Insourcing: Why it matters!

Mo Baines

Research

Rebuilding Capacity: The case for Insourcing Public Contracts

Methodology

- An interpretative approach and adoption of a pragmatic ontological paradigm
- Set out to engage those at the heart of decision making and actions to insource
- Case studies provided the qualitative data
- Secondary data and documentary analysis

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

Case study interviews and roundtables

- Included straight forward ‘insourcing’ back to the local authority direct control and
- And through wholly owned companies
- Excluded JVs, ‘partnerships’ and ‘hokey cokey’ contracts…

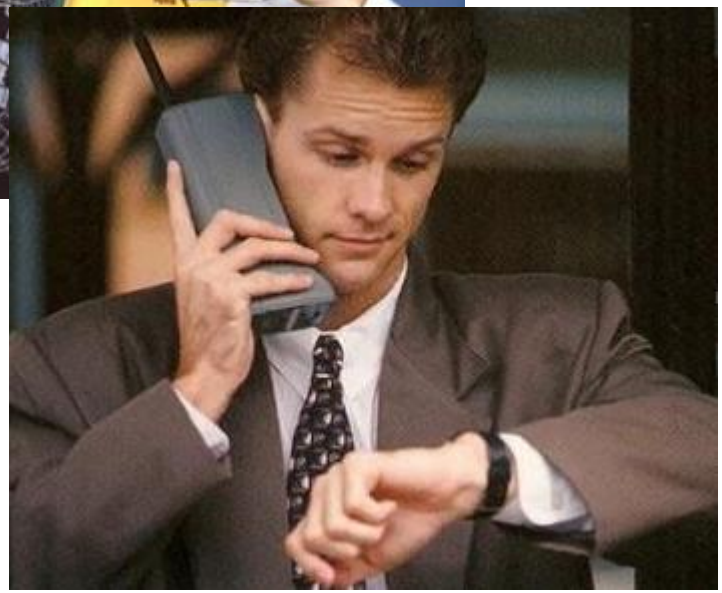
Research questions

- Does service insourcing challenge the theoretical basis for NPM?
- Can insourcing provide an alternative delivery model for local government public services?'
- What are the limitations or drivers towards insourcing?
- How do these internal and external factors influence the choice to insource?

The prism of New Public Management

- Was it all bad?
- Lessons learned?
- Value, Price, Quality

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



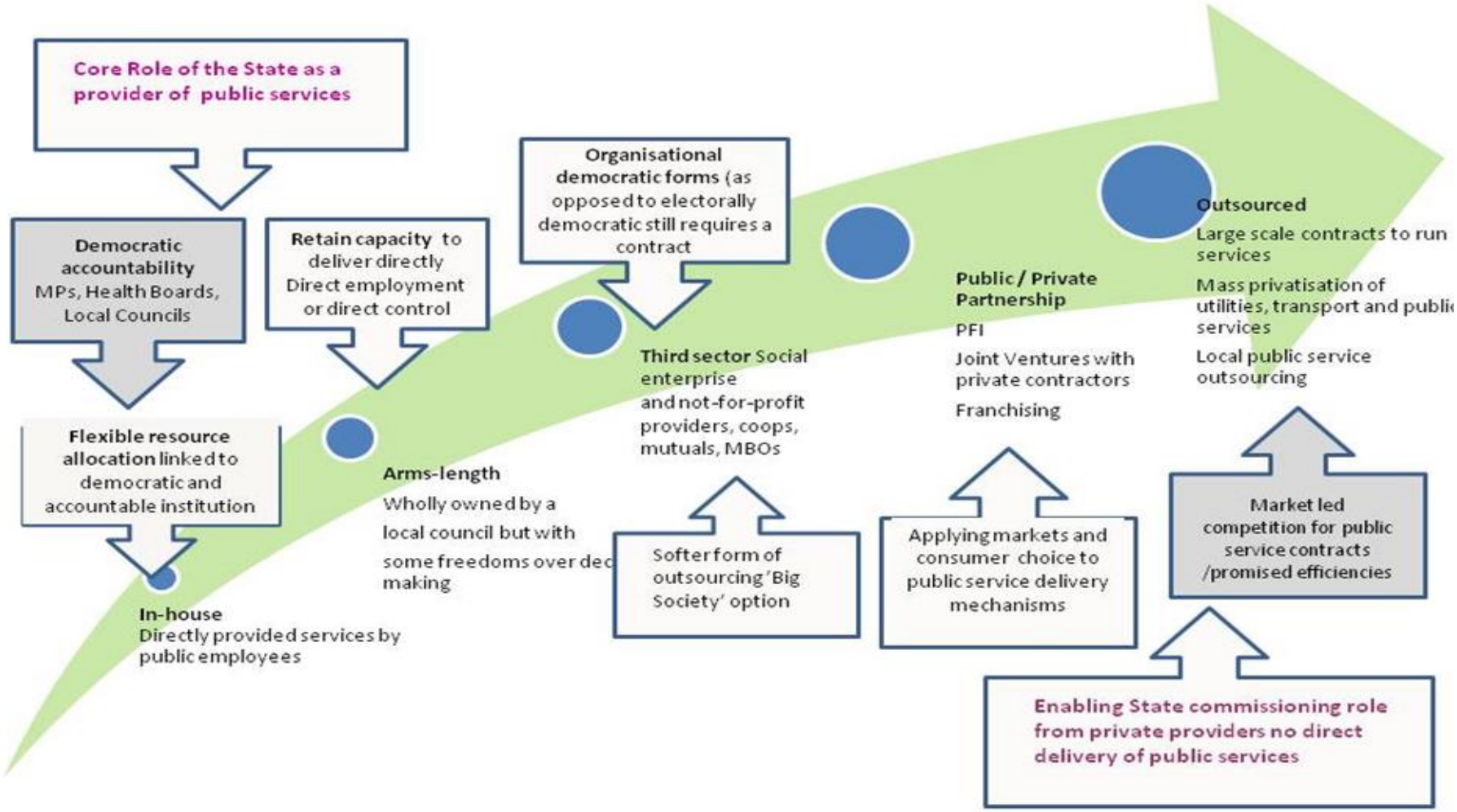
Local Government Act 1988

1988 CHAPTER 9

An Act to secure that local and other public authorities undertake certain activities only if they can do so competitively; to regulate certain functions of local and other public authorities in connection with public supply or works contracts; to authorise and regulate the provision of financial assistance by local authorities for certain housing purposes; to prohibit the promotion of homosexuality by local authorities; to make provision about local authorities' publicity, local government administration, the powers of auditors, land held by public bodies, direct labour organisations, arrangements under the Employment and Training Act 1973, the Commission for Local Authority Accounts in Scotland, the auditing of accounts of local authorities in Scotland, and dog registration, dog licences and stray dogs; and for connected purposes.

[24th March 1988]

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—


Core Role of the State as a provider of public services
Democratic accountability
MPs, Health Boards, Local Councils
Retain capacity to deliver directly
Direct employment or direct control
Organisational democratic forms (as opposed to electorally democratic still requires a contract
Outsourced
Large scale contracts to run services
Mass privatisation of utilities, transport and public services
Local public service outsourcing
Public / Private Partnership
PFI
Joint Ventures with private contractors
Franchising
Third sector Social enterprise and not-for-profit providers, coops, mutuals, MBOs
Flexible resource allocation linked to democratic and accountable institution
Arms-length
Wholly owned by a local council but with some freedoms over dec making
In-house
Directly provided services by public employees
Softer form of outsourcing 'Big Society' option
Applying markets and consumer choice to public service delivery mechanisms
Market led competition for public service contracts /promised efficiencies
Enabling State commissioning role from private providers no direct delivery of public services

Lessons from Europe: Potsdam

- The City of Potsdam, State of Brandenburg, Germany: A contract with Eurawasser made up of Suez and Thyssen Krupp
- Municipal water supplies and sewage disposal services.
- Capital was leveraged through a forfeiting arrangement
- The 'future sales' were the proceeds from water charges in the sum of a reported €205m over a 20 year term but…. prices rose by near to 50% and analysts forecast future price increases in the region of 140%.
- The works council raised the "socially acceptable termination of employment", which led to downsizing'. Public opposition was swift and highly critical.
- A key trait of outsourcing is workforce downsizing – real efficiency is hard to prove
- Less than two years into the partnership the Potsdam water privatization was ended. The service was instead embedded into a public company
- Considerable compensation was deemed payable to the private sector partner.

Lessons from Europe: The Berliner Wasserbetriebe

- A utility arrangement in Berlin (water) (Berliner Wasserbetriebe) was bought back by the Berlin Parliament voting to do so in November 2013
- Similar issues of price inflation, citizen dissatisfaction

"From a democratic, social and infrastructure maintenance perspective, the commercialisation and partial privatisation of the Berlin Water Works of 1999 were a disaster. From the perspective of the private shareholders RWE and Veolia, it was a profitable business.'

Terhorst (2014)

Case study: Islington

- Services: Building cleaning, education services, housing repairs and maintenance, streetscene including refuse collection and recycling
- Breaking down of paper walls (Education) and quality and environmental improvements, resource efficiency
- Fair wages: The Islington Fairness Commission
- Austerity budgeting / control of reduced resources
- Quality improvements including resident satisfaction
- Cash savings realised

Case study: Highland

- Services: Grass-cutting/grounds services, public conveniences
- Quality and integration with need for austerity budgeting / resource allocation
- Value of tourist economy / tourist pound
- Reduction in provision with alternatives for tourists / reduced costs
- Control of service type / multi-skilled amenity officers

Case study: Nottingham

- Services ‘Peripheral’ public realm (weed-spraying, line painting) building maintenance, staff catering
- Service integration and resource allocation
- Productivity and Income generation
- Austerity: Budget allocation to social care gearing efficiencies towards neighbourhood services
- Reductions in overheads
- Saving on management fees
- Flexible delivery
- Saving £0.5M

Case study: Stoke on Trent

- Services: Housing and civic buildings repairs and maintenance services, adaptations services
- Cost and quality and productive efficiency
- Cost plus contract not delivering Best Value
- Ability to generate new income streams on insourcing
- Political will to use local supply chains
- Staff TUPE: Pensions - avoiding future demands on council 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.

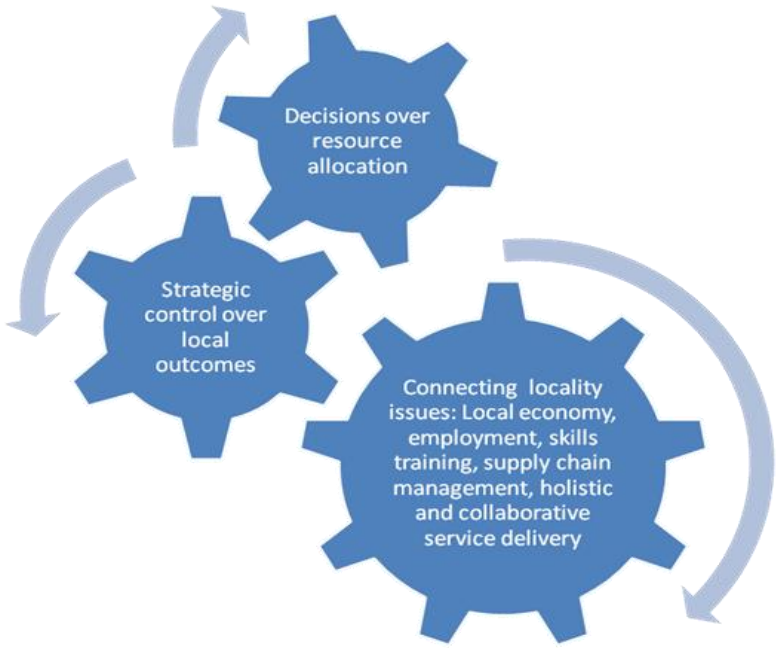
Key findings (3)

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

Regaining control over resource allocation



Interventionist v Managerialist

- Is it a choice between an interventionist state approach to facilitate change through deliberate measures aligned to political will, or
- A managerialist enabling approach? Whereby the outcomes for the public sector services are already dictated by the profit-making motives of the private provider?

  'While private ownership is an instrument that by itself largely determines the ends for which it can be employed, public ownership is an instrument the ends of which are undetermined and need to be consciously chosen'. (Hanna (2018) quoting E. F. Schumacher

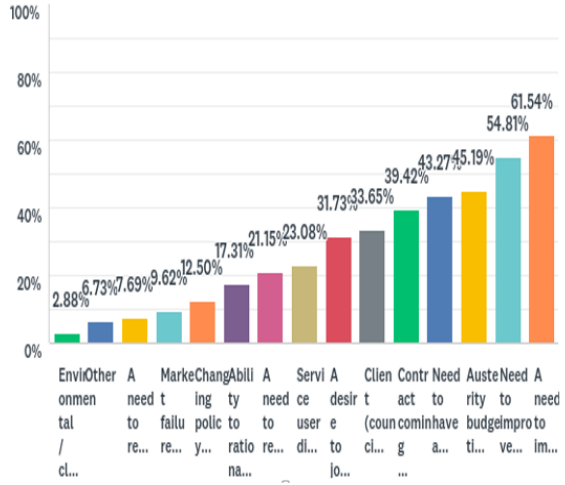
- In an era of widespread contract failures insourcing increasingly appears to be a conscious choice to intervene in the public services marketplace, to produce better outcomes for service users, the public purse and public employees

Game changers?

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. It should be included as a routine option in all appraisals and genuinely and robustly considered

Recommendation 2: Review!

Public bodies like local councils should having a rolling calendar review in advance of contract end dates or break clauses. This will ensure that adequate plans and arrangements can be put in place to ensure insourcing is a workable option rather than being forced into contract renewals either on a short term or longer term basis. This places more power back in the hands of the client local council

Recommendation 3

Insourcing should embrace the principles of good governance, transparency and accountability over locally provided services. Elected local councillors should be fully appraised of the benefits of insourcing in supporting accountable local services

Recommendation 4: Innovate

Insourcing should be viewed as a form of innovation in both service delivery and resource allocation. Insourcing planning should encompass immediate operational continuity alongside longer term plans for service improvements which align to local needs and strategic objectives

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 through jobs, skills, supply chain management and local spend. This should be evaluated when insourcing is considered and fairly weighted on any options appraisal

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. The research shows they are best placed on the ground to know where outsourced contracts are failing to deliver. Use the knowledge of the people who deliver the services

Recommendation 8: Get the right people!

Get the right people to drive insourcing! Insourcing may not be an easy option. For some councils this can be a messy process of putting in place new systems whilst integrating IT, finance, HR procedures, fleet, assets and operational delivery plans. Use a resilient project team who are enthusiastic. Mistakes will be made along the way but the right people will deliver

What model to insource?

In-House

- ✓ You have a right to provide
- ✓ You do not need to go out to any procurement exercise
- ✓ You determine supplier spend (and within reason where)
- ✓ Organise your structures to meet local needs
- ✓ Prevent leakage in the local economy
- ✓ Safeguard fair wages / pensions

Outsourced to private company or Social Enterprise / Coop or MBO model

- × Contract award
- × Reinforces the client / contractor split
- × Insolvency / contractor viability
- × Capital for assets and investments - how will it be raised?
- × Issues of Incorporation

Teckal or Wholly Owned company (WOC)?

- ➢ Award of work ‘as of right’ but some circumstances will need a procurement exercise
- ➢ Counts for borrowing for accountancy purposes
- ➢ What about the council core?
- ➢ TUPE/ Pensions
- ➢ What can you do that you could not do as the council?

Is it viable for FM services?

- You are already in a market place
- What is your USP?
- Changing hearts and minds on pay and conditions
- Market Forces v Social Justice
- Public Policy: Stronger philosophical connection with your ultimate clients!

Final thoughts….

- Insourcing is not a passive reaction to contract failures but a proactive response to the public policy pressures
- Insourcing is critical to resource allocation and the delivery of strategic aims.

"In an age of austerity budgeting for UK local councils insourcing reconnects the cable to the local lever, enabling greater control over local outcomes"

NEW MUNICIPALISM

Delivering for local people and local economies

Contact details

Mo Baines, Head of Communication and Coordination

Email: mbaines@apse.org.uk

@apseevents @apsenews

Association for Public Service Excellence
2nd floor Washbrook House, Lancastrian Office Centre, Talbot Road,
Old Trafford, Manchester M32 0FP.
telephone: 0161 772 1810
fax: 0161 772 1811
web:www.apse.org.uk