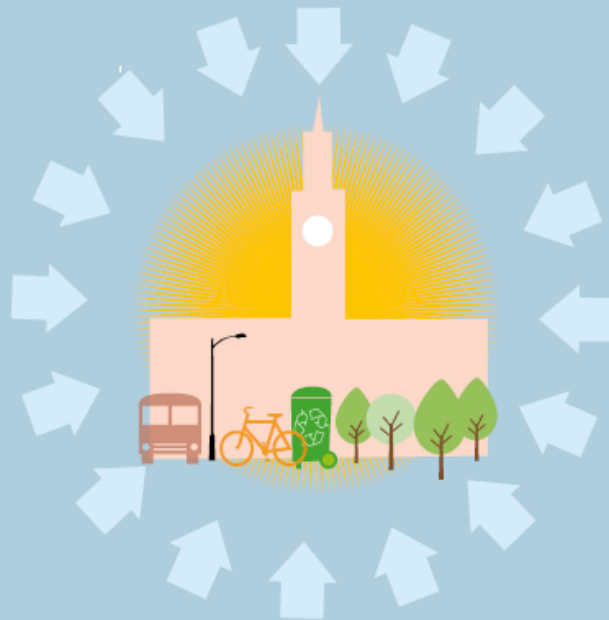


# Mo Baines

## Rebuilding Capacity: The case for Insourcing Public Contracts

# Rebuilding Capacity

The case for insourcing public contracts



# The research

- How it came about
- Methodology: An interpretative approach taking a pragmatic ontological paradigm
- Interviews and roundtables, documentary analysis, secondary data, literature review
- Set out to engage those at the heart of decision making and actions to insource
- Case studies to tell the story

# Insourcing in the current context

- 'Remunicipalized' or brought back 'in-house' or 'insourced'; (APSE 2008, 2011, Hall, D. et al 2013, Terhorst 2014, Warner 2012, Wollmann 2013).
- But now.....at a point where UK local government has been subjected to unprecedented pressures on local government finance

# Defining insourcing

- A slightly contested term?
- We used .. *‘to ‘insource’ in UK local government it is widely accepted as the cessation of a previously outsourced contract and the re-establishment of the service under the direct operation and control of the local authority’.*
- Concentration on service contracts

# What about the UK

- Differences on infrastructure contracts to service contracts
- Included in case studies straight forward 'insourcing' back to the local authority direct control and
- And through wholly owned companies
- Excluded JVs, 'partnerships' and 'hokey cokey' contracts...

Cost / Efficiency	Performance	Quality / Flexibility	Employment / Social Justice
<p><b>Outsourced contracts may not deliver the promised efficiencies</b> or savings as optimism bias influences decision making</p>	<p>Client side performance management can be weakened overtime or <b>capacity to monitor performance is reduced</b></p>	<p>Quality is often linked to output specifications but is therefore a subjective measure and <b>difficult to define to the satisfaction of all parties.</b></p>	<p>Contracting out a service relies on the transfer of employment risk to a third party. <b>Contract pricing is often predicated on labour cost savings.</b></p>
<p><b>There may be long-term costs to the contract</b> e.g. as service changes and new needs emerge where these are not accounted for in the original contract costing</p>	<p><b>Performance management by a client can transfer management of day to day operational performance back to the client side</b> as an unintended consequence of managing a contractor</p>	<p>Contracts lock-in a mode of delivery or a quality standard / expectation. <b>If public expectation or client side demands change lack of flexibility will impact on the contract</b></p>	<p>In an outsourced contract influence over procurement and supply solutions rests with the contractor; not the public sector. This can have an <b>impact on local economic spend creating leakage from local economies</b></p>
<p><b>Public policy may change</b> which may mean contract arrangements are more costly to sustain. An example would be in <b>recycling collections</b></p>	<p>Managing performance can add costs as variations to meet performance expectations may be considered <b>variations to the original contract creating further costs</b></p>	<p>Where portions of budgets are set aside to service contract payments there is <b>no flexibility in resource allocation</b>; this can tie in subsequent administrations to past political priorities.</p>	<p><b>A public body may choose to vary its approach to reflect social justice outcomes in areas such as welfare pricing.</b> These matters typically would need to be pre-agreed in a contract and it is not always practical to do so.</p>

# The prism of income in outsourced arrangements

- Outsourcing: The contractor extrapolates value / 'fat' from the service
- Loss of control over charging policies
- Transactional: Contract = price paid (and then some!)
- New opportunities for income locked into the contract – often missed



# Income and resources

- Income generation - anchored to how you can use your resources
- Bringing resources back in-house can provide additionality to your offering
- Joining up services in an integrated way can help you link to income strategies
- Reflects changes in public policy

# Examples...

- Repairs and maintenance – offering the service to other providers
- Streetscene – event licencing and clean-up operations
- Public realm, parks – events management and parking income, franchises, other sales

# Case studies

- **Liverpool:** Refuse collection, recycling, streetscene, grounds maintenance/parks, highways maintenance
- **Islington:** Building cleaning, education services, housing repairs and maintenance, streetscene including refuse collection and recycling
- **Highland:** Grass-cutting/grounds services, public conveniences
- **Nottingham:** 'Peripheral' public realm (weed-spraying, line painting) building maintenance, staff catering
- **Halton:** Leisure centres
- **Stoke on Trent:** Housing and civic buildings repairs and maintenance services, adaptations services

# Key Drivers to insource

- Improve service quality
- Improve efficiency and reduce service costs
- Responding to Austerity
- Increasing flexibility and alignment of corporate aims including commercialisation

# Key Findings (1)

Insourcing is not driven by ideological aims:  
Current figures show more Labour (42.22%)  
than Conservative (35.56%) council's  
insourcing but this does not suggest it is  
'party political'.

## Key Findings (2)

Insourcing is a pragmatic response to austerity: When every penny counts contracts that suck in more resources are no longer tolerated.

## Key findings (3)

Insourcing completes the jigsaw: The plethora of actors in the public service space creates fragmentation but the coordination of local knowledge, available to local councils, is completing the jigsaw.

## Key findings (4)

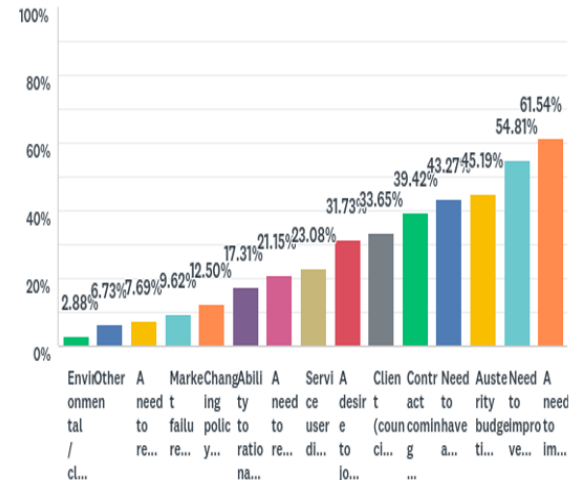
Insourcing recalibrates decision making on resource allocation back to democratic control: Outsourcing detaches the local lever. Insourcing restores the cable and puts control back into the local democratic institution



# Main reasons to insource

- **A need to improve efficiency and reduce service costs**  
**61.54%**
- **Need to improve service quality** **54.81%**
- **Austerity budgeting / need to reduce spend on external contracts** **45.19%**
- **Need to have a more flexible service** **43.27%**

Q6 Please tell us from the list below what were / are the main reasons for insourcing the service(s). You may tick more than one answer



**Service user dissatisfaction with an external contract**  
**23.08%**

# Service / contract types?

## The Top Four

Building maintenance (housing and non-housing) **27.34%**

Waste collection **21.09%**

Parks, open spaces and grounds maintenance **17.97%**

Building cleaning **13.28%**

## The Middle Ground

Housing (management such as insourcing an ALMO) **10.16 %**

Transport, fleet and vehicle maintenance services **10.94%**

Highways and / or Winter Maintenance **10.94%**

Street cleansing/ school meals **9.38%**

## The Bottom Four

Tourism **1.56%**

Economic development **3.13%**

Policy or performance unit **3.13%**

Community safety **3.91%**

Trading standards/ Planning/Art Galleries/ Enforcement **4.69%**

# **Recommendation 1: A viable delivery option**

Insourcing should be considered by public policy makers as a viable delivery option when appraising the future of outsourced contracts.

# **Recommendation 2: Review!**

Public bodies like local councils should have a rolling calendar review in advance of contract end dates or break clauses.

## **Recommendation 3**

Insourcing should embrace the principles of good governance, transparency and accountability over locally provided services.

# Recommendation 4: Innovate

Insourcing should be viewed as a form of innovation in both service delivery and resource allocation.

# Recommendation 5: Capacity

Capacity to insource can be secured through the support of specialists such as interim managers, secondments from other councils and the returning workforce through the operation of TUPE. Capacity for future delivery options should be considered a risk factor in any future outsourcing. Hollowing out core services leaves public bodies open to contract failure risks. A perceived lack of capacity to insource is not an insurmountable barrier

# **Recommendation 6: Think local economy!**

Insourcing can be used to support local economies, and the local environment, through jobs, skills, supply chain management and local spend. This includes income opportunities – concept of community wealth building



# **Recommendation 7: Involve the workforce and trade unions**

Trade union and workforce involvement in insourcing discussions are both essential and helpful and should be encouraged. Use the knowledge of the people who deliver the services to spot opportunities for income!

# **Recommendation 8: Get the right people!**

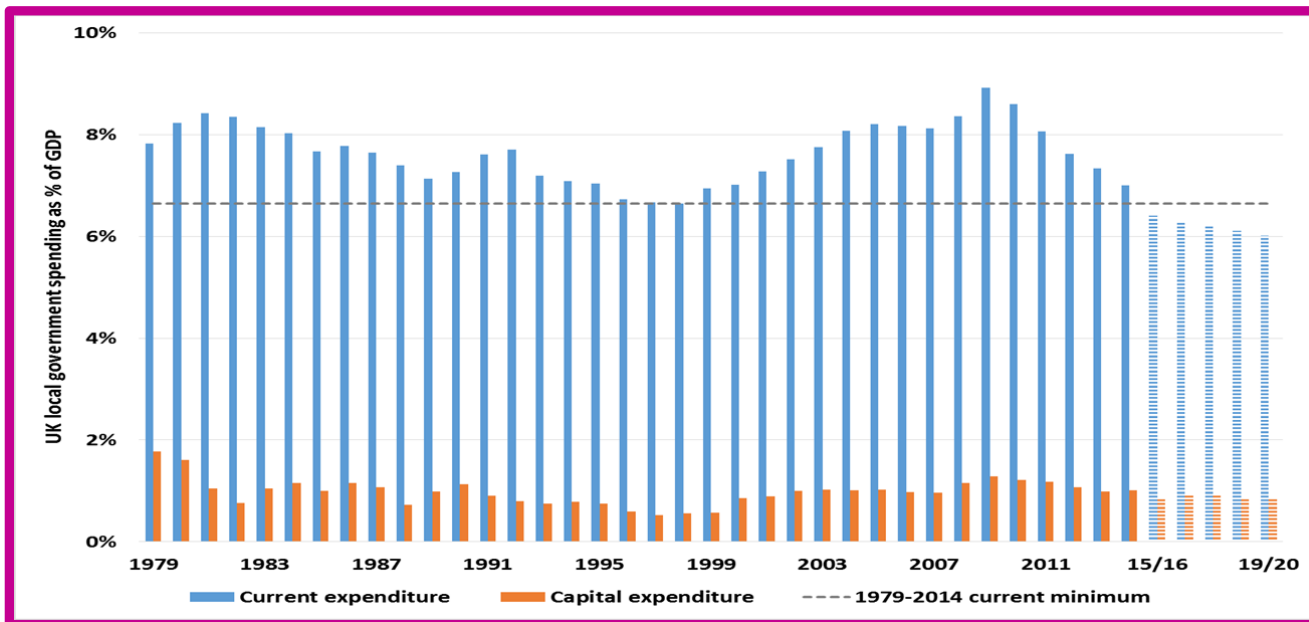
Get the right people to drive insourcing! Take a twin track approach to exploring where there is new business potential!

# Market disruptor role

- Entrepreneurial councils are ready to disrupt markets
- The services you are providing may answer market failures – housing, R&M, retail park services, technical services to developers
- But...you can't make much of a difference if you do not control the means of delivery
- Insourcing brings the control back

# Do you have a choice?

UK local government spending as a share of GDP: current spending, already below the 1979-2014 minimum, is projected to go on falling to 2020



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Delivering for local people and local economies

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