fortnightly recycling. New wheeled bins enable a greater volume of materials to be recycled and reduced littering. A much broader range of materials is now collected for recycling including; paper, card cardboard, tins, cans, glass, plastic bottles, aerosols, batteries and textiles. Carrying out recycling alongside collection of residual waste in wheeled bins as part of the same operation

increases efficiency. Advanced vehicle location devices are being installed, which will collect data and help optimise the efficiency of routes.

'As well as improving the quality of the service, bringing it in-house means there is greater flexibility in responding to changes that are required as a result of policy or service users' needs,' says Catherine Lyons, the council's senior waste and performance manager, who has overseen the transition. Using an in-house team to introduce the new system enabled professionals from a number of departments across the council, including communications, to be involved in the implementation and ensure service user engagement was maximised.

A total of 22 employees who worked for the contractor were transferred to North Tyneside's Clean Neighbourhoods team under TUPE regulations and are now part of the integrated service, which has 100 staff overall. An officer who transferred in-house is now supervising all of the service, enabling greater flexibility and integration of waste and recycling collection.

There have been significant improvements in the service since it came under North Tyneside Council's direct control. There has been an 18% increase in resident satisfaction, which is now up to 92%. Recycling levels are up from 28% to 38% in time since recycling has been insourced. The authority was also awarded five stars in the Clean Britain Environmental Awards and the recycling scheme contributed to that accolade by reducing the amount of litter on the streets. Reducing littering has reduced resource requirements for maintaining the street environment. Public participation in recycling has increased from 50% to 94%. The amount of recyclable material collected has doubled to 1,400 tonnes each month.

While initial capital outlay was required, the authority expects to break even while delivering a higher level of service quality and performance. It has invested £0.5m in the new bins, but collecting greater volumes of recyclable material means the cost per tonne collected is reduced. There are also savings on diverting materials from refuse disposal,



which is particularly important as the cost of landfill tax is £56 per tonne in 2011-12 and set to increase year on year.

Using an in-house team helps improve public perception of such a visible service and respond to user demands and address the authority's environmental priorities. 'In terms of our carbon footprint the more materials we recycle, the greater the reduction carbon footprint,' says Ms Lyons. A knowledge transfer programme in partnership with Newcastle University has calculated that the carbon footprint from North Tyneside's waste disposal operations has reduced from 5000 tonnes of CO2 to 1700 since recycling came in-house and this is expected to reduce to 500 tonnes.

### Lessons

Bringing the service back in-house was a relatively smooth transition because the council allowed a long overlap period at the end of the initial external contract, during which to implement new arrangements. The authority also undertook a large amount of consultation with both service users and staff.

There was a meeting with the staff who were transferring as a group initially and then council managers and human resources advisors met with each crew and explained what TUPE meant to them. Staff all opted to change to the council's terms and conditions. They were all trained to make sure they complied with the authority's requirements, which included customer care training. The wheeled bins are easier for operatives to handle than the black boxes, which has health and safety benefits. The council offers sick pay, which they did not receive previously.

A comprehensive communications campaign was key to success in bringing the service in-house. This was both internal and external – involving members of staff and the public to ensure everybody understood the changes that were taking place. A resident consultation exercise was carried out prior to procurement to inform the design of the service according to users' views. A series of 30 roadshows, area forums, press coverage and weekly update leaflets ensured regular information

was provided to the public and that feedback was taken on board in implementing the changes. This has helped deliver the high uptake and satisfaction levels with the insourced recycling service.

Trade union comment: Dave Miller, Branch Secretary at North Tyneside UNISON says: 'How we collect and deal with recycling is a highly visible frontline public service. As a service it says a lot about how a council values its own local environment, about how it wants to regard and tackle climate change issues and of course how much they respect their local residents and local employees. The return of the recycling collection services as an in-house service has provided employees with a genuine sense of contributing something that is very positive to the residents of North Tyneside. The fact that the service is now better in its performance, is more flexible and responsive and provides good quality local employment shows that insourcing works.'

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## REDCAR AND CLEVELAND

### Customer Contact Centre

#### Key points:

- The transformation of customer services in Redcar and Cleveland resulted in a 22% improvement in resolution of problems within 24 hours at ward level
- The service has achieved 95% customer satisfaction rating for quality of call handling
- The authority expects to see £500k savings in a three-year period

**Quote: "We wouldn't have had the flexibility to achieve this within twelve months if we'd had a contract with an external body."**

#### Background

Redcar and Cleveland Borough Council is a unitary authority in the North East of England serving a population of 140,000 residents. The customer services division sits within the authority's area management directorate. The council's contact centre was originally set up as part of a strategic partnership arrangement with an external

contractor, which did not live up to ambitions for the service. Nearly one in five customer calls were abandoned and only one in two calls were answered within 20 seconds. This had severely dented the authority's reputation among residents and staff morale was extremely low.

The strategic partnership was therefore dissolved in 2006. The council had been through a difficult experience with the strategic partnership and was wary of embarking upon a large deal with an external partner again, making in-house delivery a more attractive option. When the service was brought in-house, it became clear that radical service overhaul was required to achieve necessary improvements in customer service. Performance has been continuously improved since the return in-house. Customer contact has undergone radical transformation and a new in-house business improvement programme introduced 2009 is taking this forward further. The council launched new customer service points in 2010, which were merged with libraries.

## Outcomes

The transformation of customer services in Redcar and Cleveland resulted in a 22% improvement in resolution of problems within 24 hours at ward level. The service has achieved a 95% customer satisfaction rating for quality of call handling. It has been held up as a best practice model in stopping avoidable contact by the North East Regional Improvement and Efficiency Partnership and 90% of customers confirmed that their enquiries were resolved at the first point of contact.

Investment in a robust customer relationship management system has improved quality of service in handling 500,000 contacts per annum. Customer service representatives deal with issues relating to council tax, business rates and benefits and a range of other services from the contact centre, which is open from 8am until 8pm on Monday to Friday and from 9am until 4pm on Saturdays.

The service has demonstrated year on year performance improvement through use of new technology, alongside the introduction of a career graded staffing structure and real time performance management system. Within the first year of

insourcing, the in-house team generated £200k savings. This was linked to the ability to monitor when calls were coming and what type of contact was required and ensure appropriate skills were in place. Productivity rates increased from 40 to 70% as a result of aligning staffing to meet business demands.

In addition to upgrading technology, introducing mobile working for green and clean staff and real time performance management, the authority's focus on staff development has boosted morale, which has enhanced service delivery. Sickness absence levels have dropped from 20 days per full time employee down to eight.

A career-graded approach was applied to the service when it was returned in-house and team leader skills were enhanced. Competency assessment and training, including frontline manager development, took place to identify and fill skills gaps. An innovative council-wide Customer Excellence programme has embedded citizen excellence behaviours across the workforce. A total of 2000 employees have been trained in Customer Excellence. Innovative training techniques involving actors playing out scenarios to highlight customer interaction pitfalls and identify expected behaviour have proved particularly effective.

Merging libraries and customer service points together in 2010 has generated added value for the authority. Staff were involved in designing what the new structure would look like. 'We wouldn't have had the flexibility to achieve this within twelve months if we'd had a contract with an external body. Being in-house means we always have good business continuity in place. We are not shy of trying new ideas because we always have a contingency plan to fall back on. During bad weather last winter staff came in and opened the contact centre until midnight – I don't think you would have got that based on a contractual arrangement without it being hugely expensive.'

Looking to the future, the authority expects to see £500k savings in a three-year period.

## Lessons

There were fundamental flaws in terms of the contract and monitoring outputs before the service

was returned in-house. Targets had focused on infrastructure rather than quality of the interaction and the customer experience. Slippages in performance were not effectively controlled through governance and were very damaging to the reputation of the council. This highlighted a need for more robust governance, which in-house provision made possible. Effective performance monitoring has been developed through in-sourcing the contact centre.

There was a need to overcome a fractured culture in 2007 when the strategic partnership came to an end, as staff that had been transferred didn't feel they belonged to the council initially. When the staff first transferred, there was inequity within the workplace with up to £5k a year salary differences for people doing the same job. 'The task in hand was huge,' according to Cath Adams, customer service manager at Redcar and Cleveland Council. She says: 'The transformation did not just require a restructure and harmonising terms and conditions, there were cultural factors to consider.'

Before the service was returned in-house shift pattern arrangements failed to meet customer demands and the telephony and CRM system were not fit for purpose. Staff working patterns have been changed following consultation with employees and their trade unions. Whereas previously staff had been employed on different terms and conditions, a local Memorandum of Understanding was drawn up to introduce the same terms and conditions for all. This laid out expectations and shift patterns and ensured the flexibility from staff that was required to improve the service.

An added challenge in bringing the service back in-house was that when the strategic partner moved on they moved their specialist skills with them. Skills analysis revealed major gaps in skills and tailored training was provided. A key lesson from the process was the importance of maintaining skills and capacity.

'We needed an adaptable and flexible workforce to meet the demands of our residents. Keeping the service in-house has maintained capacity and

skills. It has allowed waste to be minimised and resources to be optimised.'

Mrs Adams adds: 'Workforce development is essential for top class results and developing an embedded approach to customer excellence.'

No staff have been made redundant during service transformation. The transformation has been an ongoing process, which has been linked very closely with the in-house business transformation team, whose skills in process mapping meant customers were placed at the heart of that process.

The council consulted with unions right from the start of the restructuring process and regular communications was key to success.

'A lot of good ideas came from the Improving Customer Access Group and small ideas enabled big changes to be made,' Ms Adams says. 'Staff live locally and understand our business and have that insight and knowledge. There is recognition by the public now that we are Redcar and Cleveland.'

Trade union comment: Branch secretary Eve Cole said "Prior to the insourcing arrangements we felt as a branch that the public and our members were getting a raw deal. Everyone gets frustrated if calls go unanswered and often their frustrations can be taken out on members of staff. The new arrangements are working well with better training, facilities and new systems. As a branch we want to continue to make the service better and provide a secure future for local jobs. We think our members deserve that and we will continue our campaign for in-house services".

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## ROTHERHAM

### Grounds Maintenance

#### Key points:

- Insourcing was regarded as a way of improving services
- Insourcing has enabled integrated service to be structured so there are teams in zones around the borough who can respond quickly to problems

- Bringing the service in-house has allowed greater flexibility

**Quote: “We have taken a substantial hit in the budget this year...and in-house delivery makes it easier to manage than if we had a contracted service.”**

## Background

Rotherham Metropolitan Borough Council is a unitary authority in South Yorkshire. Streetpride is part of the council's environment and development services directorate. It has a net budget of £25m and covers a range of services including street cleansing, highways network management and basic highways maintenance, grounds maintenance (including trees and woodlands), refuse collection and disposal leisure management and car parking. It has won a series of APSE performance awards for street cleansing, highways, lighting and winter maintenance and has national Beacon status for maintaining a high quality environment.

The authority's grounds maintenance services were previously delivered by an external contractor for a budget of approximately £3m a year. While services provided externally were generally adequate, the council received public complaints that the service was not responsive enough and the authority itself experienced a lack of flexibility in delivery. When the contract came to its natural end, the council reviewed options. Having gone through a challenge process, it was decided to bring the service in-house and integrate it with street cleansing. The service, which covers highways verges, public open spaces, parks, green spaces and work for parish councils and local schools, was in-sourced in January 2010 and became part of Streetpride's Community Delivery service.

## Results

The authority has found several advantages in bringing the service back in-house.

A key reason for in-sourcing was because the external contract was rigid and the council believed this would give increased control and flexibility. For example, the contract specified a fixed frequency of grass cutting, which meant that grass was

often being cut when weather conditions meant this wasn't necessary. Last summer when similar weather conditions meant that grass again didn't need cutting, the authority moved staff onto other works which would add value such as shrub bed reductions and path edging instead.

‘Bringing the service in-house gave us the ability to move staff around a lot more easily. During severe weather over the winter, they could be diverted onto clearing paths to sheltered accommodation. That was a lot easier to do than with a contractor – there was no negotiation or additional cost,’ Streetpride's director, David Burton, explains. ‘We even have the ability to move staff onto supporting waste collection, which was the case after the severe weather created a backlog.’

Integrating grounds maintenance and street cleansing has led to service improvements with a reduction in the number of contacts about grounds maintenance of over 10% during the first season. The council has introduced multi-skilling for a significant number of street cleansing staff who work alongside grounds maintenance teams. This means that the demarcation between the two functions has been removed and helps ensure that de-littering takes place effectively before grass-cutting starts, and that street cleaners assist with ancillary GM tasks such as strimming where necessary. The integrated service is structured so there are teams in zones around the borough who can respond quickly to problems reported by the public. There has been a significant reduction in complaints since the service was returned in-house.

As an integrated service, Streetpride tries to engage the public in as many ways as possible. Some 200 ‘Streetpride Champions’ are local volunteers who give anything from a few hours to several days a month to overseeing their local area. The ‘engineers on street corners’ initiative invites residents to tell the council whether they think a scheme will work or not so the engineers can adapt it accordingly before it is implemented. Working in integrated teams in specific zones engenders a sense of ownership, local pride and job satisfaction for staff. Performance is measured through a suite of local PIs, and the integrated

service now consistently exceeds a 95% success rates in meeting its response and quality targets.

Initially the council regarded in-sourcing as an opportunity to improve the quality of the service for the same cost. As events have moved on and budgets have got tighter, the council has had to review the budget with a view to cutting costs. 'We have taken a substantial hit in the budget this year – with £1.5m less for street cleansing and grounds maintenance and in-house delivery makes it easier to manage than if we had a contracted service. We have seen an advantage in responding more easily to changes in resources as a result of having the service in-house. It enables us to take a holistic view on how best we can deliver the service in those circumstances,' says Streetpride Director, David Burton. The authority will have to stop doing some things and do others in a different way. For example introducing wild flowers meadows and minimising the number of horticultural features will reduce maintenance and that would not be possible within a contractual arrangement.

### Lessons

Bringing the service in-house involved the TUPE transfer of 55 full time equivalent permanent staff, who are supported by some 50 seasonal staff, plus management. Bringing staff in on different terms and conditions together meant there were equal pay issues to resolve. Everybody is now on common terms and conditions within the Council's job evaluation framework. Some gained and others lost, but on balance there were more winners than losers.

The Council's previous contractor had some very good arrangements in place, specifically training and health and safety processes, so a number of staff were quite nervous about being transferred into the council. We had to demonstrate we were not going to undermine anything that had been well managed with the previous employer,' says Mr Burton.

Like all services, Streetpride is facing severe budget pressure. The Council has undertaken public consultation on where residents see priorities and elected members have used the feedback to make decisions about where savings have to be made.

The authority is now working through a programme of re-structures to deliver the savings targets and this will mean fewer resources on the ground. It is hopeful that we can manage reductions through natural wastage and redeployment. Slimming down management arrangements when the contract was in-sourced did help strip out some costs, but further savings in management costs will be required.

'It will be difficult to cut costs without impacting on service quality but having in-house staff will help', according to Mr Burton. 'I am looking at how we can work more smartly and I am absolutely convinced that having flexibility and control will help minimise impact on service quality. Even with a successful external arrangement, with the current budgetary pressures we face, the in-house arrangement is better than trying to work with a contractor who is motivated, at least in part, by the need to make a profit.'

As well as the out-sourced grounds maintenance contract, the council also has a strategic partnership contract for the delivery of larger highways works. This is not being renewed when it expires in July this year, but the majority of the work will be provided in-house for the foreseeable future and the authority will buy in specialist works as and when required through regional partnerships and call-off contracts. However, given the continuing budget pressures, the Council will have to continue to challenge the way in which it provides its services to obtain the best balance between value for money and quality; because of the success of the integration of grounds maintenance with street cleansing it is expected that in-house teams will continue to play a significant role in the provision of Rotherham's services.

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## THURROCK

### Waste Collection

#### Key points:

- Overall the council has made some £2m a year savings
- Recycling has increased and only 25% of waste



- is now going to landfill, which means large savings on landfill tax
- Staff motivation is high

**Quote: “It doesn’t matter what the contactor does, the council is still legally bound to provide the service and the buck stops with us. Ultimately this is the council providing the service to the resident so let’s be recognised as such.”**

## Background

Thurrock is a unitary council to the east of London with a population of around 150,000 residents. In early 2002 the council produced contract documents for an integrated waste contract, which groups all municipal waste services together and put it out to tender.

One large company operated the contract from 2003 until 2010. During that time the waste industry evolved and moved on. The all encompassing contract was not necessarily appropriate as both waste treatment technology and policies had changed.

An Audit Commission report in 2006 recommended that Thurrock should consider new ways of procurement to enable better contract management and suggested breaking up the service into individual lots. It also recommended putting together an in-house bid. Breaking the contract down into smaller lots open them up to competition among smaller regional players who would be precluded from bidding for large-scale contracts. As well as providing a market opportunity for SMEs, it makes the bidding process more competitive.

The council grouped the service into seven individual contract lots; collection, civic amenities, recycling, in-vessel composting, kitchen waste treatment, waste to energy and landfill disposal. Bidders could compete for as many or as few of the seven lots as they wished. Some larger organisations bid across the entire services, but others that were very specialised could just bid for one. More than 50 bidders were involved in the process, which was carried out as a completely co-ordinated exercise to ensure fair evaluation.

At the end of 2009 formal reporting to cabinet took place and contracts were awarded during 2010. The in-house team tendered for Lot 1, a £34.2m contract to operate waste and recycling collection, which was the largest portion of the waste management service. The authority had to be very careful that there was a clear demarcation between the procurement process and an external team was appointed to put the bid together. Thurrock Council’s bid emerged as the highest scoring bid.

## Outcomes

The authority was formally appointed and took over the waste and recycling collection service in June 2010. A total of 87 operational, supervisory and manual staff were transferred under TUPE. Up to 50% of those who became council employees had been TUPE transferred before.

‘Collection is highly visible and we wanted Thurrock council to be seen to be the lead. We badged up the entire service with ‘as easy as 123’. All the crew has a distinctive black uniform and all our literature is designed the same and the vehicles are all in white and black livery,’ says the council’s waste and recycling manager, John Findley.

‘It doesn’t matter what the contactor does, the council is still legally bound to provide the service and the buck stops with us. Ultimately this is the council providing the service to the resident so let’s be recognised as such. All equipment and vehicles were worn out by the end of the contract and the council had to buy everything new. We have a new fleet and everything is co-ordinated. We wanted Thurrock Council to be the theme running through everything we do. That helps with ownership and perception of the service. The council had to own its own service and recognise that it is providing a frontline service to residents by which the council measured.’

‘The in-house bid concentrated heavily on high quality standards with three types of bins collected each week. Bin returns were one of the most contentious areas for the public, who want their bin put back where they left it. Missed collection is something residents get annoyed about and it was important to us to make sure we got it right.’

The council's recycling rate has risen from 38% to 50%. The quality of material collected is higher. Now 50% of residual waste is used for waste to energy, 25% is recycling in one form or another and only 25% is going to landfill, which means large savings on landfill tax. 'If it's collected properly landfill tax costs are decreased. We are collecting waste better in three identifiable stream,' Mr Gilford says.

Overall Thurrock has made about £2m a year savings through moving from high cost to low cost disposal and removing the council's liability under the Landfill Allowance Trading Scheme LATs. The cost of collection hasn't been reduced but the quality of service has improved for the same amount. The council did not seek financial savings as purchasing vehicles, fuel and staff costs are the same whoever delivers the service, but the in-house team was able to offer a higher quality of service.

One civic amenity site has been closed as a result of budget cuts. Elected members have decided to leave the waste collection service as it is, despite financial pressures because they see waste is such a key front-line service with which the public identifies.

### Lessons

'The huge contract was unwieldy. We were trying to introduce fortnightly collections and garden waste collection, recycling improvement, modernization and change. The contract documents were designed to be treated as a whole. It's much simpler now. We are much happier with where we've ended up,' according to Mr Gilford. 'Having it in-house means we have flexibility of change and are not negotiating with a contractor. If we wish to carry out kerbside changes we are not dealing with loss of money and don't have to pay compensation. Making any changes we need to make in response to new policies are much easier because we are talking to ourselves.'

The contract had changed hands when the company was bought out, so there was a real mixture of lengths of service and former employers. A lot of negotiation went on. But the entire

workforce started on day one on Thurrock Council terms and conditions. 'That was a huge gain because it meant everybody was under standard terms and conditions and pay. There wasn't a massive difference but it meant everybody is treated the same. We have single status so there is no distinction. Staff motivation is good and we like to think of ourselves as a good employer,' says Mr Gilford.

Trade union comment: Peter Sansom, Thurrock UNISON Branch Secretary said 'Insourcing has provided a more realistic rationale for pay and grading. Instead of staff working to a bonus based culture which governed performance the flexibility of having an in-house service has allowed us to develop a more consistent pay structure. In that sense pay and grading issues have become more stabilised. From a service delivery perspective there are of course some real policy and legislative changes that local councils have to contend with in the area of refuse and waste services, including deal with climate change and 'green' issues. By insourcing the service the council has been able to redirect its workforce, to tackle the green policy issues that it faces. These changes in my view could not be effectively achieved by reliance upon external contracts. By having a directly provided accountable workforce the council has given itself the flexibility, and the workforce capability, of rising to future challenges



# Insourcing: the analysis

## THEMES

**Examining the context in which insourcing is taking place and the evidence presented by insourcing authorities has enabled key drivers towards insourcing to be identified. Insourcing has been shown to be an increasingly positive option in response to current challenges.**

### **Insourcing as a cost effective solution in response to current budget constraints**

The Comprehensive Performance Assessment framework reported in 2008 that a total of 91% of councils performed consistently or well above minimum requirements for use of resources, with 78% performing consistently or well above minimum requirements for value for money. APSE's 2009 insourcing guide case studies supported more cost effective operational arrangements, including reduced sickness absence and more integrated service delivery options. The insourced services also allowed for the local authority to work across organisational boundaries and reduce duplication of provision. Cost was identified as the most important factor driving decisions to bring services back in-house in this new updated study of insourcing. The cost effectiveness of insourcing has been demonstrated through the survey and case studies, which present tangible evidence of its effectiveness in responding to pressure on resources. This is more important than ever as councils face unprecedented budget cuts.

### **Insourcing as an efficiency driver**

Increased efficiency is a factor that is closely related to costs which was identified as a key driver for returning services in-house. Insourcing can provide a long term sustainable approach to transformation brought about by sweating out efficiency. APSE's publication *Avoiding the Road to Nowhere* brings together examples of ways in which direct

services are driving forward efficiency in a broad range of front-line services across the UK (APSE, 2011). In-house teams have used 'lean thinking' to reengineer services and increase productivity and reduce expenditure while maintaining service quality. In the current climate, insourcing can be a means of driving efficiency on a long term basis, rather than making crude cuts to services on which the public relies. Contracts are by nature complex and legally binding and often carry premium 'penalties' should a client wish to change the way in which a service is delivered carrying minimum pricing arrangements which bind the local authority client into either set minimal financial arrangements or expensive contract variation clauses. Services provided directly can therefore be a useful means to provide more cohesive, responsive and flexible local services enabling quicker efficiency gains to be reaped from transformative and innovative approaches to service delivery.

### **Insourcing, flexibility and capacity**

The majority of survey respondents cited flexibility as a key advantage of returning services in-house. This was borne out with evidence from the case studies. Insourcing offers local authorities the flexibility to respond rapidly to changing policies and circumstances, without being tied in to contracts that can be expensive to alter. Insourcing enables local authorities to maintain capability and expertise that allow it to respond to changing agendas. With funding cuts of 28% to contend with, the flexibility offered by in-house services that can respond to changing circumstances has become increasingly important.

### **Insourcing and service improvement**

As with the 2009 insourcing research, the desire to improve quality was a key factor behind decisions of authorities to bring services back in-house in the fresh examples examined. The case studies show how service improvements have been delivered as a result of bringing services back in-house. APSE's performance network, the largest voluntary benchmarking database in the UK,

has demonstrated year on year improvements in performance of front-line council services for the past twelve years. Areas such as refuse collection, which are highly valued front line services, can show through performance data that they have contained costs below or at inflation levels. They have also improved services through reductions in waste to landfill, waste to energy schemes and increased recycling.

### **Insourcing and local accountability**

The public sector has a responsibility to its voters to deliver services regardless of whether they are economically rewarding and what is happening in markets. Risk can never truly be transferred to private contractors because local authorities are ultimately accountable legally and at the ballot box. Our research evidence has found that insourcing can enhance engagement with residents and ensure direct democratic accountability.

### **Insourcing, strategy and synergy**

Because local government is responsible for the strategic direction of a place and for the full range of services that are delivered there, direct delivery can mean a holistic perspective is taken. Departments within the same organisation can communicate more easily than with external bodies. Our research has shown how insourcing can promote service synergy and integration, particularly in services covering the environment, where bringing together recycling, waste collection, education and enforcement on a local basis can enhance neighbourhoods and respond to climate change threats simultaneously. Housing examples show how the integration of the service with other in-house delivery can lead to greater service synergy.

### **Insourcing delivering added value**

Added value can be delivered in social, economic and environmental terms as a result of insourcing. Delivering services in-house can be a way of boosting training and employment opportunities and bolstering local economies, as times get tighter.

APSE's study of the 'local economic footprint' of public services, showed that for every £1 of taxpayers' money, direct provision can generate £1.64 in the local economy through strong local employment and supply chains. This is because of the lack of leakage from the local area (APSE 2008).<sup>20</sup> When APSE carried out similar research in West Lothian it showed this figure was £1.71. At a time of economic crisis, providing decent jobs locally is more important than ever to local economies.

### **Insourcing and the workforce**

The survey and case studies have shown that workforce issues are a major consideration for councils bringing services in-house. Lessons that have been learned from the case studies hinge around the way in which the staff are treated during the insourcing process. Authorities that have maximised consultation and communication have yielded the best results in terms of ensuring seamless transition.

Once transferred over, in-house staff have generally benefited from improved terms and conditions that has, in turn, led to enhanced morale and improved service deliver. As APSE's report *Towards a Future for Public Employment* showed, the public sector can set a benchmark for terms and conditions across a broad spectrum of jobs and ensure employment practices develop the local workforce and skills (APSE 2007).<sup>21</sup> There are a number of workforce issues that are affected by contracting out and bringing services back in-house.

There is also evidence that outsourced contracts can place increased pressure on the Local Government Pension Scheme both in terms of the guarantees required of private contractors before admission to the scheme and, in the longer term, the further fragmentation of the core membership base of the LGPS. This could see membership levels decline and therefore contribution income reduced which will exacerbate pressures on both employers and employees to increase contributory rates.

Recent Government announcements on removing the 'Two Tier Code' and reviewing "Fair Deal"

pensions within local government will mean significant reductions in employment rights, which will make outsourcing an even less attractive option from a workforce perspective.

## **Insourcing, simplicity and risk minimisation**

The research found that in many cases, local authorities have brought services back in-house in order to simplify service delivery and minimise risk. While the negotiation, consultancy and contractual process can be time-consuming and costly, delivering services in-house is a less complex alternative with less risk to the council.

## **LESSONS**

Examining the context in which further insourcing is taking place since APSE's 2009 study and evidence emerging from a quantitative survey has enabled a number of common lessons to be identified. Those emerging from more than 50 examples and detailed case studies include:

There is evidence that contracts that are let externally can be too rigid and do not necessarily lead to effective, efficient service delivery. Councils that have returned services in-house are using insourcing as a means of responding flexibly to changing circumstances without incurring large contractual fees.

Local authorities featured in case studies report that they have used in-house delivery as a means of reducing costs because time spent monitoring and managing contracts is reduced. Insourcing has also been a way of simplifying arrangements.

Local authorities achieved the best outcomes when they did not rush into decisions. Councils that undertook thorough options appraisals prior to insourcing were certain it was the best decision to suit them.

New arrangements take time to introduce. Where staffing issues are concerned in particular, gathering sufficient information prior to insourcing,

consulting with staff and trade unions and allowing scope for in-house solutions to bed in is essential.

Local authorities are still responsible for the services even if they are delivered by external contractors and councils have found that returning them in-house is a way of minimising risk. Insourcing has been a means of taking back control of services and outcomes.

Councils that have insourced have ensured that residents are aware the service is delivered by an in-house team as this helps demonstrate where resources are being spent and aids service user engagement.

Large-scale outsourcing can leave a council weakened on the client side and vulnerable as internal expertise is depleted. Insourcing authorities have ensured that this is built up again when returning services in-house.

All of the case studies examined have revealed that consultation and engagement with staff and trade unions is a vital aspect of the process of returning services in-house. They show that listening to staff helps improve efficiencies and that bringing employees over to decent in-house terms and conditions and providing development opportunities increases motivation and productivity.

Insourcing is an opportunity to introduce new 'smarter' ways of working and changes to service configuration and integrate a range of in-house services. A number of authorities featured in case studies have adopted 'systems thinking' or 'lean systems' management tools – measures long advocated by APSE – to eliminate waste and design services around the users' needs.

Once a service has been insourced, this can be a chance for ongoing efficiencies and service improvements to be made.

As in-house teams allow direct connection between local residents and the authority, this can be built upon as a form of going customer engagement, which can enhance service delivery and accountability.

## Conclusions

The case for insourcing has grown stronger since APSE's first insourcing guide was published in 2009. Reasons for insourcing identified in the previous research have become more pressing as a response to the current challenges faced by local authorities. Returning services back in-house is achieving significant outcomes including efficiency savings, performance improvements and increased customer satisfaction. Insourcing is also a means of responding flexibly to challenging financial circumstances, minimising risk and enhancing local accountability.

Our findings from the latest research on insourcing conducted by APSE show:

- Councils of all sizes, locations and political control are continuing to bring more services back in-house.
- Intense budgetary pressures are acting as a key driver in insourcing.
- Insourcing is viewed as a flexible means of delivering services within the difficult and dynamic context in which local government is operating.
- Environmental services are the most likely to be brought back in-house, followed by housing but a broad range of services are being insourced nationally.
- Councils are finding that insourcing contributes towards: accountability; flexibility; efficiency; cost effectiveness; service improvement; strategy and synergy; added value; risk minimisation; and workforce morale.
- Staffing issues are a vital consideration when insourcing and lessons learned from case studies show that consultation and communication is a key factor when returning services back in-house.
- **Improved pay and conditions, access to LGPS and development helps to boost morale and performance.**

## Future considerations and checklist of action points

Services whether delivered internally or through an external contractor should be subject to regular monitoring and review. Before a local authority makes a decision to simply re-advertise an outsourced service or extend a contract term a number of steps should be taken as highlighted in APSE's original recent document 'A guide to bringing local authority services back in-house'.

## Step 1: Analyse the current situation

Local authorities need to analyse the current service delivery situation when embarking on the decision making process and insourcing should form part of an options appraisal process. Councils should be considering the following:

1. Who is delivering the service currently?
2. What service activities are being delivered and if applicable to how many service users?
3. Have there been any problems in the delivery of the service?
4. How is the service currently performing?
  - a. against key performance indicators and contract requirements
  - b. against customer satisfaction ratings;
  - c. against local agreements or targets and outcomes.
  - d. against local and sub-regional strategic priorities.
5. How much does it cost the authority currently to outsource the service?
  - a. How much is it costing the contractor to deliver the service currently?
2. When is the contract due for renewal?
  - a. Is there an option for renewal with the current contractor?
  - b. How much will it cost in compensation to terminate a contract or will a contract shortly expire or be determined?
3. What is staff turnover and pay rates?

## Step 2: Benchmarking

While the process driven elements of Best Value in England required local authorities to demonstrate continuous improvement having regard to a combination of economy, efficiency and effectiveness, recent changes have made 'Best Value' a much more fluid and locally determined process. As part of this process of ensuring good value for money for local tax payers there is a need to test the competitiveness of services. This can be achieved through a number of means, one of which is through 'fair and open competition'. But it can also be accomplished through a rigorous approach to performance management. Councils are not required to tender a service compulsorily or to re-tender when a contract termination has taken place. They should however be asking the following questions:

1. Will competition deliver an improved quality service? What does benchmarking and comparing service performance tell the local authority about potential future service options?
2. Is there the management structure, capacity and skills in place to prepare and deliver an in-house service?
3. Is there political and cabinet level support for delivering the service in-house?
4. What are the other potential options for delivering the service?

### Step 3: Preparing the in-house bid

Once it has been decided that a service area will either be brought back in-house or subject to competition with an in-house bid, local authorities need to prepare the in-house service in terms of evidence and consultation. They need to consider:

1. The potential value of in-house delivery in performance terms. This should include benchmarking an in-house bid against other providers and against other local authorities.
2. How the service will be delivered in practical terms.
  - a. Will it be directly delivered by the local authority or through a Direct Service Organisation?
  - b. What service activities will be delivered?
  - c. How many staff will be required?
  - d. What management structure will be required?
3. The cost of delivering the service in-house.
  - a. Is the in-house bid cost efficient?
  - b. Does the in-house bid offer value for money?
  - c. Does the in-house bid potentially provide better quality services?
4. How bringing a service area in-house will synergise it with other service areas.
  - a. Will bringing the service in-house enable joined-up, integrated and ultimately more effective service delivery?
5. Through community consultation and analysis of service user satisfaction surveys the thoughts of local residents and service users on the move of a service area in-house?
6. The potential barriers to and weaknesses of bringing the service in-house
7. How an insourcing option may help to achieve greater local community benefits, for example integrating local apprenticeships, training and skills and environmental or climate change considerations in service delivery.
8. How they will involve and consult staff and trade unions.

### Step 4: Bringing the service back in-house

Following the completion of a process, which could be a competitive tendering process and upon the service being brought back in-house, the local authority will need to undertake a series of considerations before service delivery commences. They need to consider:

1. Staffing
  - a. How many staff need to be transferred from the current service provider under TUPE legislation?
  - b. What consideration needs to be made with regard to terms and conditions, equal pay, and particularly local authority pensions?
  - c. What skills will be required from frontline and management staff?
2. Assets
  - a. Does the return in-house require the transfer of assets from the current provider? If yes, how much will this cost?
  - b. Is capital investment required to purchase new assets?
3. Service Transfer
  - a. What infrastructure arrangements need to be in place in order to ensure a smooth transition of the service?
  - b. Is there the requirement for any change in suppliers to the service area?
4. Marketing and communication
  - a. How are the local authority going to make service users aware of the change in service provision?
  - b. What wider marketing or communication activity is required?

## Step 5: Delivering the service in-house

Delivering a service in-house brings service delivery closer to local strategy, local policy and local targets. In order to detail the on-going value of the in-house delivery, local authorities should undertake on-going service monitoring and performance management considering:

1. The performance of the service against local and national performance indicators, whether compulsory or informal with peer authorities.
2. The cost and efficiency savings of delivering the service in-house.
3. The value for money considerations and impact upon service quality of delivering the service in-house.
4. The additional activities the service area has been able to deliver as a result of bringing the service in-house.
5. Levels of customer satisfaction with the service.

In addition to corporate performance management the in-house team should also monitor service delivery from the perspective of its employees through worker satisfaction activity and proffering added value career development opportunities such as training.



## Methodology

This research has entailed both quantitative and qualitative methods. An on-line survey was conducted among decision-makers including chief executives, assistant chief executives, service directors, heads of service and elected members in local authorities. A total of 140 respondents to this survey helped identify fresh examples of insourcing and reasons behind the decision to bring services back in-house. The survey and a desk-based policy and literature review enabled a list of 42 fresh examples of insourcing since our last report to be produced. We have drawn upon data gathered and undertaken semi-structured interviews to develop case studies that consider reasons for and outcomes of insourcing and identify lessons learned from those who have insourced services.

APSE has also drawn upon its own expertise in terms of business planning, service delivery issues and differing models of service delivery.

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