Rebuilding Capacity

The case for insourcing public contracts
APSE (Association for Public Service Excellence) is a not-for-profit local government body working with over 300 councils throughout the UK. Promoting excellence in public services, APSE is the foremost specialist in local authority front line services, hosting a network for front line service providers in areas such as waste and refuse collection, parks and environmental services, leisure, school meals, cleaning, housing and building maintenance.

About this research
This research was originally completed as part of a Masters in Public Administration for the University of Liverpool. It is based on qualitative research including case studies conducted through semi-structured interviews and roundtables with APSE member councils, including elected members from across differing political perspectives as well as local government senior officers, trade union representatives and other interested local government bodies. The research also relies upon secondary quantitative data collected through a survey of APSE member councils.

Whilst the research was conducted and written by Mo Baines, APSE Head of Communication and Coordination, it would not have been possible without the support and guidance of APSE’s National Council and APSE’s chief executive Paul O’Brien. We are indebted to the very many local government officers, councillors, cabinet members, leaders, chief executives and trade union representatives who freely gave their time to take part in interviews and roundtables to answer the survey questions and share their experiences, challenges and outcomes of insourcing public contracts. Thanks also to Dr Ehud Engelsman (Udi) of the University of Liverpool for his patience, guidance, wisdom and academic knowledge which remains invaluable to public policy research.
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Foreword

For many years the narrative of public service delivery has been dominated by big policy ideas of big government; often a narrative driven by the holy grail of high quality but cost-effective public services. From treasury management strategies to zero based budgeting through to compulsory competitive tendering and best value. A further dominant force of that narrative was New Public Management and in spite of some laudable aims within that context, such as performance measurement and management, too often the prescribed outcome was to outsource or marketise public contracts. By mimicking market mechanisms public services, it was assumed, could be delivered more effectively and more cheaply.

What is now clear is that the over-simplification of public service delivery into commodified units, capable of being delivered by the market, has led to increasing market failure. This research therefore explores the growing phenomenon of ‘Insourcing’; bringing back ‘in-house’ the delivery of services. It takes a particular focus on UK local government services and questions the drivers for this increase in Insourcing. It finds that insourcing is not a passive reaction to contract failures but is increasingly viewed as a proactive response to the public policy pressures facing local councils, not least the ongoing impact of austerity. As resources are limited elected local politicians increasingly view how they allocate those scarce resources to be critical to local decision making. Taking back control of spending, developing pragmatic local responses which help local people and local economies and flexing public spending to maximise impact are all found to be drivers to insource services.

The case studies show that insourcing is not confined to any one particular service area; nor is it confined to any ideological or party-political allegiance. It is increasingly viewed as a pragmatic means to address service improvement, service efficiency and to recalibrate local services to local needs. As public policies change and as budgets are reduced the inflexibility and inefficiencies of outsourced contracts are increasingly exposed. There is of course a danger that the scale of reliance on such contracts has reduced in-house capacity. This research therefore provides a series of findings and recommendations including examples of how capacity has been rebuilt and insourcing has become the success story.

I therefore hope this report will encourage you to shape the responses that local councils make to the current public policy dynamics which they face. Insourcing is a viable alternative approach to ensuring local councils deliver excellence in local public services; taking back control and being accountable to our local citizen. Insourcing deserves your consideration for future service delivery. I commend this timely report to you.

Cllr John Kerr-Brown APSE National Chair
1: Executive Summary

1.1 Introduction
The UK, perhaps more so than elsewhere, (Talbot 2001), pursued New Public Management through almost all spheres of UK public services. The advent of Compulsory Competitive Tendering (CCT) in the early 1980s through to Best Value first introduced in the late 1990s, were both centred on the shared concepts of competition and to an extent market disciplines. Mechanistically different but both intrinsically wedded to the belief that public services could be neatly carved into productive units and subject to the same measurements and disciplines as any other type of ‘business’. The emphasis on a balance of quality and price within Best Value perhaps provided a comfort blanket to outsourcing but it failed to address the structural risk inherent within it; a loss of direct control, a loss of flexibility and the complexities of managing a third party relationship.

This research report is not the first to explore the complexities of outsourced public sector contracts and previous papers have also considered contracts that have been ‘remunicipalised’ brought back ‘in-house’ or ‘insourced’; (Hall, D. et al 2013, Terhorst 2014, Warner 2012, Wollmann 2013). This latter term of ‘insourcing’ is most commonly used throughout this report. However a difference here to preceding reports is that it is written at a point where UK local government has been subjected to unprecedented pressures on local government finance. The scale of insourcing appears to be increasing as local councils grapple with on-going austerity.

This report therefore endeavours to inform the body of evidence on public service delivery models for local government, and to an extent the wider public sector. It aims to provide evidence on the challenges, opportunities and barriers to insourcing and in doing so to help identify the key issues, that should inform public policy, when insourcing is considered by those responsible for public service delivery, particularly at a local or municipal level, leading to a series of informative recommendations.

Specifically it explores how service insourcing challenges the theoretical basis for much of the New Public Management theory that was funnelled, less towards the securing of efficiencies and more towards a response to outsource services. This report therefore explores:-

- How insourcing provides an alternative delivery model for local government public services
- The limitations or drivers towards insourcing that help to determine approaches within local government
- The way in which internal and external factors influence the choice to insource services in local government

1.2 Methodology
The research methodology utilised an interpretivist approach allowing participants to share their stories and experiences. Data was captured from a range of sources including structured and semi-structured interviews with case studies; facilitated roundtable events / focus groups and through analysis of secondary survey data and documentary analysis. The adoption of a pragmatic ontological approach ensured the context of those at the heart of decisions to insource a service and be responsible for the subsequent operation of services were able to share their experiences. The study was not designed to place a gloss on insourcing but to establish the reality and practicalities of taking and actioning a decision to insource and the context for that. An emphasis was placed on the context of insourcing within the individual authorities, and indeed the original reasons in many cases for the initial service outsourcing. The sharing of experiences
for the different actors involved at a local authority level provided an open and receptive context to the research. Further details about the research methodology can be found in Appendix 2.

1.3 Key findings
A number of key findings have emerged from this study.

- Whilst outsourcing in many cases appeared to be driven by promises of savings and efficiencies ironically austerity has increased the need for further efficiencies and improvements to service quality, which have in turn all become main drivers to insource services.
- Insourcing is on the increase but it is not driven by ideology. It has increasingly been seen as an option by councils under different political control or leadership styles. Whilst major contract failures like the collapse of Carillion has focused minds its contribution to the volume of insourcing in local government is of less significance than those contracts already being insourced by local councils.
- There are a myriad of contracts by service type, by price, and by geography, that are being insourced. There is an increasing awareness within local government about the value of local council services to support local economies and local businesses; better services for residents and business and more cohesive approaches to directing resources to where they are needed.
- Insourced contracts provide service flexibility and the ability to allocate resources where they are needed; they are supporting local council endeavours to buy locally and to influence employment and environmental standards in the local area.
- Insourcing reinstates the ability for elected local councillors to determine what resources should go to where. Outsourcing is found to detach the cable from the local lever. Insourcing restores the cable and puts control back into the local democratic institution.

1.4 Insourcing in a wider financial and local economic context
The role of the local council as an actor in the local economy cannot be overlooked when considering the impact of insourcing. Many of the case studies, as with the Stoke on Trent case study (Appendix 1, page 51) identified a proactive approach to improve wages, skills and job stability, alongside localised purchasing powers. Insourcing is providing the means for local councils to look at services and how they contribute to much wider strategic aims; not just to save money on the often more expensive outsourced contracts but to be able to direct resources where they are needed, rather than the often rigid delivery apparatus used in an outsourced environment.

Moreover insourcing has been found to be a new form of entrepreneurial and dynamic service
delivery, often contributing to new forms of income for local councils. The primary data finds that austerity has highlighted the failure of outsourcing to deliver on its perceived advantages, of efficiency, whilst insourcing is being driven by quality improvements, greater efficiencies and reduced resource allocation, which is redefining value for money within local councils.

1.5 Summary of recommendations
The following recommendations emerge from the data collection. Whilst they should be read more fully in line with the findings in chapter 3 the outline recommendations may be helpful in exploring this paper.

- Insourcing should be considered by public policy makers as a viable delivery option when appraising the future of outsourced contracts.
- Public bodies like local councils should have 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.
- Insourcing should embrace the principles of good governance, transparency and accountability over locally provided services.
- Insourcing should be viewed as a form of innovation in both service delivery and resource allocation.
- 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.
- Insourcing can be used to support local economies and the local environment through jobs, skills, supply chain management and local spend.
- Trade union and workforce involvement in insourcing discussions are both essential and helpful and should be encouraged.
- Getting the right people to drive insourcing is essential and a resilient project team will be critical to its success.
2: Literature review

2.1 Defining insourcing

As outsourcing became the modus operandi for the delivery of UK public services the relationship between public services and private contractors became closely intertwined in a high stakes relationship, entrusting the private sector providers to deliver local public services. Arguably such trust has started to diminish with high profile contract failures like Carillion in the UK, a company charged with the delivery of public sector infrastructure projects, as well as international examples of outsourcing failure in utilities like water and energy supplies, which have now been re-municipalised (Hall, D. et al 2013). It would appear that there is now a turning point in the propensity to outsource public services; its limitations in the context of public service contract delivery is leading to a new era of government level and municipal level ‘insourcing’. Whilst this research concentrates on the latter issue of municipal insourcing the wider public policy dynamics are worthy of some exploration.

‘Insourcing’ of itself is a term with differing interpretations. Hall D., et al (2013 p.194) suggests that the term ‘re-municipalisation is broadly used to cover changes from private to wholly public ownership of assets or companies; changes from outsourcing (or contracting-out) of services to direct provision by a public authority; and the replacement of concessions or lease contracts by direct provision by a public authority’. This reflects Hall’s concentration in his studies on energy and water utility companies in a Western European context. Similarly Sikula et al (2010 p. 3) suggests that ‘Insourcing is when an organization uses especially internal labor and personnel, but other resources as well to supply the operational needs of its enterprise’. APSE/CLES (2009) and Baines/APSE for Unison (2011) have drawn upon the process of returning outsourced local government contracts to ‘in-house’ provision, closely linking the employment relationship of the public service provider and its’ employees as a direct relationship. Thus to ‘insource’ in UK local government 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.

Expanding beyond this and reflecting some of the complexities of public service contracting, particularly in the UK, it is also possible for outsourcing and insourcing to take place even when an asset is not of itself transferred in ownership terms, such as a prison or hospital facility. For example under PFI (Private Finance Initiative) schemes, a DBFO contract, where the ‘Design, Build, Finance and Operate’ elements are typically outsourced to the private sector to deliver a new school or a new hospital, this will typically see the retention of the physical asset in the public sector. However insourcing could take place where the ‘operate’ element of the scheme is brought back into direct operation and control of the public sector client; for example the repairs and maintenance of a school site or the building cleaning elements of a hospital PFI scheme.

In spite of the growing numbers of examples of insourcing the depth of penetration of outsourcing still raises many questions. Whilst recent large-scale failures of outsourced models in railway services, infrastructure and other public services has led to mistrust, and a questioning of outsourcing as a model for public service delivery, there are also critical issues of capacity, and challenges to the future delivery of public services, alongside the viability of insourcing as a response.

2.2 From Victorian Poor Laws to Modern Public Services

It is perhaps useful to explore the development of modern public services in the forms that are most recognisable. Within the UK the 1950’s pseudo Weberian principles of bureaucracy were
not considered negatively but as a necessary means of organising the business of democracy. As Allen (2004 p.100) suggests legal rational authority according to Weber was based on ‘properly enacted rules and given to office holders rather than specific persons’. In a post-war Britain the rational organisation of the apparatus of Government, engaged in rebuilding the Nation, appeared unquestionably logical. A civil service, uniformly separated from the body politics, and charged with delivering core public services. However even before this period the role of the State, and its municipalities, has a long history of the direct provision of public services.

In late Victorian England there was a growing recognition that philanthropy alone was not enough to support the people. Social welfare legislation, for example in the form of the Schools Meals Education (Provision of Meals) Act 1906 (Chapter 57) provided for the local education authority to support the provision of school meals, recognising many children were too hungry to learn. The Local Government Act 1929, was also a significant recognition of municipal governance; the Act led to the de facto abolition of the Poor Laws, which up to that point had provided an easily corruptible framework for assisting the destitute. The 1929 Act significantly shifted responsibility for local services to local public authorities predominantly through the establishment of formal county authorities and giving duties to them for the provision of highways and health. For example chapter 17 s. 14 (2) states that ‘the Public Health Act, 1875, as so amended, shall in its application to county councils and county borough councils have effect as if the power to provide places for the reception of the sick including power to provide places for the reception of pregnant women.’ Such matters were previous dealt with by the ‘Poor Laws Authorities’ so the recognition of a more formal role for local (if not at that point fully democratic) institutions was a significant shift in reflecting a broadening role for the State. Whilst many services up to that point had been provided through disparate contracts, or philanthropic arrangements, the increased powers and responsibilities quickly led to these new organisations employing their own staff; not just clerical officers and town clerks but frontline workers for works such as roads and highways.

The direct employment model was further cemented after the Second World War. The post-war Beveridge reforms gave way to the Welfare Act 1946 and the National Assistance Act 1948 as well as the momentous National Health Service Act 1946 with the creation of the NHS, paving the way for the direct employment of nursing staff, albeit the retainer model of General Practitioners or ‘family doctors’ being on a State contract rather than directly employed by the NHS, perhaps illustrates the early, and remaining, tensions when a State becomes ‘a provider’ in an already existing market.

2.3 Determining the Mode of Delivery

The provider dynamics are not, as history informs us, without controversy. At what point should the mode of service delivery be determined? Is it legitimate for the State to be the provider or is its’ function merely that of a commissioner? This too leads to questions as to the crossover between public policy and public management. As posited by Hughes (2012) ‘At its most simplistic public policy is what governments do in terms of aiming at a result of some kind; and public management is how to reach that point.’ This alone however does not address the differentiation on models of delivery.

If we consider an area like the provision of social housing; a government may determine it is right and proper to provide affordable housing for rent to those in need. Addressing housing need is a public policy objective. Arguably the management of the delivery of that policy is therefore public management, and thus managers will determine the mode of delivery which could be self-build by the State or market contracts, or scaling up a framework of private landlords willing to rent at affordable levels. Experience however suggests that this is in fact a much more nuanced area of public policy. The government may view the failures to control the rent levels, or housing
quality, within the private landlord sector, as feeble and thus determine, as a matter of policy, that the State should act as a market disruptor, as indeed it did in the UK in the post-war years from 1948 onward. Most recently this market disruptor role is highlighted by Clifford & Morphet (2017) as being a means to allow ‘local authorities to respond to their own problems in ways that work within the culture and operating style of their own organizations’.

The mode of delivery is arguably of itself a public policy decision; determining how far the State wishes to intervene. Should the State act as an alternative to market forces? Should it be the alternative provider? Can the State leverage in other outcomes to support its policy objectives by determining the mode of delivery? For example specifying the award of contracts to social enterprises or specifying that it will act as the lead developer on a housing project. Therefore public policy and public management are not, it is argued, lineal arrangements but intertwined puzzles.

What is perhaps not in dispute is the corollary between the end of the post-war consensus on welfare and public spending and the emergence of NPM. Whilst there is no defining date to pin the end of the consensus too it is clear that the IMF crisis of 1976 more than played its part. Whether the fault of the IMF conditions or a seismic change in politics the emergence of a debate on the future funding of public services catapulted the questions of taxation and fairness to the top of the political agenda on a cross party basis. The burgeoning welfare state, which had been preceded by the investment in post-war housing, health and education had to be paid for but by whom?

Thus the consensus of spending on welfare and public investment quickly became a narrative of affordability. The US adoption of public service performance reviews was enthusiastically pursued by UK politicians adopting policies for their own ministries to determine cost controls. The application of managerialist techniques to public services became the new orthodoxy; it would resolve, it was argued, the issues of escalating costs.

Running through this new narrative was a thread of client / contractor splits. The client would specify the outputs or units of work required and the ‘contractor’ or provider would determine the most efficient way of conducting the work. But of course not all public services can be readily divided into neat units. Nevertheless the emerging orthodoxy of price mechanisms and internal marketplaces propelled this approach into virtually all spheres of government, and its municipal outliers in local councils. In the NHS the stark separation of clinical and non-clinical services left the non-clinical services as being seen to be peripheral to the NHS; in much the same way as local government services became part of an organised marketplace. The post-war consensus of spending on the welfare state was recalibrated to suggest that it was only affordable in the long term if it abandoned its monolithic organisations and mimicked the workings of a market-place and central to price was thus competition.

**2.4 Markets and competition in public services**

Public services do not produce widgets. Not everything can be broken down into a unit of production or attributed with a price tag. As put forward by Klijn (2002) there is a complexity in public service decision making not least due to the number of actors involved. Klijn suggests that there are three characteristics to decision making processes in the public sector which include knowledge uncertainty; we lack the understanding of the problem; Institutional uncertainty; because messy problems in society do not neatly align with networks or the way in which public services are organised; and thirdly strategic uncertainty – in a hollowed out State with so many different actors involved there will be differing perceptions of problems as well as differing priorities.
Similarly Hoffler et al (2013) in exploring remunicipalisation in Germany, particularly in energy services, suggests that whilst there may be a myriad of reasons to provide services as public entities it is nevertheless the determined local politicians who want the ‘option to organise and govern these services which are relevant for the local community’. This appears to support Klijn’s observations on local complexity in delivering services. The interface between governance of local services is therefore a critical factor. Thus a key determinant of the mode of delivery is whether the adopted delivery model is capable of ensuring services align to local dynamics or political desire. However, the link between democratic governance over service delivery is not universally accepted as necessarily a good thing. To some at least it would appear that democratic interventions in service delivery are sometimes considered to be an obstructive nuisance. Suleiman (2003 n.p.) even suggests that NPM approaches are something of an attack on bureaucracy or bureaucratic institutions themselves ‘In short why has the bureaucracy served as the punching bag for so many would be reformers’. In efficiency terms therefore it is arguable that democracy is perceived as too expensive and thus a ready target for delivery reform. In turn one might consider that the marketisation in the guise of reform has led to the de-professionalised public servant and public services. Similarly as posited by Hood (2013) government administrations appeared to “more concerned with productive efficiency in government than with allocative efficiency, and indeed in practice the term was often taken (as in UK ‘Efficiency Reviews’ and the 1993 Clinton–Gore National Performance Review in the USA) to mean simply cost reduction or at least containment.”

Thus the primary objective of outsourcing, to reduce costs, is ironically one of the emerging, indeed central reasons for insourcing, as it appears to be that the actual assumed savings have not transpired, leaving a disappointed public sector client and indeed public (Bauer 2015). On an initial analysis this approach appears to have centred on productive efficiency and nowhere more so than in UK local government services. Central to its application in UK local government has been the premise that contracting out services would lead to the same, or even better, services delivered more cheaply. However with resources becoming increasingly squeezed in successive budgets since 2008 with a loss of some £3.1bn, and rising, from neighbourhood level services in UK local councils (Kenway 2016) there has been an increasing focus on allocative efficiency or put differently a concentration now on producing the right things in the right ways. With local councils locked into restrictive contracts, engineered towards productive efficiency, it is little wonder that many see the lack of flexibility in contract delivery as a reason to insource. This has been a repeat finding of three surveys into UK local government insourcing; APSE / CLES 2008, APSE/Baines for UNISON in 2011 and APSE 2017 (See APSE website). From these surveys the patterns which emerge suggest primary reasons to insource services are anchored to the unintended consequences of outsourcing.

These predominant findings are summarised in Figure 1.
Figure 1. Unintended consequences of outsourcing

<table>
<thead>
<tr>
<th>Cost / Efficiency</th>
<th>Performance</th>
<th>Quality / Flexibility</th>
<th>Employment / Social Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourced contracts may not deliver the promised efficiencies or savings as optimism bias influences decision making.</td>
<td>Client side performance management can be weakened overtime or capacity to monitor performance is reduced.</td>
<td>Quality is often linked to output specifications but is therefore a subjective measure and difficult to define to the satisfaction of all parties.</td>
<td>Contracting out a service relies on the transfer of employment risk to a third party. Contract pricing is often predicated on labour cost savings.</td>
</tr>
<tr>
<td>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.</td>
<td>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.</td>
<td>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.</td>
<td>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.</td>
</tr>
<tr>
<td>Public policy may change which may mean contract arrangements are more costly to sustain. An example would be in recycling collections.</td>
<td>Managing performance can add costs as variations to meet performance expectations may be considered variations to the original contract creating further costs.</td>
<td>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.</td>
<td>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.</td>
</tr>
</tbody>
</table>

2.5 Outsourcing for efficiency: Has it delivered?

Hood (2013 p.122) in exploring two UK government departments, Inland Revenue and Customs and Excise, found that ‘there is little evidence of cost reductions (either relative to revenues or in absolute real-terms costs)’ and found that ‘the absolute level of costs in the tax departments was still markedly higher in 2000 than it had been in the mid-1980s’. Many years into the experiment there is still a lack of evidence of cost-savings. Yet the promises of costs savings were a primary reason for public service outsourcing.

It is however inarguable that public services are capable of savings. Local councils in the UK since the 2010 budget have lost on average 30% of allocated budgets (a figure some say is nearer to 50% taking into account council tax freezes) but have nevertheless continued to provide services, albeit under pressured circumstances (LGA 2015). In essence they have concentrated efforts on providing services differently. Accordingly on a cross-public sector basis some would suggest that there are other ways to achieve savings than outsourcing. Dunleavy and Carrera (2011) suggest that a more reliable source of cash savings is due to digitisation finding that ‘Cashing out the impact of DWP’s neglect of Internet and web-based technologies, one rough estimate suggested that by 2009 the department was incurring up to £430 million of avoidable expenditure in Job Centre Plus alone’. This in fact raises the question as to whether the perverse outcomes of outsourcing has been to slow down service investment as there is a disincentive for contractors to invest in a fixed price service contract but equally, since such contracts have delineated service delivery on contract lines, rather than on service or service-user needs then savings, which could be cross-organisational and / or cross-service, are missed. Efficiency is hindered by inflexibility inherent in contract structures.

A further dynamic to consider is that managing contracts is complex and can hinder service integration. A study by Timmins and Hamm for the Kings Fund (2013) exploring health and social
care integration in New Zealand found that ‘In Canterbury [the case study] the price/volume schedule (the equivalent of the NHS tariff) was scrapped and the budgets for hospital departments were re-built from the base up’. In other words achieving integration efficiencies was more achievable through abandoning market-based tariff mechanisms than being enslaved to them. Similarly outsourcing is seen to increase the complexity of public policy problems, compounding inefficiencies, and, in addition complexity can inhibit the ability of citizens to both access and be independent of reliance upon public services. That being said Alonso et al (2013 p.647) reflected that outsourcing ‘forces activities previously guarded in-house by bureaucrats to be subjected to new, positive incentives provided by competition and market discipline’. This perhaps opens up the paradigm that in-house or direct service provision is of itself problematic; bureaucratic in the pejorative sense of the term, lacking in incentives to perform better and safeguarding the producer interests, rather than the interests of those it is destined to serve. Nevertheless according to Domberger and Rimmer (2011 p.440) the issues of ‘Social objectives, accountability, equity considerations and security of supply’ are inherent reasons as to why the direct ‘public’ delivery of public services is preferable to that of private sector contractors.

Considering therefore the disadvantages of outsourcing in Figure 1 there is an emerging picture that some of the failings of NPM and its claimed efficiencies are part of the reasons now cited for insourcing; namely a need for efficiency, greater flexibility and service quality as illustrated in Figure 2 below. The complexities of outsourcing appears to have added not removed costs from public services and layered such contracts with new problems.

As UK public service budgets have contracted, particularly in local government, the sector response has been to look again at the delivery models in local government. Of 208 respondents to a survey conducted by APSE (See the APSE website)

- 77.8% stated that a key advantage to insourcing was the ability to achieve greater flexibility in service delivery
- 64.4% also cited greater efficiencies
- 59.6% cited quality improvements and
- 59.6% cited simplified management of the service

2.6 Insourcing as a response when outsourcing goes wrong: The Potsdam example of remunicipalisation and others

An early example of outsourcing failure is to be found in the City of Potsdam, the capital city of the state of Brandenburg, Germany. Following German reunification there was considerable enthusiasm for privatisation and, as in many countries across Europe, this took the form of a public-private partnership. As a result the City of Potsdam entered into a contract with Eurawasser which of itself was made up of two other companies being Suez and Thyssen Krupp. The partnership was designed to deliver both municipal water supplies and sewage disposal services. The partnership relied upon a complex web of contracts and capital was leveraged through a forfeiture arrangement (this is essentially where a bank will lend money on a deferred payment basis usually given in respect of the creditors future sales). In the case of Potsdam the ‘future sales’ were the proceeds from water charges in the sum of a reported €205m over a 20 year term. Given the structure of the financing arrangements, and not unsurprisingly, prices rose by near to 50% and analysts forecast future price increases in the region of 140%. Public opposition was swift and highly critical. Moreover according to Bauer (2015) the arrangement became mired in controversy when ‘an agreement made by Eurawasser with the works council concerning the “socially acceptable termination of employment”, which led to downsizing’. In other words, as is often marked by outsourcing, the workforce itself was reduced in the name of efficiency. In addition it was
found that the safeguards to ensure controls to be exercised by the majority shareholder in the partnership, with the municipal government having a marginally higher proportion of shares under the partnership, was found in reality to be of little consequence. The reservation of controls was essentially illusory. Less than two years into the partnership the Potsdam water privatisation was ended. The service was instead embedded into a public company, however considerable compensation was deemed payable to the private sector partner.

Whilst the Potsdam case may be considered to be a seminal study in remunicipalisation it is not the only example of large-scale outsourcing failure in the utilities sector in Europe. A utility arrangement in Berlin, again involving water, (Berliner Wasserbetriebe) was bought back by the Berlin parliament voting to do so in November 2013 following similar issues of price inflation and citizen dissatisfaction with the arrangements. According to Terhorst (2014 n.p.) ‘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.’ The Berliner Wasserbetriebe case demonstrates that whilst the state agents were reluctant to act a public referendum essentially forced the hand of Government. However the ongoing commercialisation or market-based approach to the water service has led to a further campaign for democratisation of the Utility. This raises a further perspective on insourcing. Even when a service is remunicipalised does the market model persist? Similarly in the City of Dresden its shares in a municipal housing association was sold to an American investment company with guarantees that rent increases would be controlled. The complexity of the contracts essentially made such controls impossible. Dr. Franz-Georg Rips, Director of German Tenants Federation in a speech to a meeting in Bochum (2011) described the sell-off of municipal housing for a cash return as in the case of Dresden as ‘Short-term and onetime cash flows on the one hand are countered by long-term social and economic disadvantages. The public salesmen finally give up influence on the organization of housing and city’.

Within the UK APSE / CLES (2009) published a report which found significant trends towards service insourcing with over 50 example case studies finding a majority of insourcing actions were amongst Conservative led administrations. A similar report for UNISON by APSE found a growth in the number of reported contracts being taken back in-house with 87 examples of insourced local government contracts. A 2017 survey by APSE found that over 77% of respondent councils, had or were considering insourcing a service and 61.54% of respondents were doing so to improve efficiency. Thus there is a significant trend emerging which suggests that the narrative of public sector management has once again changed and the direction of travel is no longer in favour of widespread outsourcing of public services; indeed such contract reversals are becoming increasingly commonplace.

However in some cases insourcing has not been a permanent response. Warner (2012) suggests that in the US municipal government public managers are becoming more capable at managing opposition to outsourcing. Insourcing in that sense could be viewed as a mere cyclical process intertwined with outsourcing decisions rather than a firm shift to a redefined in-house model of delivery. Conversely some UK local authorities appear to have adopted an insourcing approach for reasons of social justice. As the UK faces a growth in the gig economy public service workers on outsourced contracts are often beyond the reach of interventions to help local economies, jobs and wages. In Islington Council in London the commitment to end an outsourced Building Cleaning contract employed around 100 low paid part-time predominantly woman workers, on agency contracts, without employment protection, and was insourced with a promise to pay workers the then London Living Wage of £7.85. Notably the drive to insource the service was propelled by The Islington Fairness Commission (IFC) which 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’.
2.7 Insourcing and outsourcing: The European dynamic

UK outsourced contracts are most often governed by EU legislation and regulation. Indeed the prevalence of outsourcing is often blamed on the European Union, particularly from a left perspective. It is viewed as an extension of a neo-liberal agenda (Kaucher 2014).

This conflicting dynamic of European integration, on the one hand purportedly only economic in nature, is increasingly viewed as extending into the realms of social purpose; most especially the role of public services. Marcou (2016) explains ‘The service public is a material, rather than an institutional concept. The essential factor is the determination of the supply by the public body; how the service is delivered to the end user is important but has nothing to do with the qualification of the activity’. Whilst ‘service public’ derives from the French concept of what is considered to be a public service Marcou rightly identifies the conflict of interpretative arrangements within the UK and where [public] services are subjected to competition. Whilst the Lisbon Treaty of 2007 recognises public services as being ‘outside of scope’ of EU competition rules, where they are provided for directly by the State, the conflict arises at the point a State or its agencies, which of course includes UK local government, determines that a service is provided for by another provider - an economic entity. Thus whilst the EU is often regarded as promoting a neo-liberal agenda the issue of competition in public services is derived by the actions of the individual member state. At the point of determining the mode of delivery of a public service the decision is made as to whether it is subject to competition. Outsourcing is not enforced by the EU but when a service is outsourced it is generally subject to EU rules on open markets and prohibitions on state aid once a service is within the economic sphere. This has an impact on public service provision since it then reinforces market-driven approaches to delivery; once placed into an outsourced arrangement, with many interventions subsequently prohibited.

Moreover if an outsourced arrangement starts to fail interventions in the public service provision is potentially then still subject to compliance with EU regulations (APSE briefing 18-02). Arguably therefore whilst the EU is less prescriptive about public service outsourcing it is a proxy for neo-liberal values when a member determines to place public contracts out to tender. Therefore, the lock-in elements of the EU tender processes add a further restriction on future contract flexibility. Whilst Brexit may change the relationship with Europe any on-going trade is likely to provide some form of longer-term quid quo pro on public service contracts and free-markets. In any event the World Trade Organisation (WTO) rules still add a non-domestic consideration to outsourcing of public services. Once outsourcing is agreed the governance of the process is generally thus abdicated to non-UK interests.
Chart 1: The State as the provider to the enabling model

In chart 1 above the core role of the State is reflected in its previous traditional role as that of a ‘provider’ of services, a direct employment model and one in which the State, or its immediate agents in the form of local councils, retains core capacity to deliver services; there are strong links to democratic accountability. Softer forms of outsourcing are present in a less direct model through delegation of responsibilities or contracting out to third sector or arms-length providers. The State as merely an ‘Enabler’ as illustrated through to the right where market-based mechanisms prevail. Although this may be more closely aligned with large scale mass privatisations as seen in the utilities and transport sector it is also evidenced in local government with multi-year contracts for different services. Critically it is this model of local government outsourcing and its failure to deliver efficiencies that provide the basis for the exploration of insourcing; a return to the more direct model of delivery that informs the theoretical framework.

Chart 2: The positive force of Insourcing to influence outcomes at a local level
In chart 2 above the decisions over resource allocation is not locked into external contracts. The public bodies providing services through insourced contracts have control over resource allocation, to contract, expand or change resource priorities in line with local need. The ability to link resource allocation to strategic control of outcomes provides leverage over locality issues. Insourcing supports supply chain management, collaborative delivery models but also many wider public policy aims such as employment, the environment and skills. This theoretical framework was tested against the outcomes of the insourcing case studies.

Ultimately the choice may be between an interventionist 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. As Hanna (2018 n.p) suggests quoting E. F. Schumacher ‘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.’ 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.
3: Results and analysis

3.1 Analysis of the results
As detailed previously qualitative data was captured from a range of structured and semi-structured interviews, telephone interviews, roundtable events and focus groups. Secondary data analysis was conducted on the findings of an APSE survey (see APSE website) alongside drawing in additional secondary data sources, analysis of committee papers, cabinet reports and reports to full council evidencing the decision making processes taken at a local authority level. Contextual analysis was drawn from reports by national bodies such as the National Audit Office and the Public Accounts Committee. Full case studies are provided in Appendix 1.

3.2 Drivers for insourcing
The following primary observations were made from the case study interviews and roundtables events.

3.2.1 Improve service quality
Without exception all of the primary case study interviews referenced ‘quality’ as a driver for insourcing. In the cases of Halton and Nottingham although quality was not the primary driver for insourcing it was a factor that related to how those two councils were able to be more responsive with an insourced service. Conversely in the case studies of Liverpool, London Borough of Islington, Stoke-on-Trent and The Highlands Councils all viewed quality as a driving factor alongside costs. In Stoke-on-Trent for example one service director stated “Quality was acceptable but we knew it could be much better”. As a driver for insourcing ‘service quality’ to many may not seem to be an obvious motivation. After all do the public care who empties your bin or cuts your grass? However in reality whilst a function can be outsourced responsibility for that function rarely can be. This was a point illustrated by Michael King, the Local Government and Social Care Ombudsman, who said in August 2017 ‘Councils can contract out their waste services, but they cannot wash their hands of it. They are responsible and accountable for delivering those services, and for putting things right when they go wrong’. This theme of ongoing responsibility for service quality, even when a service had been contracted out consistently appeared in the case studies and roundtables. In one of the roundtable events a councillor from a small district stated that years into a contract for refuse collection services the council was “still blamed for a poor service” and he stated “few residents accept that we can’t do a lot when it’s the contractor at fault”. The link to outsourcing, creating a worse service for residents, was clear. Action to resolve complaints through third party contractors does not work well and the public suffer as a result. Quality thus emerged as a major concern.

In the London Borough of Islington, in spite of a cost increase, the housing repairs and maintenance service was insourced to improve service quality. In an interview conducted with the council leader Cllr Richard Watts, as part of the qualitative data collection, he stated “Price became very much second place to quality. We simply needed a better service”. In Stoke-on-Trent the cessation of a joint venture with a housing repairs provider, with staff transferring to a wholly owned company, was driven by quality considerations as well as the local economy, with the political leadership pointing to the impact on tenants of poorly executed repairs services. Part of the action plan in Stoke-on-Trent is that they would be better placed to deliver a good service by using local supply chains, which in turn recycled spend into the local economy, as well as improving service quality.

A very practical analogy on service quality was drawn from the Nottingham City Council interviews. This case study was concerned with what was initially considered to be the outsourcing of ‘peripheral’ services such as weed-spraying and road markings. David Halstead,
Director of Neighbourhood Services, suggested quality was “almost impossible to assure” in a service dependent upon conditions beyond anyone’s control. In the case of weed-spraying, seen as peripheral to the main public realm services, he questioned how a service could be specified when growth rates depended on the weather and the efficacy of the treatments were also weather dependent. This was acknowledged as equally difficult for the contractors. They too could not assure quality in these circumstances, but, the operation of a service through a third party, would inevitably mean some form of certainty was necessary for the contractor to deploy resources; it would not be practical for resources to be called in on an ad-hoc basis in response to prevailing weather conditions.

Service quality was also found to be negatively impacted by the operation of contracts. Once a contract is placed with a contractor the management team is not ‘owned’ by the client local authority. The contract can therefore be run by whoever the contracting company sees fit to deploy on a contract. In one case study the trade union representative suggested that there was a constant cycle of “New managers. All trying things that others had tried before that had already failed to deliver [on improving the service]”. A further consideration on quality is changing customer demands and expectations. What may be fit for purpose at the point of a contract being let may not allow for quality to improve as services, public or business expectations develop.

In Stoke-on-Trent the model there is to eventually allow all housing related services to sit under one service, providing a more holistic solution for local tenants, rather than fragmented points of access. In Liverpool the issue of quality improvements can be strongly identified from the qualitative case study interviews with new structures resulting from the insourced contracts. For example rather than a multiplicity of contractors, working on different aspects of services in one area, the ability to coordinate one set of workers on an area basis has improved service efficiency as well as quality. If there is a road traffic closure to allow, for example, grass cutting on a highway, there is a holistic approach taken to looking at what other services could be delivered in tandem to avoid disruption to the public at a later date such as litter picking, road markings or repairs. Coordination of these services is made simpler and cheaper when the public body is in control of the resources it deploys finds the case study.

3.2.2 Improve efficiency and reduce service costs

The case studies identified contract pricing mechanisms often allowed for contractors to receive a management fee on top of the contract or unit price of work. In addition some case studies found that cost liabilities remained with the council. In Halton for example, a case study on leisure services, a driver for insourcing was the ability to save on the contract price. In that case whilst the contract value was around £1million per annum this was structured as a fixed price but with the addition of RPIX, plus pension costs, plus any National Joint Council (for local government services) negotiated pay increases for transferring staff. The council therefore paid significantly more than the ‘fixed’ price. The council also retained liabilities for any major structural repairs on the leisure buildings such as roof repairs. Therefore a primary driver to insource was the opportunity to reduce costs. A post insourcing cost-benefit analysis demonstrates that the service has managed to save £300,000 per annum out of an operating budget of around £1m per annum.

The issue of efficiency and service cost is further demonstrated by the Liverpool streetscene services case study. In that case successive contracts over a range of neighbourhood level services such as refuse collection, streetscene services and parks attracted management fees on top of contract costs. These fees ranged from 12% - 19%. Like many outsourced contracts these neighbourhood service contracts operated on a ‘cost plus’ basis which meant payment of a fixed price plus admissible additional costs. Whilst this may be considered standard industry practice, from a public sector efficiency perspective, there is little incentive for the contractor to reduce its cost through efficient procurement. Costs can be passed on to the client. In addition
further efficiencies in the way in which the service was delivered was a key consideration which in this case included an opportunity to increase recycling rates. Low levels of recycling are costly to councils as this impacts on landfill tax payments however, when refuse collection contracts are locked into particular delivery methods driving further efficiencies, such as improvements to recycling, can be both costly to the pricing structure and complex in terms of contract variation.

This link to efficiency is further evidenced when councils were asked if there had been any increase in costs or a decrease in costs through insourcing as part of the APSE survey. The majority of respondents (58.82%) suggested that insourcing would not increase costs and of those that expected a marginal increase, up to £100,000, this represented less than 1% of respondents. Less than 2% suggested costs could increase by up to £1M but by contrast when asked about savings 4.90% suggested they would save up to £1M per annum with near to 3% suggesting that they would save up to £2M per annum. This data on efficiency and cost reductions is further correlated by the qualitative case study data; for example in Nottingham it was found that by achieving direct control of the supply chain there was an ‘immediate reduction of 17% of costs’ leading to in-house savings of some £0.5m.

3.2.3 Responding to Austerity

New Public Management has long been cited as a purported means to deliver savings but clearly the outsourcing of public services, flowing from the widespread adoption of NPM, did not protect the public service economy from the age of austerity budgeting in the UK. Local government has faced severe rounds of budget cuts with some suggesting that this could be as high as cuts of 50% of total service expenditure (Kenway et al 2016). With over 45% of respondent councils to the APSE survey suggesting that austerity has had a direct impact on their decision to insource this was worthy of further exploration in the case study interviews and roundtables. A dynamic to emerge from the roundtable discussions was the issue of resource allocation. For those authorities that had taken decisions to outsource services they found themselves in a position of gearing cuts to budgets towards remaining services because contract payments were effectively ‘ring-fenced’ from austerity budget reductions. As one Conservative Councillor from a County Council put it “If 50% of our budget is locked into contract payments then taking out 30% of budget expenditure really becomes 60% on the bit we have control over”.

A strong correlation with political choice and accountability also surfaced in the roundtable events. If councillors are elected to respond to the needs of their local citizens they have to make some tough choices about how finite resources are allocated. Effectively an outsourced contract ties in future councillors to the allocation of resources set by a previous administration; even where, at the point of outsourcing, there is broad agreement to the proposals, austerity can change the political and local priorities. In one case study interview a service manager suggested that the cuts to one service had ‘gone too far’ and elected members had decided to increase the budget allocation to the service in light of public complaints; the point he was making was that had that service been outsourced the contract specification would have been relatively ‘locked in’. This point arose in the Highland Council case study. As austerity measures are now starting to increase in Scotland elected members needed to reduce the public amenities budget but as parts of the council’s services, valued at £3.3m per annum, were outsourced, there was little scope to carry out a service review. Following the services being insourced arrangements are now in place to deliver significant savings by re-profiling the service.

In Nottingham the bulk of the council’s budget is on social care taking 61% of its total spend. Although the majority of services are already in-house peripheral service contracts amounted to around £890,000 per annum. Individually these smaller contracts do not seem significant but austerity focused the minds of both the political and administrative leadership. The case study interview revealed that culturally ‘all resources needed to be deployed to meet the corporate
objectives’ to manage through austerity; this included acting more commercially but also avoiding hidden costs of outsourcing such as inflation of overhead services costs (central establishment charges) and duplication of service management costs given the client-side functions.

The cost of contract management and duplication was keenly identified as a theme amongst virtually all case study and roundtable participants. By necessity when a service is outsourced there has to be a process of monitoring performance, necessitating the retention of some service knowledge within the council; this however duplicates the costs built into the contract pricing for contract management. Equally as internal costs within councils come under increased scrutiny through austerity ‘back-office’ support costs are inflated where they are spread across fewer numbers of staff. This was a point made most strongly in the Nottingham City Council case study. Data from the Association for Public Service Excellence shows that the in-built costs of client / contractor splits are effectively embedded within outsourcing arrangements (Baines 2012). Insourcing therefore was found to reduce the calculation of central establishment charges as a cost per employee.

3.2.4 Increasing flexibility and alignment of corporate aims including commercialisation

A number of case studies highlighted that as well as generating efficiencies through insourcing they had been tasked with generating new sources of income in order to further reduce the cost of providing services. Some may term this approach as ‘commercialisation’ but it is perhaps more accurately seen to be ‘profit for a purpose’ or ‘income for social outcomes’ (Baines, Barnett et al 2018). In the Liverpool case study income from trade waste services has increased from c£600,000 to £1M. In addition they are seeking to further develop sales of services in response to events such as the deployment of euro-bins and litter picking services as part of the City’s endeavours to recycle money back into the local economy from its many cultural and leisure events it hosts.

Efficiency was cited several times as a key driver to insource alongside service quality and better integration of the service. As the Liverpool case study states ‘Initially an immediate efficiency of £1.4m was able to be extracted with a further target saving of £2m over three years was set to be realised from the contract costs of £22m.’ Similarly in Nottingham all services are expected to contribute to its corporate culture of income generation to offset the impact of austerity. Whilst the insourced peripheral streetscene services may not be considered to create a direct connection to increased income, the flexibility, provided through these services being insourced, supports the commercial culture in an over-arching way. Most staff are increasingly multi-skilled which means resources can be more effectively deployed so that they are able to meet the needs of both the internal customer (Nottingham City Council and its residents) but use the created capacity to delivery for other external customers (other public sector bodies, private companies and residents purchasing additional services).

A further finding was alignment to corporate or social objectives. In Halton Council the insourcing of Leisure Services provided a gateway to the Living Wage for those staff who were transferred back to the council under the Transfer of undertakings Protection of Employment (TUPE) Regulations. The council had already adopted the Living Wage for its in-house staff and they determined the insourced staff should also be up-rated. In Islington the Islington Fairness Commission (June 2011) preceded most of its expansive insourcing programme but the Fairness Commission identified taking back public contracts as a means to ensure fair treatment of the workforce. The Fairness Commission report states (p.18)

‘In September 2010 Islington Council announced that 150 cleaning staff would be offered a contract with the Council that guarantees they would be paid the London Living Wage, as a minimum, because of the Council’s decision to bring the cleaning service in-house rather than continue with an out-sourced cleaning contract.’
A roundtable event held in Manchester, also correlated the relationship between strategic corporate objectives and insourcing. Those with an interest in stimulating local economies were concerned by hollowed out councils being unable to influence and engage in approaches to help local economies, for example through generating local supply chains. This of course links to the findings on austerity; new ways of procuring supplies locally was strongly perceived to both improve efficiency and support local businesses as with the Stoke-on-Trent case study which finds that Unitas, its wholly owned company is procuring 78% of its products within Stoke postcodes. Employee spend from directly employed staff was also a factor in this. As one local government chief executive observed “The best way to create local wealth is to support decent local jobs so employees will go out and spend in the local economy. Short term exploitative contracts seep money away from our local businesses”.

A further dynamic is the up-skilling and re-skilling of staff. In all case studies the outsourced arrangements had tended to place staff in silo working situations. It is not clear as to why but it appears to relate to how the initial outsourcing was structured. This was more profound in multiple service contracts that had been outsourced in a segmented way. Upon insourcing, and as a means to generate efficiency or cope with cost savings, which were anticipated from the insourcing, changing the skill set of the workforce was found to be an important tool. In Halton for example the contractor had been successful in generating income through enhanced payments (bonuses) for sales on gym memberships, with a dedicated sales team. This was not viable under the in-house team and did not fit the pay and rations structures within local government, particularly with Equal Pay considerations. An approach to re-skilling staff and providing them with a better understanding of the business pressures within the service is now starting to deliver the anticipated outcomes within Halton’s Leisure Services. Conversely as one senior manager referred “where the corporate framework does not meet what we need to develop the service we have to keep trying different ways to make sure that we can work within or around that”. This shows that whilst insourced services must work to the goals set corporately there can also be tensions which arise from the relatively restrictive prevailing HR conditions within a local authority setting.

3.3 Insourcing: The commonly cited reasons

To identify any relationship between the themes which emerged from the case study interviews and roundtable events it was useful to correlate the outcomes with the secondary data identified within the APSE survey which found the most cited reason to insource a service was to improve efficiency and reduce service costs (61.54%). This was closely followed by a need to improve service quality (54.81%); and reductions on contract spend as a result of austerity (45.19%) and greater flexibility from an in-house service (43.27%). All of these reasons were strongly present in the narrative of officers and councillors interviewed as part of the case studies and roundtable events. Interestingly contracts coming to a natural end in near to 40% of the cases became a reason to insource. This once more emerged in the case studies as few incidences of insourcing resulted in any form of legal action. In at least one of the detailed case studies the contractor actively sort to hand back the services on the basis that it was no longer profitable for them to continue.

3.4 Insourcing by service type

Whilst councils have statutory duties to provide certain services, and provide many other services on a non-statutory basis, this split is not reflected in the types of outsourced contracts. In other words whilst councils cannot outsource their duty to provide a service they can, and do, outsource the function of itself. Outsourcing has been evident in both statutory and non-statutory services and this is reflected in the services being brought back in-house. It is therefore worthwhile
considering the propensity for insourcing by service area. Based on the APSE survey data for 2017 (ibid) building maintenance (housing and non-housing repairs services) appears to be the most common area at 27.34% but followed closely by waste collection at 21.09% with parks, open spaces and grounds maintenance at 17.97% and building cleaning at 13.28%. The volume of building maintenance and repairs contracts is perhaps reflective of the direction of travel on ALMOs (Arms-Length Management Organisations) which were rapidly established in response to Decent Homes funding under the Blair / Brown administrations (Cole & Powell 2010). These arrangements led to the outsourcing of housing repairs and maintenance services and although these were considered to be special purpose vehicles many remained at arms-length to the local authority, even after the programme works had been completed. A number of authorities have however brought their ALMOs back into the local council alongside other housing services. The number of ALMOs is now estimated to be half of those in 2000 (Merrick 2017).

3.5 Insourcing: A growing phenomenon

As explored in chapter 2 as there is no ‘one source’ register to record the method of delivery of UK local government services. Whilst councils are obliged to publish the award of contracts under numerous regulatory requirements, not least the Public Contract Regulations (2015), there is no requirement to publish details of insourced contracts since the ability to deliver services directly is generally enshrined within local government, notwithstanding requirements such as Best Value (Local Government Act 1999). Therefore to explore the patterns of insourcing and establish its frequency reliance has been made on secondary data.

The APSE survey (see APSE website) attracted 208 respondents of which over 42% had senior management responsibility for frontline services. This was representative of the UK based on 68.63% English Councils (140 respondents) 20.10% of Scottish respondents (41 respondents) and 20 Welsh respondents representing 9.80% with 2 from Northern Ireland; there are now just 11 local councils in Northern Ireland following reorganisation in 2015. There was also 1 ‘other’ response (British Isles /Crown dependency). There was also a proportionate spread by authority type with 18.75 % from both Counties and Districts and 17.79% from English Unitary Authorities and a further 11.54% from Metropolitan authorities and 7.21% from London Boroughs.

In terms of the prevalence of insourcing near to 73% of respondents indicated that they had or were in the process of insourcing a service with 45% already having completed the process. This finding is supported by a further secondary data set provided by UNISON the public sector trade union (Russell 2016) which found in a survey for EPSU that 44 insourced contracts had taken place in 2016 with the majority of these services, 43, taking place in local government and education services and the 1 remaining contract in Health Care. Whilst neither data sets can or should be viewed as the complete picture both provide a robust representative sample of insourcing specifically to local government services. Significantly the data suggests an ongoing and upwards trend in insourcing in UK local government compared to earlier reports in 2009 (APSE/CLES) and 2011 (APSE/UNISON). It is also worthy of note that the collapse of Carillion, a major UK outsourcing firm is also reported to have led to significant numbers of contracts being returned to in-house provision. A House of Commons briefing report (Mor et al 2018) found that Carillion had 450 public sector contracts, a small proportion of which were in local government and / or education establishments with a number of FM services contracts providing school meals and building cleaning services. The formal advice of government was to exercise contingency plans including the use of step-in clauses by the public authority - in other words the ability to either take over a contract or to novate to an alternative provider (see APSE Briefing 18-02). Whilst taking the cumulative total of contracts to include the Carillion figures would create a misleading statistic, due to the seismic nature of that collapse, the APSE data and the UNISON data coupled
with the reports of insourcing post Carillion within local government suggest that there at least 220 insourced contracts between 2016 and 2018 in UK local government.

### 3.6 Barriers and challenges to insourcing

There are a number of issues that could be considered as barriers or challenges to insourcing however the terms ought not to be treated as interchangeable. Just because a challenge is presented it need not be considered a barrier to insourcing. That being said the evidence from interviews, roundtables and documentary analysis, as well as secondary survey data, suggests there are challenges and a learning point from this research is how those challenges and barriers have been resolved.

#### 3.6.1. Capacity

A key issue that is often raised in considering insourcing is capacity. In the Nottingham case study the workers on the contract operated across different clients and therefore TUPE did not apply. However this was overcome by the fact that Nottingham had a core service already in place as the case study finds ‘importantly internal support was already in place to develop new structures and to ensure that the structures would meet the emerging organisational needs.’ Thus in this case study they were capable of resourcing the insourced work, both with existing staff and the minor purchase of some new equipment where needed, leading to recruitment as and when necessary. In Halton the issue of capacity created a much bigger challenge. The leisure workforce is fairly unique in that it relies upon casual staff who will work across different gyms offering their own specialist fitness classes. Therefore those staff fell outside of TUPE. Halton was however keen to ensure service continuity for its customers and therefore offered continuity of work even though not obliged to do so. However they found that the in-house pay rates were not competitive enough to attract the fitness instructors they needed; they had to quickly review the market realities for the service to overcome these difficulties. As one of the interviewees described it “On an industry wide basis the leisure sector is unlike the traditional job roles of a local government officer”. In the Stoke-on-Trent case study many of the staff were described as “coming home to the council”, bringing with them service delivery capacity.

Following an outsourced arrangement, in the majority of cases staff were transferred back into the local authority; this emerged both from the qualitative interviews and the secondary data analysis. The APSE survey found that 72.63% affirmed this to be the case with just 10.53% suggesting that there were no staff transfers. A key finding from the research is that where staff transfer into the local authority the issue of immediate continuity of the service is more assured. Again using the Halton case study as an example there was little internal capacity on managing the service directly, notwithstanding some of the transferred staff were returning back to their originating employer; this was overcome by using secondment arrangements with a neighbouring authority, who had retained capacity through their in-house services. Thus additional capacity was sourced to allow the service to embed back into the council structures. A similar measure took place in Liverpool’s streetscene services where Liverpool City Council staff were seconded to the newly created wholly owned company to which the outsourced contracts were novated; specifically managers with accountancy and HR skills to set up the new service. This has led on to further operational support to develop better ways of working and integrate services. Although resourcing was initially perceived as a barrier the secondment of skilled staff has allowed the organic development of structures to meet needs.

#### 3.6.2 Pay, rations, TUPE and pensions

The Transfer of Undertakings Protection of Employment regulations known as TUPE (See list of statutes) will commonly apply in the case of insourcing services as there is a specific undertaking
(the contract) that is transferred to a new entity. In five of the six detailed case studies it applied in all but one (Nottingham). TUPE can be complex and it is not a matter that can be ‘selected’ to apply to a situation but is determined by operation of law. Nevertheless it is complex; contractors in an insourcing situation generally will have the upper hand in providing details as to the staff they consider should be on the transfer list; this could mean TUPE lists are inflated with staff who are not usually deployed on the local authority contract. Equally it could be a mechanism for contractors to retain staff to work on other contracts so that they do not lose capacity. TUPE is governed by the Transfer of Undertakings (Protection of Employment) Regulations 2006 and the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. Whilst TUPE applies to the vast majority of contracts it was clear from the case studies and the survey responses that post-transfer the generally direction was to reorganise the service to meet new business needs. This was the case in the Liverpool case study; which led to integration and multi-skilling staff; in The Highland Council case study which created a new role of ‘Amenities Officer’; in Stoke-on-Trent which has integrated new software and integrated different services; and in Islington where services have been organised to better meet demands. This primary qualitative data is supported by the secondary data from the APSE survey. Near to 64% of survey respondents intended or had sought to harmonise staff terms and conditions. Near to 65% had also explored the costs of admission to the Local Government Pension Scheme.

Pensions, or rather pension costs, are perceived to be a barrier to insourcing. This issue has a number of dynamics. Where original local authority staff are transferred back into the local authority it is usually with Local Government Pension Scheme (LGPS) membership still intact from the original transfer. However there are two further categories of employees who may be excluded from this. First of all staff who have been recruited by the contractor and not placed into the LGPS, albeit alternative pension arrangements may be in place; and secondly where the insourcing transfer is to an arms-length company rather than directly back to the authority there may be issues with admission to the scheme for non-originating staff, though this should always be considered against competent legal advice given the statutory nature of the scheme. This research is not intended to present a technical appraisal of pensions, however, as pension costs are a consideration to all employers, it is most clearly an issue of some complexity.

In some cases insourcing directly improved access to stable pay and pensions by providing previously ad-hoc and patchy terms and conditions with stable contracts and access to the LGPS. Regardless of the perceived cost barriers to public sector pensions what does emerge across the case studies is that the efficiencies and quality improvements were still realised even when workers conditions and pensions improved. In doing so this avoids cost shunts elsewhere on the public purse, for example low paid workers needing in-work top up benefits or housing support.

3.6.3 Harmonisation

Over a number of years local councils throughout the UK have been challenged on matters of Equal Pay. Trade union guidance (see ‘Trade union side guide to local government pay and grading reviews 2017 Edition’) strongly supports job evaluation and this includes regular re-evaluation. Therefore harmonisation, whilst not a necessity in the short term, may be a useful consideration in the longer term. The secondary survey data suggested that harmonisation would in any event be considered in the majority of cases with 63.64% of respondent councils who had or were in the process of insourcing. Where insourcing had the objective of improving service quality and efficiency harmonisation provided opportunities for new career pathways. Harmonisation is therefore viewed as both a challenge and an opportunity.
3.6.4 Planning for change and contract determination

Different situations arise which can trigger insourcing. In the case of the collapse of a contractor most contracts carry a step-in clause allowing the public authority to step into the contract and takeover. In these circumstances it is difficult to plan for all eventualities but in light of recent high profile collapses many authorities have explored their exposure to risk. Most commonly however, and as was the situation with all the case studies, contracts were ended at their natural point of determination. This is also supported by the secondary data analysis. In some circumstances contracts that operated on a break clause and renewal option basis continued into the extension term, even where there was increasing dissatisfaction; this was evident in many of the case studies. When challenged in the semi-structured interviews as to why this was the case it generally resulted from a lack of planning for the contract to end. Most at this juncture had attempted to improve the outcomes of outsourcing by renegotiating elements of the contract but fundamental issues still remained. In Halton for example they successfully renegotiated some of the rates resulting in reductions in contract payments but they still found that comparatively they were paying more than the ‘going rate’ for the service even though it was explained that ‘in the lead up to the contract end date a number of matters were renegotiated; this included some cost reductions to the contract prices.’

In the Highland case study on one of the contracts which related to grass cutting the contract had been taken over by a different provider. The new provider found that the contract pricing was so out of kilter with the contract requirements that they actively pursued handing the contract back to the council. However the council was keen to extend the contract for around a year to better plan for insourcing. The contractor would only extend the contract term if the rates were uprated by 30% so as an emergency measure this was agreed but only for a two month period as opposed to twelve months. A commonality to emerge from all of the case studies is the need for a forward plan. Insourcing will rarely occur overnight. Islington, Halton and the Stoke-on-Trent case studies all suggest a timeframe of around two years. This planning it is found, enables the development of an insourcing plan, which must include consideration of essential factors such as supply chains, processes and procedures, including HR and operational planning. In the Liverpool case study all contractor processes were rewritten to include the new requirements of the service post insourcing.

3.6.5 Dealing with a hollowed out ‘parent’ council and unique contract conditions

The relative ease of the Nottingham City Council study in bringing in peripheral neighbourhood services, in spite of the non-application of TUPE in that case, is centred upon the capacity which remained locally. The services could be reintegrated into areas where there was existing managerial knowledge and moreover internal support systems on matters such as fleet management, purchasing and HR. They also brought in an ethical consultancy service to help cement the transition. This was similarly the case in Halton, albeit leisure professionals were down to just one officer retained by the council, other support services were in place because of the volume of retained in-house delivery elsewhere within the council. The use of a local authority shared service arrangement through secondment of key personnel from another local authority, was also a key factor in the success. Stoke-on-Trent was a more mixed picture but interestingly many of the transferring staff had originated from within the council and were enthusiastic about the opportunities presented to them. Islington similarly deployed additional resources to assist with the transfer but were keen to stress that later transfers, having learned from their earlier experiences, meant that some stable council resources were already in place for later insourcing.

Whilst Highland council kept the majority of its services in-house the unique nature of the geography for the grass cutting contracts and the public conveniences still created a difficult set
of circumstances for insourcing. As the Amenities Manager expressed “The outsourced contracts meant that significant inventories had to be created to ensure premises keys, stock and so forth was in place to maintain the public conveniences as well as staff rota arrangements”. Having lost the contracts some years earlier the most basic of information was not available to the council such as key-holders for buildings and the local staff deployed on specific geographic areas. This created a lot of work in developing appropriate assets registers, work programmes and the allocation of resources within the contract.

3.7 Does insourcing provide a viable alternative delivery model for local council services?

The roundtable informal discussions were much more challenging on the research questions. Few were convinced by the idea that the private sector can run public services better than public managers and at lower cost. Interestingly however there was a general acknowledgement that CCT in the words of one director of neighbourhoods put it “did some good”. His view was that “there are good and bad managers in both the public and private sector” but that motivations are different. One is about profit maximisation whereas the other is about creating innovative ways to keep the public and politicians satisfied with the services. However this simple split on motivational factors is further compounded by the fact that once insourced many services are now actively seeking to be more commercial. An emerging factor is that the services have an intrinsic value which is better exploited by the parent council than either being missed as an opportunity or, rather more controversially, exploited by the contractors for their own ends. Again to quote from one of the roundtable events a Conservative District Councillor suggested that it was only right that the local council could “squeeze the juice out of a service, which could be recycled into other services where need is greatest, rather than a private company who will squeeze the juice for shareholders who have nothing to do with our area”.

As discussed within the Halton case study the concepts around NPM have not disappeared. Indeed there was a recognition that services still needed to prove they offer ‘Best Value’. In Stoke-on-Trent, the authority has developed what it would term as its own unique approach; the values of a business plan, the discipline of some NPM techniques remained highly relevant, but they were applied in a way that very distinctly supported local outcomes. This was a perception that also emerged from other roundtable events. It appears that NPM is seen, as an end product, as ‘faceless’ super-companies that extract wealth from local areas whereas a council exercising a discipline that used some market tools and techniques could “be equally successful but adding value to local places; not removing it” (County Councillor). This issue of a supportive local approach to entrepreneurial municipal government is aptly summarised by Cllr James Noakes, Cabinet Member, Liverpool City Council “As a council, frontline services are critical to our residents, our businesses and the success of our neighbourhoods. Insourcing in a very innovative way allows our services to be better integrated and meet with our strategic aim of inclusive growth. Supporting and growing our local economy, and ensuring services are focused on quality were fundamental reasons we created LSSL”.

3.8 How do the research findings compare to existing literature?

In some senses insourcing might be best described as a quiet revolution. The House of Commons Public Accounts Committee report in 2014 suggested that the value of Government spend was around £187 billion with half of that amount spent on contracting out services. High profile failures in the rail industry, leading to interventions on franchises, on-going warnings on the financial health of outsourcing companies, and the spectacular collapse of Carillion have all
however switched the national debate on outsourcing but at a local government level there are different dynamics made clear by the emerging evidence.

Local government contracts are often smaller in value and reported as per annum spends but nevertheless when accumulated these are a significant chunk of local spend. This scrutiny of spend in almost all cases of insourcing was further driven by austerity; in an era when up to 50% of spending is cut from budgets every penny counts.

Whilst Hughes (2012) makes the distinctions between public policy makers and public management to deliver, the case studies and surrounding evidence point to almost a merger; control over delivery is now being used not to passively implement public policy but to ameliorate against its impact in terms of austerity. Insourcing is emerging as a tool by which local governments can be proactive in managing their finances, generating additional income and dealing with resource allocation in a very different way to simply assessing the cost of a service and then entrusting a third party to deliver it.

Drawing further on this issue of the proactive interface between local councils and local economies, and drawing upon Clifford and Morphet (2017) councils are acting as market disruptors in the local area. It is clear that the volume of insourcing that is now taking place enables this disruptor role to go much further. It is reasonable to suggest that the scale of insourcing, when added together in terms of returning the contract payments to the direct spend of the local authority, creates a new, or perhaps revisited, ability for local councils to pull the financial levers and direct services to the needs of local residents and to be held to account by local people.

The complexities of public service decision making suggested by Klijn (ibid) is certainly evidenced by the results of this insourcing study; ‘knowledge uncertainty’, ‘institutional uncertainty’ and ‘strategic uncertainty’ have all played a part in contracting failures; over ambitious claims on the part of contractors, followed by ‘hokey-cokey’ management, leading to a lack of continuity and operational knowledge on the ground, have hugely contributed to the drive for insourcing. Equally however, where once outsourcing was seen as parcelling up a neat bundle of work for a fixed price, and to leave a contractor to ‘just get on with it’ is no longer an approach that is fit for purpose. Alongside austerity placing pressure on budgets a further realisation, particularly amongst elected councillors, is that their choice over resource allocation is stymied by payments locked into contracts. The capacity to recalibrate services to cope with budget pressures is restored by insourcing, alongside control on service quality and frequency or scope. Suleiman (2003) asked why ‘bureaucracy served as the punching bag for so many would be reformers” and this is certainly well argued by the interviewed local government officers, many of whom had argued against the initial outsourcing but were battling against a perception, real or imagined, that local government was too slow and too cumbersome to be its own reformer. What the evidence in fact shows is that insourcing has been a catalyst for reform.

Services are not being returned to the council to a one-size-fits all model. The insourcing programme is being driven by an innovative and dynamic approach. Indeed it is perhaps finally encapsulating the illusive real efficiencies. Insourcing is allowing local councils to produce the right things in the right way. Warner and Hefetz (2012) found the emerging trends towards remunicipalisation in the US; similarly Hall, S. and Hall, D. et al (2011, 2013) have explored the phenomenon across European cities with utilities. The UK local government sector is as Wollmann (2013 p.84) observed in European municipalities ‘ready to “buy back”’ its services. The UK is yet to reach a point of insourcing, at scale, those contracts operated at a Government level; even where contracts fail and Government steps in, such as the recent step-in on the Private Probation contracts for prisons, Government has been quick to point out that the step-in arrangements are in advance of finding an alternative provider. The difference in local government has been a firm commitment to insource a service then ensure that it is aligned to local need. This could be described as a form of ‘New Municipalism’ which APSE has developed extensively as a concept.
3.9 Conclusions

The case study interviews, telephone interviews and roundtable events, were intended to capture the richness of experience of those who had insourced as a response to outsourced public service contracts, at a local government level. They were also designed to test the existing literature and public policy narrative on delivery models and the emergence of insourcing as an emerging alternative mode of delivery, its scale and its impact. Insourcing is indeed happening now in UK local government and is proving to be a successful alternative to outsourcing. The failure of outsourced contracts is not just about price or better contract management and performance but increasingly the changing dynamics of public sector management. As local councils continue to battle austerity the lines are increasingly blurred between the makers and the implementers of public policy; charged with continuing to provide services but with resources at a premium the implementers are responding in increasingly innovative ways. Thus the public services platform and its division between the two is now a much more contested space. This is not to imply politicisation of local government officers but a more radical pragmatism is shaping policy with the consent, indeed support, of local councillors. There is now a permissive framework for positively disruptive actions. This adds to the complexities within public sector organisations. Controlling one’s own resources in a local area; shaping services to meet local needs and aligning services to the strategic needs of the local authority, including its own financial management, environmental endeavours or social justice outcomes are all best facilitated by having the ability to pull the levers, determining how, and in what way, local services are delivered. Insourcing appears to provide this certainty to local councils in otherwise turbulent and uncertain times. The emerging picture in the UK supports Hoffler (2013) on the resurgence of public ownership and control and it is argued that this reshaping of the delivery narrative is expansive in the UK but also nuanced by the economic backdrop of austerity.
4: Conclusions and recommendations

Within this final chapter we explore the conclusions and recommendations drawn from the findings of the research study.

4.1 Challenging the theoretical basis of outsourcing theories through insourcing

Many have challenged the outsourcing elements of NPM. Its effectiveness and the polarisation of ‘traditional’ and ‘new’ forms of public management. Essentially however insourcing brings about a new dynamic to the debate. Rather than a simplistic question of ‘in’ or ‘out’ a proactive decision to insource services appears to demonstrate a newer approach to managing public services; the evidence points to a pragmatic response to intervene in service delivery for a myriad of reasons but most commonly for reasons of efficiency, quality, flexibility and cost savings. Ironically, particularly on efficiency and cost, these were considered to be the drivers for outsourcing under the auspices of NPM. The premise of the argument that the public sector is too cumbersome or clunky to deliver service improvements is now appearing more as an argument pointed towards local government contractors. More importantly as a finding the structural problems inherent in relinquishing delivery responsibilities to a third party suggests a loss of control in resource allocation, cost increases and quality diminishing.

4.2.1 Insourcing as an alternative delivery model for local government public services

A number of studies are now demonstrating the strength of an insourcing approach to public service delivery and indeed public ownership. The scale and volume of insourcing in UK local government is supporting the idea that, rather than simply re-letting or extending contracts, insourcing as an alternative model of delivery is not only viable but increasingly viewed as an innovative solution. Bringing a service back in-house is not a simplistic correction to a contract that is not working but a process of innovation in its own right. Insourcing allows the public provider to exercise more effective resource allocation and maximise its limited resources. It allows local councils to do the right things in the right way as demonstrated by the result and analysis in Chapter 3; insourcing is a means to ameliorate the impact of austerity based on both the primary qualitative data and secondary data analysis; it establishes the ability for councils to be the connecting force between local services and communities and businesses; and it joins up holistically the endeavours of public services with sustainable local outcomes.

4.2.2 What are the limitations or drivers towards insourcing that help to determine approaches within local government?

Longer term contracts that could be costly to end much earlier than the normal contract expiry date, are more difficult to approach than those where there is a shorter lead-in time to the contract end. That being said the evidence suggests insourcing rarely results in litigation. In the vast majority of cases local councils were able to explore, through a proactive options appraisal, the best way to meet its future service needs. Many argued that an ideal lead-in time to insource a service would be two years before a contract end date. Austerity has been something of a double-edged sword. On the one hand it forces all costs to be considered including the spend and performance of external contracts. On the other it has contributed to the loss of the experienced managers, which of itself is problematic when monitoring contractors. There remains a perception, real or imagined, that local government direct delivery will be more expensive. This is not borne out by the insourcing case studies. Efficiencies go extensively beyond a measure against contract prices.
Service integration, improved operational delivery and skilled and innovative staffing teams, with visionary political leadership, are driving forward more integrated and effective services. Integration is rebuilding services from the bottom up. These services at a neighbourhood level are delivering for communities but also upwards in meeting strategic corporate objectives.

4.2.3 How do internal and external factors influence the choice to insource services in local government?

The evidence suggests that a major internal factor within local councils to insource is due in no small part to the pressures of austerity. Local councils must set a lawful budget but the extraordinary pressures that they have faced since 2010 has provided the conditions for a rigorous review of all expenditure. The de facto ring-fencing of resources to service contract payments has acted as wakeup call to review the efficacy of these arrangements. Equally in many areas the public (and local politicians) have been disheartened by poor quality in services and the impact of fragmented local delivery through outsourcing. To whom should they complain when neighbourhood level services go wrong? And who is accountable? The findings suggest that internal and external factors will change over the lifetime of a contract. Again this is a structural problem in contracting out services (Hoeffler et al 2013). Initial reasonable performance on contracted out services diminishes along with how a contract is resourced. This includes under-resourcing to achieve the delivery in line with the contract price. It is not possible to say if this is a deliberate tactic to squeeze profit margins but there is more direct evidence to suggest that lack of local knowledge results in haphazard resourcing of contract delivery. In an age of austerity with unprecedented demands on local council services many have taken up the old adage ‘if you want a job done properly do it yourself’.

4.3 Findings and recommendations

The following findings and recommendations have been drawn from the data analysis of the primary data sources and the secondary data and documentary analysis. Using IPA methods the most significant and reoccurring themes have been drawn into the following:

- Insourcing is not driven by ideological aims: Current figures show more Labour (42.22%) than Conservative (35.56%) council’s are insourcing but this does not suggest it is ‘party political’. Earlier studies found more Conservative than Labour councils were insourcing.
- Insourcing is a pragmatic response to austerity: When every penny counts contracts that suck in more resources are no longer tolerated.
- 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.
- 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.
- Insourcing rebuilds public service capacity and flexibility in delivery: It creates dynamic, supple and responsive services.
- Insourcing is essential to future funding for council services: Local councils cannot make money from resources over which they have no control. Insourcing provides a means for councils to organise activities to support income generation and commercial activities.
4.4 Detailed recommendations

The following recommendations are intended to inform current and developing policy as it relates to service delivery choices and decisions, most especially within a local government context. They are founded upon the rich accounts and experiences of those within local government who have in many cases been deeply absorbed into managing an outsourced delivery operation but have benefitted from their experiences to inform their approach to insourcing, sharing their experiences with others within the UK local government family.

Recommendation 1
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
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
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 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
Insourcing can be used to support local economies, and the environment, 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
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 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.

4.5 Limitations of the research
Whilst the research is an attempt to explore insourcing in both its scope and volume it is also centred on those actors who have had first-hand experience of a relatively successful insourcing programme. It is therefore difficult to gauge if insourcing has in other cases been abandoned or placed in the ‘too hard to do’ pile of management inboxes. Equally whilst litigation has been avoided in most cases, even with early contract termination, this may be understated as many legal agreements to protect the parties in these circumstances may not be in the public domain. No assurances are given either on any legal aspects of insourcing. These are very much issues that should be considered with the benefit of local knowledge but equally local authorities have broad powers to be able to provide services directly. Previous outsourcing does not alter the ability for direct delivery. This study also includes insourcing example case studies where the transfer has been to a wholly owned local authority (Teckal) company. Some may argue that this is not direct ‘insourcing’ back to the local authority. In both cases unique circumstances made this the most viable option including the opportunity for contract novation and, in at least one of the examples the limitations on specific trading powers, which was highly relevant to its commercial activities.

Decisions to insource should not be driven by form but by what the local council wishes to achieve. In most cases there will be a wide range of powers to simply get on and deliver a service under a simple direct employment model. Councils can also rely on their powers to trade and charge in services once insourced. Circumstances will vary between different local councils but generally UK local government enjoys a range of powers and indeed duties to provide local services so ‘in-house’ should be recognised as the default option.

4.6 Concluding comments
In conclusion this research, with the benefit of the case studies, peels back the detail on the realities and limitations of approaching public service delivery through outsourcing. It provides a rich insight into the operational and public policy realities of abdicating responsibility for vital public services to third parties. It also highlights a dynamic, innovative and pragmatic public sector in UK local government. A sector that is unafraid to challenge the narrative of market orthodoxy and develop insourcing responses that go beyond simply wrestling back control of contract performance; joining the dots between the needs of local communities and the reality of limited resources.

‘Insourcing is providing the means for local councils to reconnect the cable; enabling them to pull the lever and make things happen’
Appendix 1: Case studies

Case Study 1: Nottingham City Council

Introduction
Nottingham City Council has a population of near to 330,000 (ONS 2017) and with its university
populations has a higher than average churn of residents with university students comprising
around 1 in 8 of the population. Although its population is relatively younger than other areas
it has higher than average rates of people with disabilities in its population and those with life
limiting illnesses. As a unitary authority it has responsibility for the full range of local public
services including social care. The majority of services have been retained in-house. Social care
related services now account for 61% of the council’s budget with the remainder of the budget
spent on all other services. So far the council has saved £27 million in spending as a result of
austerity measures but budget pressures are ongoing.

Outsourcing in context
Culturally within Nottingham City Council all services are considered to be ‘in-house’ but like
many councils with the exception of some adult care services which are operated by multiple
providers in areas like domiciliary care. Trade waste is a combined service with Derby City Council.
Therefore any outsourced contracts were considered to be of peripheral value and significance
to the core in-house services. However in recent years the idea of ‘peripheral services’ did not
fully stack up. Increasingly frontline services have been asked to identify savings but to also take
a more commercial approach to service delivery; by doing so this raises additional sources of
funding which can be used to offset the budget allocation needed to run services. Culturally there
is a commitment to develop new ways of delivering services as opposed to simply rationing what
is available (though by necessity this remains an option). Therefore to maximise the commercial
capabilities of services there was increasingly a recognition of a need to ‘join the dots on delivery’.

An early approach to reconsidering the concept of a ‘peripheral service’ outsourcing came from
an opportunity to end a contract for staff catering. Following an exploration of contract pricing it
quickly became apparent that the council was in effect paying a cost to a caterer for a service on
top of the cost of delivery, charged through the meal prices. An outline business case found that
the service could be insourced with an immediate saving on the management fees.

Contract operations in practice
A range of ‘peripheral’ service contracts had been let and these included the service areas of
building maintenance, weed-spraying, hedge-cutting, and tree maintenance, as well as the
aforementioned catering contract. Contract prices ranged in values of £40k, £50k, £300k and
£0.5M per annum. The contract terms varied but generally included a fix contract for a term of
years and also included contracts with an option to extend for a further term; for example 3+1
year, 2+1 year and so forth.

In practice, although the outsourced services were considered to be relatively ‘simple’ services to
deliver, a contract such as weed-killing is difficult to specify. The growth rates differ from season
to season dependent on the weather and this meant that planned work could turn into abortive
work if the conditions were not right. In addition flexibility and responsiveness were problematic.
For example an elected member complains about weed growth but the planned contractor visit
has already happened; there is no flexibility to reallocate resources to meet a new demand. Whilst
some public realm work is considered to be seasonal it does not necessarily mean it is predictable.
For catering the service operated on a management fee basis. This worked out at circa 17%. The practicalities of this meant that the council was paying a fee for the caterer to then sell meals. In both of the examples cited quality was not an issue in terms of the contractors work but it was driven by a need for savings and greater flexibility.

In the case of building maintenance and repairs on civic buildings the outsourced contract meant that the council procured a principal contractor who in turn appointed sub-contractors. The supply chain costs for using a framework arrangement averaged at 17% of total spend. By insourcing, which allowed for direct control of the supply chain, this cost was removed. An immediate reduction of 17% of costs. Even after the role of principal contractor was re-established in-house savings of some £0.5m were realised through service efficiencies, including better ways of planning and delivering the services.

The drivers to outsourcing and insourcing the services

At the point of outsourcing the services were seen as ‘bolt-ons’ or additionality to core services. Initially the costs of outsourcing appeared cheaper but that was only for the basic service. It was also considered to be a ‘hassle free’ option. An area of the service that could be taken care of. On the issue of quality the Director of Services was keen to stress that the contractors did not ‘fail’ on the quality of the work per se but quality management of itself was problematic because, at least in some services, there was reliance on conditions beyond anyone’s control. In terms of the contract costs the initial perceptions of a service already taken account of increasingly became a fragile concept. One such area that was found to be an issue was the impact of outsourcing on overhead cost absorption. This tends to inflate the costs of services where the liability for central establishment charges are divided amongst a smaller range of services and / or staff head counts due to a chunk of work being outsourced.

A further issue of major concern was that as the council sort to point all its resources to maximise efficiencies, to embed and deliver on a more commercial culture, there was a realisation that the perceived peripheral services were actually part of the cogs that helped the larger chunks of the service operate more effectively. Pieces of the jigsaw were missing. As the council tried to ensure all services were part of the bigger picture the outsourced contracts meant that actually the jigsaw could not be completed. In addition to the lack of cohesion between services a further organisational impact of outsourcing was job demarcation – this prevented better use of resources. Dealing with different contractors and trying align this to the best ways to deliver services from an operational perspective became increasingly unviable.

A consensus to insource

There was a large consensus about the right decisions for the service. The decision was centred on the need to maximise the use of resources across the organisation, and central to that was whether those resources were external or internal. The control of external contracts was therefore critical. The lack of ability to flex externalised resources to meet the organisational needs became apparent and appeared to be a driver to insource; to take back the control over resources. The interviewees also made reference to a political will to back resources which brought with them local jobs for local people and the ability to develop apprenticeships; to develop and encourage skills building at a local level. As part of this approach the Council quickly realised that the insourcing approach would provide more opportunities to multi-skill staff to meet different tasks across different services; it also helped employees in terms of overall job roles and the pay to points relationship within job evaluation.

Reflecting on the decision to outsource there was clearly a different organisational culture that had emerged during the course of the outsourced contracts. Nottingham had embarked upon a culture of commercialisation, seeking new sources of income to offset the impact of austerity
budgeting. This changed the more lineal approach of a ‘make or buy’ decision to one which considered a number of varying factors. These included:

- Insourced to outsource
- Outsource to insource
- Insource to an Alternative Delivery Model
- Buy-in or integration of providers into the council

In the latter example above this has also been considered as a means by which Nottingham City Council can act as a market disruptor, particularly where the markets are dominated by monopoly suppliers. On a more operational level although outsourced work had been done to an acceptable standard the realisation that services considered ‘peripheral’ were in fact ‘integral’ to the service standards. This meant that they were also a solution to the increasing desire for organisational efficiency. Removing a third party from the equation meant taking back control. An amusing example of this came with a contract to paint double yellow lines on roads to prevent illegal parking by motorists. Because the contractor was paid on a metre by metre basis the council found itself paying for yellow lines that had been painted within the target zone but in inappropriate and unnecessary areas; on one occasion in an alleyway barely wide enough for a bicycle let alone a vehicle. A more joined up in-house service would it is argued prevent this kind of amusing but silly occurrence, and on a more serious note the waste, albeit minor, of resources.

Ending the contracts: The practicalities

Once a decision had been made to insource the service the actual legal mechanisms were fairly straightforward. As the contracts were relatively small in nature, and had set end dates, the process of insourcing the contracts was less concerned with the legal mechanics of extrapolating the council from any on-going legal obligations and more about the practicalities of achieving an insourced model. This included setting up appropriate supply chains such as tyre purchases for council vehicles and machinery. An interesting observation from the officers interviewed was that they felt that they were in a stronger position to insource because they had an existing infrastructure in-house. As a council that had not outsourced extensively they had managed to retain core capacity in areas like HR, procurement and finance. Importantly the team set about rebuilding operational capacity. Generally the cessation of the contracts for the ‘peripheral’ works did not involve a TUPE transfer of staff as they were not deployed for the main part on Nottingham’s contract. This however meant that alongside building capacity the local authority could work towards growing a multi-skilled workforce. This met the initial strategic objective to maximise all resources. Importantly internal support was already in place to develop new structures and to ensure that the structures would meet the emerging organisational needs. The strategic needs were also considered alongside broader policy objectives such as the ability to continue and to develop in areas like shared waste partnership with neighbouring councils. It was never about ‘just insourcing’ but being better across the whole council in how resources are more effectively deployed.

Capacity to insource

The retention of core operational and support service capacity in-house appeared to be a key factor in Nottingham’s successful insourcing of its ‘peripheral’ services. Moreover a hidden saving was realised on support service costs. These costs often referred to as central establishment charges are divided, often unequally across local authority departments. On a shared basis of cost per employee this is more expensive if overall support costs; legal, HR, ICT, stay the same but staff are transferred outside of the local authority. This is because the central establishment charges may be fairly static but when services are outsourced they are divided between a much smaller pool of the remaining staff. The more services outsourced the higher the proportion of costs that
fall onto the remaining in-house services inflating the costs of those services. When services are brought back in-house the charges are spread more evenly bringing the costs per head down.

The insourced contracts were absorbed into existing structures and have come under the management of the existing staffing teams. Importantly where a gap in operational capacity was identified during the process of insourcing this was simply covered through the use of interim expertise to bring a service or staffing teams up to the necessary level of operational capability. Once capacity was re-established the service was then fully transitioned to an in-house team. The officers were keen to stress that the arrangements should not be considered ‘permanent’. The process of insourcing was considered to be the start of an improvement journey viewed as continuous and designed to meet the emerging needs of the organisation and its communities.

Is insourcing the answer?

Even with the savings made and the reports of greater efficiency it was important to establish if the current perception, or even culture, now meant that it was only acceptable for all services to be in-house. In other words would the elected politicians keep services in-house at all costs? This was resoundingly rejected. Whilst there appears to be a clear culture amongst the political leadership that is highly supportive of the value of in-house services there is a financial reality check on the budget position of the local authority. It must set a lawful budget and therefore every penny literally will be counted. However the over-arching principles appear to be that in-house will bring added value by allowing the maximisation of its' council resources. Indeed a prism that was explored in this context was akin to GVA (Gross Value Added). There is a GVA attached to in-house services. Some areas of services are not however without challenge. Industry comparators are made and in some areas, particularly where the gig economy has taken over, and prices are set on the basis of few fixed costs, and workers without pensions and other benefits, such as paid holidays, then some services could be perceived as unsustainable. It was also noted that some services have remained outsourced. This is not necessarily because they are better that way but rebuilding capacity will take time and investment. This is particularly the case in areas like residential and domiciliary care. New buildings to develop in-house residential homes for example would take many years to achieve and could not be turned around overnight - but there was a recognition that there is still widespread market failure across the UK in these services which is continuing and which Nottingham City Council remains committed to addressing.

Conclusions

Driving factors to insource are suggested to be efficiency and maximisation of the use of resources - cutting out the middleman - to an extent seen in the additional costs of managing contracts and the structures of those contracts. Cultural and political leadership is crucial. Insourcing was not without its’ challenges but a key lesson learned was that the services considered ‘peripheral’ were better regarded as being ‘integral’. They allowed for a holistic approach to resource management. Again of interest to highly experienced officers is that they do not perceive the orthodoxy of new public management to be dead; if the context of that is a keen view on cost and price of services. What however is more challengeable is the idea that New Public Management methodologies can only exist in an external context. In some senses the development of alternative delivery models through say wholly owned companies, or a corporate drive to commercialise services, could be seen as a new form of New Public Management - but with the council in control of the parameters and outcomes it chooses to set - without those being beholden to external private market forces. Social purpose is at the centre of those approaches but there are some lessons - whether through NPM or indeed Compulsory Competitive Tendering some business techniques are useful to deploy. Knowledge of cost and quality and the balance of these factors remains of great importance to the successes of Nottingham City Council’s in-house service delivery teams.
Insourcing is not a soft option but actually a hard business decision, making all the resources at the councils disposal work for the people of Nottingham.

Case Study 2: London Borough of Islington

Introduction: Islington in context
The London Borough of Islington has a population of around 216,000. It is often cast with a glamorous image, seemingly forever associated with the term ‘gentrification’. This belies the reality. A ‘Trust for London’ and ‘New Policy Institute Report’ in 2017 found that a third of Islington’s residents live in poverty. The Borough’s own report into issues of inclusion, the ‘Islington Fairness Commission’ sought to establish practical measurements of the Borough’s fortunes and in its final report in 2011 it found that it was the fifth most deprived area in London and fourteenth amongst English authorities; it is also the most densely populated local authority in England with high levels of fuel poverty, mental and physical ill-health and poorer life expectancy.

The Boroughs’ poor performance on Education Services in 2000 led to outsourcing driven by poor performance with just 26.5% of Islington’s students reaching the then Government target of achieving five or more A*-C GCSEs. This was reported as near to half the national average. A series of other public service contracts were also outsourced including housing repairs and maintenance, alongside the establishment of an ALMO for its housing stock, streetscene services including refuse collection, litter picking and grounds maintenance and building cleaning.

The Islington Way
Unlike other examples of insourcing, which have often occurred on a piecemeal basis, Islington’s political leadership set out a positive agenda to insource its services. In 2010 insourcing was present in its manifesto and running alongside this the Islington Fairness Commission set out to look at ways in which the fortunes of its residents, and their life chances, could be improved. Although the Fairness Commission was not set up as a precursor to insourcing, it quickly became apparent to the political leadership that there was an alignment between social justice outcomes and a direct employment model, particularly in ensuring payment of the London Living Wage. Low wages in the Borough were identified by the Fairness Commission as being axiomatic on the many poor outcomes for it’s’ residents.

Services insourced
Although there was some initial scepticism about the scope and breadth of insourcing an initial drive to bring building cleaning services back in-house set the tone for future discourse on public service contracts. In September 2010 around 150 cleaning staff, outsourced to contractors, were offered a contract with the Council which guaranteed the payment of the London Living Wage. Crucially the council was able to do so without increasing its service costs, and gained efficiency through better deployment of the cleaning staff and service changes.

Following this initial insourcing further services were brought back in-house. These included:-

Housing repairs and maintenance services
Since around 2000 a private market leader on housing repairs had operated a contract in Islington which provided a repairs service to 30,000 units of housing. The contract value was around £16.5m per annum meaning that the council over the term of the contract had paid around £230m to the contractor. However the council became impatient with a poor repairs service and under-performance on key performance targets such as turnaround time for voids, jobs completed to time, and responses to tenant’s emergency repairs.
In 2014 a decision was made not to renew the housing contract and to re-establish an in-house housing repairs service. Islington was confident that the service, well-managed in-house, would be able to improve the service performance and give residents a better experience. This would however cost more, with an anticipated increase of around 24%. However as dissatisfaction with the service was by then a primary concern, and other repairs contractors had folded under the pressure of under-resourced contracts, there was political agreement to the increased costs, both to improve the tenants experience and de-risk the council from any market collapses. As the council leader Cllr Richard Watts states “Price became very much second place to quality. We simply needed a better service”.

There was also some initial cost to insourcing the contract including one-off costs in purchasing vehicles, plant and machinery, setting up stores and new back-office systems. However like many councils the re-establishment of this kind of capacity has inherent benefits to future insourcing arrangements as it embeds capacity on other contracts.

For the Borough of Islington this was also of strategic importance as it planned the development of new council homes. It had also previously insourced its ALMO, a special purpose vehicle to bring homes up to the Decent Homes Standard, but which like many councils had remained at arms-length even though its initial purpose had been completed. The return of the ALMO in 2012, with 300 of its staff, therefore provided a natural fit to the return of the repairs and maintenance service and the holistic vision for housing within Islington. These operational alignments of housing services continued when in 2014 the contract for the Council’s handyperson service for older, disabled and unpaid carers was also brought back under council control.

**Waste, recycling, street cleansing and grounds maintenance services**

In 2013 a review of contract performance on waste, recycling, street cleansing and grounds services led to those services being insourced. There were two contracts in operation split between one contractor for waste, recycling and street cleansing and a further contractor for grounds maintenance services. Both of these contracts were worth around £23M per annum each. A cumulative value therefore of £46m. The services were brought back in-house after an initial assessment, towards the end of the contract which found that by bringing the services back savings of around £3m per annum could be found. Crucially the insourcing move was to allow for medium term service improvement whilst providing for immediate service continuity for residents. This was achieved with savings in refuse collection reaching £1m, £350,000 in recycling collections and a further £490,000 in estates recycling services. Savings of £660,000 were also identified in litter picking / street cleaning services. There have been further on-going improvements with better service integration in the ground maintenance service and innovation in areas such as route optimisation in streetscene services and use of smart technologies in bins.

**Education services**

Whilst the mode of delivery for education services has fallen away from local government over the past two decades Islington has bucked the national trend. Following an initial enforced outsourcing of its Education Service in 2000, in 2010, a decade into the outsourced contract, Islington decided to insource its Education Services. On this particular service the initial outsourcing aims had been achieved. From a very low ranking in terms of educational successes by the end of the contract more than 70% of Islington students reached at least the aimed for 5 GCSEs between A* to C so the decision to insource at this given ‘success’ of outsourcing seems initially anomalous. However the initial contract which was estimated to be worth around £105m to last for seven years had already been extended; cracks in relationships between the schools and the service were starting to have an impact and more importantly for Islington council a lack of a cohesive service with schools and other council services was beginning to be considered as detrimental to the necessary ongoing school improvements. The insourced contract is now
delivering 94% of services to Islington schools and has been by all accounts a highly successful service, providing a more integrated approach to schools and to learning in the Borough. This was described by the council leader, Cllr Richard Watts, as ‘tearing down the paper walls which existed between the schools and the council’.

Lessons learned
The initial ambitions within Islington were not shaped by a pre-formulated timescale for insourcing. When opportunities arose contracts were reviewed; the earlier contracts somewhat on a less planned for basis than later contracts. As confidence in insourcing developed so too did the recognition of much more nuanced benefits. Although the Fairness Commission was not aligned to the insourcing strategy in a designed way insourcing nevertheless proved to be a very passable route for the elected leadership desires for a fairer and more socially just Islington.

The ability of the council to set employment standards by example was not missed on the political leadership; so too the ability to embrace and develop employment and skills within the locality, including much needed apprenticeships. It is also clear that there is a pragmatic and proactive relationship with the workforce and trade unions. By necessity service changes pre and post transfer of staff have been developed taking a sensible approach on all sides.

What the Islington case study identifies is the ability to generate savings through a more coherent approach to services across the spectrum of services provided by the local authority. Similarly the improved inter-departmental communications shown in the education service, the ‘tearing down of the paper walls’ is illustrative of the ability to fix the often hard client / contractor splits that limit outsourced contracts.

Islington has not just drawn in its human resources and its service spend to maximise its efficacy as a council. It is now proactively looking at other levers within its local economy, such as how it can utilise its property and assets to support local residents, and continue to close the gaps between the very richest areas of the Borough and its most deprived. Islington’s political leadership would not describe its job as being done. It is a work in progress. However the insourcing of core services has created a solid base from which it wishes to continue its much deeper project on social justice outcomes for the residents across the Borough. Insourcing has allowed the council to re-fix the cable to its local lever, ensuring that when it pulls the lever something positive happens.

Case Study 3: Liverpool City Council

Introduction
Liverpool City Council is in the North West of England with a population estimated to be around 470,000. It’s industrial past as a powerhouse for the industrial revolution, with its thriving docks, famously used for imports of cotton, which was transported by one of the first industrial railways to Manchester, went into steep decline in the 1970’s. Data from DCLG (now MHCLG) suggest that the City’s fortunes have marginally improved since 2010. Data in 2014 suggesting it is now the fourth most deprived borough in England but it still ranks highest for the number of neighbourhoods in the most deprived areas.

However Liverpool is successfully reinventing its’ fortunes. Ongoing investment in the redevelopment of its Docks and Maritime economy, now opened to Cruise liners, and its on-going commitment to regeneration, have helped to steer not just the physical transformation but that of its local economy. Leisure and culture are important aspects of this journey with a thriving tourist economy.
Context of outsourced services in Liverpool

The initial outsourcing of frontline services in Liverpool took place in around June 1991 against a background of deep industrial and political unrest in the City. The award of a contract to Onyx, a major outsourcing contractor at that time, was so contentious that it was included in a parliamentary debate. Hansard (1991) records that the then Secretary of State for the Environment, Michael Heseltine describes this as a straight forward issue of cost “When the contract for refuse collection was put out to tender the other day the outside private sector contract was for £3.9 million. The internal price quoted was £7.9 million”. Equally recording the very distinct political differences of the day David Blunkett, as shadow spokesman on Local Government for the Labour Opposition stated “I want to put on record the fact that Onyx and private sector refuse collection are on trial in Liverpool. Onyx had better deliver the goods for the people of Liverpool…. it is a different matter when it comes to delivering quality of service for the money paid”.

This polarising debate between cost and quality was symptomatic of the days of CCT. Subsequently further services in Liverpool were outsourced and this continued under Best Value. Several services were outsourced and re-tendered on a rolling basis over the following decade including refuse and recycling, street scene services, grounds maintenance and highways services which included gully cleansing, highways maintenance and road-markings. The values and contract terms and actual spend which was greater, varied for later contracts but are generally in the region of per annum values of £11.6m for refuse and recycling £10.2m for street scene cleansing services and £3.5m for grounds maintenance highway services at the point of tender. As a result of the contract overspends and rising cost linked to a rigid underperformance of the contract, in December 2015 the refuse collection, grounds highway maintenance and street cleansing contracts were terminated by joint agreement early. In January 2018 the council’s contract with Amey LG Ltd for Highways services was also terminated early with the nine-year contract for highways and street cleansing first awarded in 2013, worth £113m. This termination by mutual agreement with client and inspection services going back directly to Liverpool City Council and the operational work transferring to Liverpool Streetscene Services Limited (LSSL) a ‘Teckal’ company wholly owned by Liverpool City Council.

Operation of the outsourced contracts

The original outsourced contracts were across frontline services and by the nature of these services labour and asset intensive, with the bulk of costs on the workforce and vehicles. The previous contractors of themselves changed on numerous occasions with different contract awards, company mergers and new company forms. The very early contracts, particularly on the refuse collection side led to some staff redundancies and a decrease in workforce numbers and changes to staff terms and conditions. A frontline worker trade union representative at the time described the approach as the contractor “letting staff go but then bringing in agency staff and taking a hit on agency costs because they didn’t understand how to run the service.” The contracts were generally run on a ‘cost-plus’ basis; the unit price of the work plus a guaranteed management fee to secure a return for the contractor (permissible expenses for example). As this method allowed for price increases, regardless of the units of work carried out, it was arguably a disincentive for greater efficiency since the percentage nature of the fee was geared to create a higher rate of return for the contractors. Assets such as fleet were within the contractor’s responsibility and were usually supplied by subsidiaries to the main contracting company, so alongside the core contract work the City lost control of the supply side arrangements and the ability to control cost.

Whilst TUPE, designed to protect workers subject to a transfer, applied to later contracts some areas were particularly problematic with only half of the staff on the streetscene contracts employed on a full time basis. Changes due to the deployment of new managers by the contractors was also problematic. This is perhaps best described in a narrative from one of the interviewees who
is a frontline worker/trade union representative who described a cycle of different managers from the contractors who “each tried to introduce new measures within the contracts, such as new collection route”. This, he suggested, felt like a “continuous reinvention of the wheel”. Moreover a lack of knowledge of the local geography created a reinvention of the same mistakes. Similarly an analogy was drawn by a senior manager as to the fragmented nature of the contracts. As contracts had been let on a piece-meal basis, with parks services resting with one contractor, and another contractor on public realm, a situation could arise where two different contractors could be in the one patch simply on different sides of the fence; one grass-cutting in a park and the other grass-cutting on a public verge. These frustrations were further borne out by a lack of coordination over services, such as litter-picking and grass cutting together. Whilst the contracts were initially let on the basis of a money saving measures in the latter years of the contracts the organisational expectations of Liverpool City Council were not being met; even though on one of the contract areas it had embarked on a joint venture (Enterprise Liverpool Limited) for the award of a contract. Quality had deteriorated and like most of English Local Government Liverpool City Council was facing huge budgetary pressures as a result of austerity. Although there was no one over-arching or ideological decision to take all services back in-house the City Council embarked on a process of reviewing its contracts.

Returning the services to in-house provision

In 2015 a decision was made to insource refuse collection and streetscene services back in-house. As there was an on-going contract with the Joint Venture it was legally expedient to do this through a wholly owned company so that the contract could be novated to the City Council Company. The company was set up as a Teckal company, which is a company form that benefits from contracts for works, services or supply from its controlling Contracting Authority (or Authorities) without having to go through a competitive procurement exercise. The City Council was clear that this should be about both better services and more efficient use of resources; allowing the council to deliver greater efficiencies. Preparations were made to transfer the service in 2016 to the newly formed ‘Teckal’ Company Liverpool Streetscene Services Ltd (LSSL).

Efficiency was cited several times as a key driver to insource alongside service quality and better integration of the service. Initially an immediate efficiency of £1.4m was able to be extracted with a further target saving of £2m over three years was set to be realised from the contract costs of £22m. In order to achieve this target income targets have been set including the development of a trade waste service, which has moved from income of c£600,000 per annum to income in excess of £1m. In addition grounds maintenance and street cleansing services have developed a more commercial approach and, in partnership with the City Council, the service is now integral to the City’s cultural offering with a more holistic approach to ensure value is retained and re-circulated in the local economy to support the frontline services. Over the last 18 months, the wholly owned company has commercial prices for its customers (including the City Council) whilst honouring local government pay rises. Whilst the Local Government Pension Scheme was retained for those in a reverse TUPE situation (originally a council worker who had gone to a contractor and was now returning) it was not possible for LGPS to be offered to others, including new staff. However LSSL has adopted a policy which is that those without LGPS will receive up to 6% match pension contribution and a death in service benefit which mirrors the LGPS levels.

Further efficiencies have been found through more joined up working - an ability that had been frustrated by the plethora of contracts. For example if a road is closed for highways grass cutting then the cost of traffic management measures is mitigated by carrying out other works at the same time such as litter picking or minor road repairs.

LSSL is now embarking on further staff development to embed a ‘grow your own’ approach to future workforce needs such as multi-skilling staff; for example progressing from a refuse
operative to holding an HGV licence, to move into a job as a refuse or cleansing driver/operative role. As there are plans now in place to bring grounds maintenance in parks and cemeteries services back in-house this will open up further opportunities for the multi-skilling of staff on the grounds maintenance, cleansing and parks side of the contract.

In addition LSSL has worked in partnership with Liverpool City Council to provide opportunities on the European Social Funds “Ways to Work” Programme which led to 11 fixed term employment opportunities being created both in operation and support posts. As a result of this programme, 4 members of the cohort moved into apprenticeships and two secured employment with LSSL. The workforce structure is now more stable with planned seasonal working where appropriate, compared to the outsourced arrangements, which relied heavily upon agency workers. This allows for future planning on further efficiencies such as route optimisation for collections and fleet reductions, creating further efficiencies over time. Culturally all the interviewees were keen to stress that the new arrangement is genuinely about partnership working. The trade union representative believes that workers can now see the benefits with improved opportunities for training and career progression with new job opportunities; he also believed that the service, pay and rations of the workforce, compares very favourably with their neighbouring councils.

From an accountancy point of view the new structures and new ways of working have allowed for better resource allocation across the service areas. Service integration, and a resultant demarcation, has embedded quality and met gaps in capacity that would otherwise be costly. In addition the control of the service allows for innovation to be trialled. For example the City is committed to a greener environment which has allowed the in-house service to develop its hot-water weed spraying programme to reduce the use of Glyphosate. This theme of reflecting municipal public policy aims within the delivery of frontline services is continued with the interviewees recognising the City Mayor’s recent announcement on ’diesel free Liverpool’ (BBC May 2017). This is one such area of public policy that can be incorporated into the LSSL fleet review; this would not have been possible if the purchasing decisions had rested with outsourced contractors. In addition to enable the provision of a more seamless service, reflecting localised service delivery, there are plans to introduce area based working in 2019; allowing staffing teams to take ownership of their area zones and ensure further quality improvements. This ethos is nicely described by Cllr James Noakes:-

“As a council, frontline services are critical to our residents, our businesses and the success of our neighbourhoods. Insourcing in a very innovative way allows our services to be better integrated and meet with our strategic aim of inclusive growth. Supporting and growing our local economy, and ensuring services are focused on quality were fundamental reasons we created LSSL”

Cllr James Noakes, Cabinet Member for Streetscene, Transport, Highways and Air Quality

Lessons learned

Whilst the decision to insource arose through dissatisfaction with the contract arrangements the insourcing approach has brought about unforeseen benefits. The ongoing regeneration of Liverpool in line with its Inclusive Growth Plan published by the Mayor in March 2018 (Liverpool City Council) provides some natural alignments with the direction of the services and the strategic vision for the city, including jobs and investment, and better neighbourhoods. Whilst this may not have been the initial aim in drawing the contracts to a close it demonstrates the ability for insourcing as an approach to give back to the public authority the ability to pull the levers, and align services to local outcomes and indeed to democratic will.

From the managing officers perspective they would warn that these insourcing arrangements
cannot happen overnight and ideally should be planned for before contracts are nearing the end. Existing council resources, as with the Liverpool model, could be used to support the development of an insourcing vision including staff secondments, which allow for newer structures to be considered before being embedded, ensuring the right skills mix is developed. Insourcing was also found to be capable of achieving greater integration of services leading to efficiencies and cost savings. The efficiencies have not be found simply by the saving on management fees, albeit these varied between 12% and up to 19% on different contracts, and the officers were keen to stress that some of these savings reappear as new costs in managing the in-house service, but they argue these are flattened in a more integrated structure and duplication of contract management costs is avoided. Similarly they were aware of the differing perceptions of risk from public sector managers to private contractors. Whereas the private contractors are driven to de-risk on contract cost exposure or any kind of financial risk the public sector risk register places public perception, political or reputational impact at a much higher premium. In the case of Liverpool there is a double-edged relationship with the City Council and its wholly owned company. The City Council has entrusted it to deliver both a new offering on its frontline neighbourhood level services but has equally commanded more innovative and high quality services. The financial benefits are not all realisable on day one of the new arrangements but these are set to be realised in the longer term, as well as bringing about some of the intangible benefits to local areas.

The Human Resource business partner describes the need for services to be effective. This is enshrined in the new arrangements with a culture of transparency and openness reflected in the make-up of the LSSL Board including two of its three directors being local elected members. Moreover all of the interviewees were unanimous that others should not be afraid of the challenge, or the perception, that once a service has been outsourced capacity has been lost. Initially staff were transferred into the service under TUPE and additional staff were brought across, not as a legal necessity, but because it was the right thing to do for those workers and it helped in the resourcing of the new arrangements. This worked well alongside the secondment of City Council staff. The HR Business Partner also attributes some of the insourcing success to the now stable workforce and lessening reliance on agency or non-permanent staff. The staffing compliment has gone from c470 to more than 600 staff. A growth of over 100 new jobs in a local area. As the GMB representative stated the new jobs provide a ‘motivation for local people’. By seeing there is an alternative to unstable ad-hoc employment the higher quality jobs at LSSL are providing a positive message in the local economy and with the internal workforce.

The lessons from insourcing in Liverpool strongly suggest that innovative public sector management, and partnership working with the trade unions and the workforce, can bring about huge benefits in service delivery not just in cost terms but in the quality of local public services.
Case Study 4: Halton Council

Introduction
In 1999/2000 Halton Council made a decision to outsource three leisure centre assets. This was an unusual position for a Labour controlled authority that had up to that point kept near to all services ‘in-house’; this appears, suggested the senior officers, to stem from a decision to use the services as something of a test-bed. It was also arguably less visible as a service, and therefore potentially less politically sensitive. Whilst all residents were in receipt of refuse collection services and could physically see the impact of services like street cleansing, the leisure centres were not universally used by all residents; thus the collective commitment of councillors to services like leisure may have been less pronounced than in more visible and universal services.

The context of Leisure outsourcing in Halton
Following the cessation of CCT in 1997 the introduction of Best Value in 1999 and the authority turning to Unitary status in 1998, ‘the epitaph of CCT as described by one officer became “less about market testing and more a culture towards being able to prove Best Value”. That meant knowledge of cost and operational quality, albeit without the enforced elements of CCT, remained part of the corporate endeavours to demonstrate Best Value with measurable outcomes for services. This led to the development of a Best Value Supplement for front facing neighbourhood level services, predominantly parks, streetscene services and refuse collection. This was a system which meant employees in certain services would receive basic pay plus the Best Value Supplement. The supplement payment was linked to performance including absenteeism, service quality and meeting performance targets. It was regularly stopped and enforced vigorously over the service. It was not viewed as a ‘soft option but it could reasonably be construed as a means to navigate Best Value without resorting to market measurements of service price.

This Best Value supplement did not apply in leisure services and a decision was made to test the market, an award for some of the leisure facilities was made in 1999 followed by a further tender exercise in 2003, with the award of a contract of ten years to the successful bidder on completion of capital works. The contract value was circa £1million per annum but was structured to be at a fixed price plus RPIX + pension costs + any National Joint Council negotiated pay increases for transferring staff. In addition the successful bid included a £1m capital investment in one of the centres to be made by 2006.

The eventual award of a contract included the transfer of 125 operational staff with their terms and conditions secured using TUPE (Transfer of Undertakings Protection of Employment) regulations. The promised capital investment was realised and the performance of the contract did not raise any significant issues of quality of the services provided. The council had specified certain elements to the contract which included the provision and consideration of health and well-being outcomes, and matters such as the continued operation of exercise on prescription referral schemes. In this regard then it is reasonable to assume that the contracted out service had no discernible difference in quality to the in-house service and the psychical improvements to one of the leisure assets had been delivered upon with the contract leveraging the £1m capital investment. The contract was also supported by regular monthly monitoring meetings and inspections.

Therefore it is reasonable to consider if the quality was unaffected by outsourcing what therefore became the driver to the contract being insourced? The officers explained that whilst the authority is Labour it is conservative with a small ‘c’. There was no ideological driver towards outsourcing or insourcing but that the councillors wanted to see good services at a good price. The contract was due to end in 2016 but in the lead up to the contract end date a number of
matters were renegotiated; this included some cost reductions to the contract prices. These reductions began to take effect around 3 years before the contract end date. However, even with the movement on prices, networking discussions amongst other local government leisure and sports provider professionals revealed an increasing gap in the payments to the contractor, and those benchmarked amongst in-house providers. Furthermore as the council had retained the ownership of the physical assets, it was the management of the leisure centres that had been outsourced but the contract had provided that the repairs and maintenance of the building remained with the council. This included major items such as the roof structure and the boiler/heating systems. This reflected a very low level of risk transfer to the contractor, with the risk of costs of repairs or a major building failure, remaining with the council throughout the contract term.

Therefore before the contract determination date the authority started to explore options for the future of the contract. These options included contract renewal with a 3+2 year option and a 3+1 year option or a contract extension. None of these options would however have achieved the desired savings. A further option was to deliver a shared services solution with a neighbouring council that had retained its services in-house and therefore retained core capacity to deliver the services. A critical factor in the cost issues stems from austerity. Following the global financial collapse of 2008 and then on-going austerity budgeting in the public sector, funding to local councils was severely tightened. Halton was no exception to this. Increasingly elected councillors were concerned that departments needed to save money across all services in order to meet the emerging budget requirements. An exploration of bringing the contract back in-house found that savings of around £1m per annum could be achieved from the Leisure services contract. Accordingly an options appraisal in 2015 recommended that the leisure services, including the three physical assets that had housed the private contractor, all be returned in-house.

Resourcing insourcing

The decision to insource a service previously provided by a contractor could not be taken in isolation to issues of staff transfers. A big concern amongst the council officers that had been retained in-house was a loss of expertise and lack of capacity. From the point of transfer many of the client side officers had left the organisation; particularly as a result of austerity and staffing reductions. Therefore TUPE proved to be a critical factor in that this route would allow the staff to transfer back to the council, and, in effect, continue to provide a service. Interestingly the contractor had not sought to vary the initial TUPE transferees contracts of employment; this meant that actually honouring those terms on a return transfer to the council meant that the return transferees (around 22) had better terms and conditions than council direct employees who had, as a result of budget pressures, been subject to changes in their own terms and conditions.

A further source of frustration for the local council as the recipient employer was that there was uncertainty about how many staff and at what level/job role, they would transfer back to the council. This meant planning structures post the transfer was difficult and complicated. A further complication that emerged from the case study discussions was the nature of the contract as it related to leisure services. On an industry wide basis the leisure sector is unlike the traditional job roles of a local government officer. For example fitness classes may be run by specialists who move from gym to gym and are more often employed on a casual-work basis. This is also the case for roles such as swimming instructors where there is a natural limitation to lessons e.g. outside of school hours and weekend work. TUPE effectively protects ‘employees’ not ‘workers’ and therefore there was uncertainty as to transfer numbers but the council was nevertheless keen to ensure that it would honour any obligations arising from the transfer.

Furthermore whilst some of the managers from the contractors own staff did not transfer to the council, as they were deployed on other areas of activity for their own employing contractor, this
meant that the skills within the council, to manage leisure services, had diminished over time and would not necessarily be available to the council as a result of TUPE transferees alone. Therefore whilst initially a shared service option for the determination of the private contractor was rejected at the options appraisal stage, with agreement to insource the service, was supported operationally by a neighbouring local council, Sefton, which was able to provide additional support to smooth the transition of the service back to an in-house team. 178 staff worked on the outsourced leisure contract, they occupied 106 contracted post and a further 250 posts with zero hours arrangements. Again this raised issues of concern as to the resourcing of the service and continuity.

Alongside the issues of staff transfers considerable preparation work was necessary to prepare for the contract end date. This included setting up a Finance and Information Technology team to include practical operational issues such as transferring direct debit payments for membership back to the local council and agreeing a strategy for human resource management including workforce representation.

Barriers and challenges
According to the interviewees a clear driving force to insource the service was for greater efficiency. This included the ability for the council to save money on the contractor payments and as a result the subsidy element to the service. However over the lifetime of the contract pensions costs were met within the terms of the contract alongside the National Joint Council pay rise so these payments were locked into the budget structure. Moreover Halton Borough Council had in the meantime adopted the National Living Wage as part of its corporate approach to social responsibility. This increased the costs of direct labour beyond those of its private sector competitors. A further issue was that of income targets. The Halton officers acknowledged that the sales team for the contractor did a very effective job in selling products such as gym memberships; this was due to the incentive schemes operating for the private contractors sales teams. When the contract returned to in-house provision these incentive payments (commission for sales) were considered anomalous with council terms and conditions. These arrangements were therefore ceased upon a post transfer restructure. This led to a downward spiral in income to the service; in spite of varying attempts to address this the full income level has not been recovered though there are some on-going changes to multi-skilling staff to ensure the position improves. This raises an interesting aspect to the barriers to insourcing. In a service such as leisure the practices of a local authority may not be aligned to the more successful elements of an external service provider. That being said the cost-benefit analysis still demonstrates that the service has managed to save £300,000 per annum out of an operating budget of around £1m per annum. A further dynamic, unique in many ways to leisure services is that rates payable to casual staff for teaching a fitness class were pegged at a local authority hourly rate for a leisure instructor, weighted against a job evaluation scheme to determine their pay rates. In industry terms this is a poor comparison since the casual nature of the work demands that workers who are not in receipt of the usual employment benefits of steady pay, pensions, paid leave and so forth demand a higher rate of pay in compensation for often lower hours work. The impracticality of this comparator pay rate was a key lesson learned.

Key outcomes
In spite of the sector specific challenges the transition to an in-house service was actually considered by the officers to be ‘quite a success’. The insourcing also led to fitness refurbishment at all of the leisure centres increasing customer satisfaction. The service retained its ethos to provide well-being services, such as exercise on prescription schemes, and for customers it was a seamless transition. Direct debits for 4000 service users continued without interruption and even with
the challenges of the post transfer restructures, and differential issues on terms and conditions, and the more restrictive local authority pay and rations environment, savings of £750,000 per annum have been realised against the outsourced model. A new brand has been successfully implemented alongside harmonised terms and conditions. The employees receive the Living Wage for all staff, in line with Halton’s social reasonability policies, even those under 25 which is of considerable benefit to them in wider economy terms. Whilst there was an initial exodus of instructors given the nature of the service this has been ameliorated by proactive retraining and multi-skilling of staff, for example Fitness and Sales staff. Whilst fitness and swimming lesson sales have not fully recovered structures are constantly reviewed.

Management perceptions

Turning to the theoretical basis of New Public Management the senior managers interviewed were very firm in their belief that there are “good and bad managers in both the public and the private sector”. It is about attitude and being “unafraid to keep trying if something doesn’t work”. One manager stated the case that “CCT had to happen”. When pressed on this comment he explained that the cost awareness and the business awareness that CCT had imposed or disciplined in public sector managers was still very relevant. Performance information matters to public sector managers in a way in which some may argue has been the case in the private sector - but importantly driven by different values. This, he argued, included being responsive to elected councillors but to also keep the concept of service firmly at the forefront of ideas.

When asked if services would be outsourced in the future the answer was this would be highly dependent in the performance of the service. Whilst elected members could be regarded as traditionally labour and aligned to the concept of a public servant and direct delivery of services it was not ‘at all cost’; it was more a case of yes to in-house if it could still demonstrate best value.

Case Study 5: Stoke on Trent City Council

Introduction

Stoke on Trent City Council is a unitary authority with a population of around 265,000. It has an industrial heritage from the famous potteries industry, steel and coal. The City Council is keen to address housing needs within the area and has recently developed an innovative housing company to develop a mix of homes to meet local need. Its housing repairs services were previously managed under a joint venture which was originally established to meet its decent homes standards. It’s newly formed wholly owned company, Unitas, directed by the councils political leadership has placed local benefits at the heart of the new company gaining a £5M dividend back to the City Council but also developing a positive footprint for the company within the local economy.

The outsourced housing maintenance and repairs contract

In 2008 the City Council had around 19,000 council houses which, due to the conditions attached to Decent Homes Standards funding, were transferred to a quasi-public-sector organisation. In addition to this a joint venture partnership was formed with a major construction company to undertake the repairs and maintenance and the new capital works. The new Joint Venture Company (JVC) was assigned a ten year contract by Stoke City Council which was worth around £400m to maintain the homes as well as bring the homes up to the then Government’s ‘Decent Homes Standard’. This was a specific policy which sought to invest in council houses through additional funding for refurbishment works such as fitting new bathrooms, kitchens, windows and heating systems. Stoke City Council retained a 20% share in the company. However this was a
private influenced company for the purposes of Part V of the Local Government and Housing Act 1989. Stoke City Council was a minor partner in the company. Around 500 local council employees were transferred to the JVC at the commencement of the contract.

The road map to insourcing

Overall the City’s Decent Homes Standards work was completed to the expected quality standards and within the anticipated timescales. The JVC also had some contracts for the repairs and maintenance of other public buildings and the contract was due to expire in 2018. In 2016 the political leadership asked for a review of the contracts, comparing cost, quality and productivity. There was also a recognition that the significant spend on supplies was not necessarily having a positive impact on local supply chains. In addition and given pressure on council finances the Council was keen to explore what more could be done to generate additional income streams which would go back into budgets to help meet local needs.

A review was undertaken in 2016 which found that the contract was more expensive on basic performance indicators. One such key indicator was the cost of repairs per property per annum which came in at a cost of £1,171 per property each year. This compared unfavourably with similar sized housing stock programmes in other local councils which were significantly cheaper at around £708. Moreover there were concerns that 8 years into the contract the position of the City Council had changed. The contract had been let in 2008 and since 2010 onwards, in each consecutive year, the council budget was reduced as a result of decreases in Revenue Support Grant and other austerity measures. In addition a recessionary environment was having an impact on the local economy; therefore additional support for local businesses and supply chains was something that the political leadership was keen to support, giving those businesses a chance to grow.

Following a detailed options appraisal four options were considered which were to return the full service back to the City Council, form a wholly owned company, create a new Joint Venture or outsource fully. It was decided that at the end of the JVC contract the City Council would form a wholly owned council company to undertake the former contract works but also be charged with a strategy to generate new forms of income. As part of its direction it would embrace social value within its procurement strategy to include local suppliers wherever possible. Crucially the new wholly owned company would be targeted with generating new sources of income for the City Council as shareholder. Whilst the JVC service delivery had been satisfactory the City Council was keen to develop a much higher quality and more responsive service. Again this was informed by key performance indicators, for example repairs per property across Stoke were on average 5.7 per property per year but the industry average was just 3 per year. It was recognised that by driving improvements costs could also be reduced.

After the decision to insource was made a core team was put in place to develop the strategy. This included IT systems, transport and fleet and of course workforce engagement as well as managing the relationship with the out-going JV partner. Trade unions and staff were involved throughout the process and although there was some partial restructuring this was on the basis of voluntary not compulsory severance.

Local benefits to insourcing

The whole scheme of insourcing was centred on some very clear political drivers; the workforce was to be transferred under TUPE and trade union involvement was to be assured. The political leadership did not want to see a two-tier workforce or pension in operation. There was a long-term view that if local workers had access to a reasonable pension on retirement then ultimately it acts as a form of prevention on demand for council services in later life; access to a retirement not steeped in poverty. Furthermore as the recession had had an impact on local business there was also a clear direction that any buying power should, so far as possible, be used in support
of local businesses and in turn recognise the value of those local businesses in employing local people and ideally generating further apprenticeship and training opportunities. The problems facing the city it was argued could be addressed by a more proactive approach to ensuring the growth in decent jobs.

Outcomes from insourcing

The new company Unitas, was formed in February 2018. It is on target to generate a surplus back to the City Council of £5M. It has reviewed and changed its relationship with its supply chains. This has meant offering framework agreements which are for four years, rather than the previous 3-6 months; this provides certainty for any local businesses engaging with the council enabling better business planning. Procurement is weighted to support social justice outcomes as a quality measure. Unitas accepts that although it may mean a lesser operating surplus than might otherwise be achieved it is prepared to pay a fair price to its suppliers, rather than unreasonable low prices, which can place supply chains at risk of failure. Moreover this benefits the local economy with increased local spend; an area which the new company wishes to evidence in more detail moving forward. A meet the buyer day for local businesses presented the opportunities in specific lots that reflected the different types of suppliers needed and this was advertised to the full 250,000+ residents through the council’s communications. Over 400 local businesses turned up to the meet the buyers event hosted by the wholly owned company.

A large majority of the council’s original workforce who had been transferred to the JVC were transferred back to the wholly owned company. The workforce are reported to have been pleased with the decision to transfer back to the local authority albeit through a wholly owned company. Because the review of the contract had commenced some two years earlier significant arrangements were put in place to organise supply chains, HR policies and procedures as well as ensuring sufficient assets, stock and equipment. Crucially the new company offered a decent package of terms and conditions and the ongoing membership of the Local Government Pension Scheme for transferring and new staff.

A small proportion of work, that of disabled adaptations work, was placed with the new wholly owned company in advance of the main housing repairs contract. This was helpful in testing the background workings of the company in terms of pricing structures, jobs records and customer satisfaction systems. Public building maintenance also sits with the new company for over 600 public buildings. The new company has taken the opportunity to introduce better software to support its work including job planning and management of stock.

The new management arrangements have led to some serious improvements which have in turn saved money for the councils housing account. A ‘right first time’ approach has reduced the volume of repairs per property and the average number of repairs per operative per day has increased, creating a significant improvement to productivity; the new IT systems have helped to implement these changes. A core area of improvement has been voids and voids turnaround times. This is where a property becomes vacant and is in need of repair. It can’t be let until the repairs are complete. In June 2017 the Councils housing services sat on a void rate of 284 properties, by June 2018 the void rate was reduced to 192. This has led to a £600,000 improvement in rental income to the Housing Revenue Account. This has been achieved by a process of review which involved the workforce putting in their ideas. The voids are now segmented to avoid ‘blocks’ so a category for speedy relets are those in areas of high demand with only minor repairs which can be ready for re-letting within a 1-3 day time frame; more complex relets are targeted differently so that empty properties that could be earning rents do not sit as vacant. Hard to let properties are also targeted as part of the voids team approach; for example if lack of parking prevents a letting then a parking solution is provided as part of the voids works. They have also significantly improved the service for tenants. New appointments software allows them to offer tenants a same day
appointment, a following day appointment or a later planned appointments. This has led to a 98% tenant satisfaction score its repairs service.

The new company is provided with targets by its parent authority and there are quarterly monitoring and scrutiny meetings in place. The board includes elected local authority councillors alongside independent specialists to challenge decisions and the Director of Housing & Customer Services also sits on the board. There is a good relationship with the trade unions and so far 76% of the companies spend is within the Stoke on Trent area postcodes, which is believed to have a multiplier effect of 4-5 times, helping local people, keeping the Stoke Pound in Stoke and reducing the demand on other Council services.

It now wants to develop its commercial aspirations with other public sector bodies to make the best use out of its human resources and its assets such as fleet by growing its income through working for hospitals, education establishment and drawing further work such as civic building maintenance from the parent council. Carl Brazier – Director of Housing & Customer Services summarised its approach, “Unitas is commercially minded but socially driven. I think that will be the key to our success.”

**Case Study 6: Highland Council**

**Introduction**

The Highlands Council has a unique geography. It is the largest local authority area in the UK and has a land mass nearly the size of Belgium and covers 33 per cent of Scotland’s land area. It is very rural but whilst the population is sparsely spread it is nevertheless the 7th highest by population size amongst Scotland’s 32 local authorities. It covers near to 5,000 kilometres of coastline and hosts a range of popular tourist attractions including Ben Nevis. Tourism is an important part of the Scottish economy with 166 million tourist trips to Scotland generating an economic worth of some £11.2b.

The Council’s grass cutting services were outsourced in 2011, and the public conveniences were outsourced in 2007. The grass cutting services contract was split into 9 ‘lots’ or areas and was destined to run for three years from April 2011 but with options to extend the contracts which were let on a 3 + 2 year basis, allowing for the contracts to be extended without retendering. The Highland Council also operated 96 public convenience sites; again reflecting the scale of the geographic area. For many councils these services may have been seen as relatively minor but given the Highlands as a tourist destination, including thousands of visiting walkers, and its miles upon miles of public realm, both services were high profile and valued by the community, visitors and of course local businesses. They also represented a significant area of public spend.

**Why outsource?**

Outsourcing these services initially appeared to be driven by officers willing to engage in market testing the service. In fact one of the contract awards was based on a saving of just £20,000 against a contract worth at the time around £2.3m. An in-house comparative tender was lost on that basis and the service was outsourced. This was against the backdrop of Best Value which would have allowed for consideration of price and quality in the process.

The basis of the contract awards for both grass cutting and for public conveniences were on a fixed years basis plus options for extensions so, for example, on the grass cutting contract this was a 3 + 2 term meaning that a break clause could operate after the initial term. However the contracts continued for the additional years without being retendered or fully reviewed at that time. With contract values of £2.3m per annum for grass cutting and £1.2m per annum for public
conveniences the cumulative value of these services was not insignificant.

Whilst the drivers for outsourcing the contracts were cited as cost savings and greater efficiencies it became apparent that the nature of the contracts meant that costs were escalating. The local council had to put in place monitoring mechanisms which duplicated costs and more importantly the contract for grass cutting was let in the absence of accurate maps of the land to be maintained. In recent years land map maintenance in many councils has been de-prioritised due to budget savings but it of course matters more when a third party takes responsibility for grounds based work. The contractor offered no leeway to the local authority so any additional grass cutting was at cost to the council and this was enforced immediately by the contractor. There was no transitional period to allow for accurate data and schedules to be established. Coupled with the costs associated with contract monitoring, where the service quality had previously been regulated by the councils own amenity officers, it became very clear that on-costs to the contract were escalating. These additional costs had not been anticipated. In terms of public conveniences the sheer scale of the landmass meant that day to day monitoring of the contractor was extremely challenging so any deterioration in quality was not immediately evident. There was little contract compliance data readily available to the client local authority.

**Organisational context and expectations**

Whilst some of the service officers were unhappy with the outsourcing there was some enthusiasm for what was perceived to be a quick win to save money through outsourcing. The organisational context was that any saving was still a contribution to the public purse. There appeared to be an organisational attitude of we are trying this approach so we need to ‘get on with it’. It some senses this worked initially - after all this meant that complaints were now a problem for the contractor not the council’s direct staff or managers. However as the contract continued more issues developed. The contract failings were still perceived to be a ‘council failure’ by the public and officers were increasingly dedicating time to navigating their way through the contracts to ensure the service continued.

**Determination of the contracts**

Much to the public dissatisfaction, played out in the local media, the council was effectively placed in a position of having to extend one its failing grass cutting contracts. This however allowed for all the lots to be reviewed to plan for either retendering or for insourcing. A new management structure cemented the change in approach to the outsourced contracts. The contractors were subsequently told that the contracts would not be renewed. However in advance of the public conveniences contract coming to an end the existing contractor found that their business was no longer viable and the business including the council contract was sold on. Although the council needed the contract to continue for a little longer, in order to plan for a staged return to in-house services, the new company could not do this without a significantly cost increase. In fact they asked for a 30% uplift in rates to continue for the additional year. The company explained that it was impossible to carry out a sufficient service given the geographic challenges of the area and a lack of a localised management structure; they simply did not have sufficient people on the ground to manage the day to day operations. The council had little option other than to refuse this huge hike in costs but to re-establish the service in-house. They agreed to two months of the additional payments to enable the contract to come to its natural conclusion, leaving just eight weeks to plan for the contract to be insourced and the TUPE transfer of the staff.

**Challenges to insourcing**

The outsourced contracts meant that significant inventories had to be created to ensure premises keys, stock and so forth was in place to maintain the public conveniences as well as staff rota
arrangements. A total of 96 staff were transferred under TUPE to the council. For grass cutting services as well as staff transfer considerations Highland Council also had to ensure sufficient fleet was in place for the operations. The grass cutting arrangements were made all the more complex because of the seasonal nature of the services thus ensuring sufficient staff were available to meet the service requirements created additional pressure on the internal management team.

Highland Council had retained its in-house fleet services and therefore the team were quickly deployed to ensure a new purchasing arrangement was in place for fleet and assets, including new vans and more trailers, which were necessary for a successful transition of the service. This was seen as a positive response to the challenges of a quickly approaching insourcing as the council had retained capacity to set up internal and external supply chains. This was essential to Highland Council as the back-drop to the insourcing was at the height of the tourist season and any service failure would have had very immediate and very public consequences.

Post insourcing: A New service
The return to an in-house service has been supported by the political leadership, with the elected members pleased by the service results at the end of its second season of operation. However the service has been charged with making savings; particularly on its public conveniences. Like elsewhere in the UK, local councils in Scotland are feeling the pinch of austerity measures. In February 2018, the Council proposed to reduce the number of public conveniences from 96 to 67. However, it has been acknowledged that insufficient time was available to fully develop the proposals. They were also poorly received by communities, particularly in more rural areas. Alternative proposals are being developed, and the service being in-house means that decisions can be made centred on alternative provision rather than merely a 'numbers approach.' This means any closures can and will be minimised. For example one would be to allow a coffee shop to be developed with the proviso that the public convenience remains open for use but with the cost of cleaning / maintenance falling to the coffee shop owner. Similarly some may close if alternative provision for comfort stops is made through pubs, bars and restaurants during the tourist season. The service has also increased its charges to a realistic level. This approach has meant that the number of likely closure of the facilities - instead of the numbers operated by the council -could be as low as 11 in total. Insourcing has provided the means for a more dynamic approach to managing the changes.

Lessons from outsourcing
There is a reluctance to go back to an outsourced model, particularly given the geographic complexities of the Highland Council area. The additional costs in monitoring the contracts and un-planned for costs were a barrier to more innovative ways to save money. As well as the initial contract savings through self-management of the performance and control over variations to services the in-house service has provided the scope to look at how the service can be better integrated across other services. This has allowed Highland Council services to work better across departmental boundaries as well as neighbouring councils in planning service delivery. Operational structures continue to be reviewed to find the best fit between services. Whilst this may be cyclical it is under the control of the council allowing it to allocate resources where the elected members and the public want to see them deployed. This has also allowed for more generic working such as a 'community works operative' rather than distinct roles such as street cleansing or grass cutting; this approach also provides for more flexibility in how staff are used to increase productivity in the service and to allow for the future development of an apprenticeship programme.

Critically even if some earlier approaches such as the contract specification had been more rigorous the officers felt it is unlikely an outsourced provision would have delivered the now
necessary savings. Contractors need certainty to plan a profitable return for shareholders and a diminishing contract value on the needs of austerity budgeting would not have been acceptable, as demonstrated by the fee increase demands of one of the contractors. Rather than creating economies of scale, given the size and volume of the contract works, in this case the complexities of the contract, and the geographic mix of the area, produced diseconomies of scale, which is a valuable lesson for other contracting authorities.
Appendix 2 : Notes on the methodology

The methodology adopted in this research report ensured the reliability and validity of the research using a range of measures. The privacy of participants was assured where this was their preferred option.

Semi-structured interviews and roundtables

Interviews utilised semi-structured methods and were held in different geographic locations and authority types (districts, unitary) as well as different service areas and contract types. This was necessary to draw out any circumstantial differences or similarities as well as to ensure that the insourcing case studies were reflective across the broad spectrum of areas, and in doing so to test if insourcing was limited to specific services or authority types. Whilst detailed case studies have been conducted on six different examples a broader section of actors were interviewed or documents explored for each case study to ensure that any divergence from a ‘corporate’ view of lead actors did not cloud more diverse perspectives from within the organisation. This helped to triangulate the key findings from the interviews. Initial baseline details were established for each interview, including contract value, contract length and service area or areas before questions were placed before the interviewees.

The types of actors interviewed include Directors or Heads of Service, local politicians, including Council Leaders, Operational Managers, Trade Union representatives, Human Resource Specialists and Accountancy specialists. At roundtable events discussions took place with Cabinet / Executive members, Council Leaders back-bench councillors, local government officers and again trade union representatives as well as two non-local authority but public sector body representatives.

A total of 29 interviewees took place in interviews and roundtables, with further participation at strategic forum events with 12 attendees and the author also presented and received feedback on the survey findings to two community wealth building events one with circa 26 attendees and the second with circa 85 attendees. There was also a facilitated discussion with local councillors at a local government association conference fringe event with around 80 councillors in attendance.

Framing of literature review

The initial literature review framed a number of concepts that influenced the development of the semi-structured interviews. These included Warner and Hefetz (2012) to draw out the issues of fragmented service delivery and its impact on decisions to insource and Hood (2000) using the concept of variant structures (in a local government context). Similarly the development of questions on employment related matters were drawn from Warner (2012) which found that some insourcing and indeed outsourcing decision were pivotal on employment considerations.

Drawing from the literature review the semi-structured interviews also sought to test Hood & Peters (2004) on the idea of the ‘Uncritical and universal adoption of poorly grounded recipes for institutional design’. This was of particularly significance where services had been outsourced on a silo basis and did not reflect new organisational realities for local government.

This approach allowed further drilling on culture, perceptions and the relational / transactional nature of an outsourced service. The pathways approach also opened up, in most cases, an insight into whether insourcing was pursued for ideological reasons, was triggered by circumstances; such as a natural determination of a contract at the end of its life or influenced through changed economic circumstances, for example austerity budgeting since 2010 that has had undoubtedly an impact on UK local councils. All interviewees were in most cases sent advanced copies of the opening questions to allay any nervousness about the process and to reassure them that anonymity could be assured, if preferred, on any specific answers, commentary or quotes.
**Broader capture of opinions; Further interviews and documentary analysis**

The roundtable events were designed to ensure a broader capture of the spectrum of opinions on the service delivery models available within local government and to probe if the perceived wisdom of NPM still held sway in the thinking of senior officers, managers and the political leadership of local government. These again used a semi-structured approach following an initial introduction as to the nature of the research. Critical to this research the roundtables were also representative of differing political parties. One event took places solely with Conservative Councillors (Grantham) a further event took place with Labour Councillors (Liverpool) and a further group discussion with a broad spectrum of political opinions took place involving councillor and non-councillor participants (London). In addition opportunities were taken to share the initial survey findings to test amongst broader groups the validity of that data; this developed a process of further triangulation to verify that the initial findings were considered valid (the absence of any ‘sore thumbs’ in the datasets).

Whilst a number of face to face interviews were included in the case studies supplementary telephone interviews, totalling 7, were also carried out to provide further detail on a broader number of case studies; thus enabling further details to be drawn out on some secondary data capture.

Given the nature of public sector contracts, procurement regulations and public sector decision-making documents were explored to provide further details about insourcing measures (and in many cases the original reasoning to outsource a service to a contractor). A caveat to the documentary analysis is the inevitable dynamic as to ‘commercial and in confidence’ redaction of some documents or parts of documents as a result of the commercial interests of contractors. Equally where a contract is determined by agreement this may not be openly accessible if this has arisen as a result of potential legal action or complaint. However wherever possible any supporting and publicly available documents were considered alongside the case study interviews, roundtables and secondary or supplementary data. Documentary analysis also included press reports; both national and trade press articles and the context of such articles; including political commentary or that of residents or campaign groups. As it would have been very difficult to otherwise receive any commentary from residents or groups accordingly documentary evidence from local press sources was a useful point of reference for any public reaction to contract changes or insourcing proposals.

**Secondary data analysis**

Secondary data analysis was used to explore existing, predominantly quantitative data. This specifically explored the findings of data collected by APSE in three pieces of insourcing research, in which the author was involved in the primary collection. The second and third of these studies utilised survey software to capture data on incidences of insourcing by service type, local authority political control and volume and value of contracts, alongside perception responses as to the drivers for insourcing, nature of any contract failure or factors that contributed to the cessation of a contract and the re-establishment of a service ‘in-house’ by a local council. Further data was also supplied by third parties and in particular data collated by Unison (Russell 2016) for an EPSU paper on public sector contracting. This was considered and used for inclusion in the volume and value analysis of the survey data from APSE. Official data sets from UK government sources were considered but again ethically these could not be included for the analysis of volume and value of contracts. This is because there is no coordinated collection of contract data at a UK government level that collects consistent fields of information. Therefore to include some reported lines of enquiry in the absence of the ability to drill further into this data and to add to other datasets.
in a meaningful way would potentially skew results. However analysis of reports on outsourcing issues by, for example, the National Audit Office, added to the contextual framing of decisions to insource services. Whilst there is generally a requirement on UK councils to report the award of contracts over £500 since 2010 and in light of the UK governments attempts at open data and transparency this requirement is frequently meaningless on larger contract reporting.

**Interpretation of data**

Qualitative data was analysed using an Interpretative Phenomenological Analysis. The initial stages of this approach explored emerging patterns, phrases or common descriptors or clusters of words from the participant groups. This was then developed into a framework which sought to link emerging themes in a structured way. This was then transferred into a table format to allow for analysis, whilst ensuring that this was traceable to the originating participant or interviewee responses. This was supplemented again using IPA with analysis of secondary data sources including documentary analysis.

Finally case studies formed the bulk of the field work in this research and due diligence was taken to ensure that the case studies provided a clear analysis of the problems encountered prior to a decision to insource and where possible highlighted the organisational objectives that had driven the approach. To ensure accuracy and assure the research process of due diligence all case studies have been approved by the local authority and wherever possible facts and figures checked against supporting documentation.
Appendix 3: Statutes (in chronological order)


National Insurance Act 1946 (‘Welfare Act’) Available at National Archives


Local Government Pension Scheme Regulations and Guidance https://www.lgpsregs.org/


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<tr>
<td>APSE Non-members</td>
<td>£40.00</td>
</tr>
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