

# Government outsourcing: its successes, failures and its future

Government outsourcing is a topic which can sometimes be divisive, however, we have in this country been doing it for several decades now and the UK outsourcing industry has been described as the ‘most advanced in the world’.

10 October 2019

This article is taken from October's public matters newsletter. [Click here to view more articles from this issue.](#)

Government outsourcing is a topic which can sometimes be divisive, however, we have in this country been doing it for several decades now and the UK outsourcing industry has been described as the ‘most advanced in the world’.

The Institute for Government has released a [report](#) about government outsourcing which has assessed the successes and failures of outsourcing in various sectors. They also have explained why in their view these results have been achieved and made recommendations on improving government contracts for the future.

## Scrutiny of outsourcing

The scrutiny of government outsourcing has increased due to recent high-profile contract failures, as well as two of the government’s largest suppliers becoming insolvent. These failures have in part led the Labour Party to criticise the evidence that outsourcing has improved public services and saved it money.

From the report, the greatest cost savings can be shown in support services, such as waste collection, catering and cleaning. Within these services, large savings were delivered when these services were first outsourced, often around 20% annual operating costs. However, it argues that authorities are unlikely to achieve such large savings now and this is could be due to all easy win savings have been made or potentially (the report argues) the public sector becoming more efficient because of the competition process. If the competition pressure was removed and the sectors returned entirely to government hands it is unlikely that it would deliver the same levels of efficiency. Support services though are relatively simple to contract for and deliver but outsourcing these contracts can mean reducing the quality of these services. Whilst some commentators may disagree, the report classed cleaning, catering, maintenance and waste collection as ‘green’ showing quality improvements, savings or wider benefits (please see table below).

Private prisons are cheaper and the introduction of competition has (the report argues) also improved quality in public prisons. As well as this, extra capacity in the NHS has been a result of outsourcing but there is a lack of evidence within healthcare to sufficiently evaluate results and some case studies show failures. Probation is the only sector in the report which is classed as ‘red’ meaning that it has failed not only financially but also, harming the service user group.

The report uses the table below to demonstrate the rankings of various sectors. Green is classed as savings, quality improvements or wider benefits; Amber is that the evidence is mixed with some studies showing no difference and others which show positive or negative points; Red is used when the evidence cost increase or lower performance/ quality.

Sector	Rating
Waste Collection	Green
Cleaning	Green

Catering	Green
Maintenance	Green
Back Office (HR and IT)	Green/ Amber
Prisons	Green/ Amber
Health care (clinical services)	Amber
Employment services	Amber
Adult social care	Amber
Private financing of construction	Amber/ Red
Probation	Red

## Future steps

When evaluating the case studies of successful and less successful contracts, the report creates three conditions which will boost the chances of a contracting succeeding:

# 1. The existence of a competitive market of high-quality suppliers

Un-competitive markets can lead to suppliers abusing their power and the exit of suppliers can cause problems for authorities. However, the lack of a well-functioning market of suppliers does not automatically mean failure. The government is ideally placed to create healthy markets where they didn't exist before, which is what happened with the waste collection sector as a part of CCT.

# 2. The ease of measuring the value added by the provider

Setting targets can be a challenge. For simpler contracts, targets are often straightforward but with larger contract, defining an adequate level of service quality can be a difficult task. Nevertheless, from case studies, targets are an essential part to successful contracts. Where outcomes are harder to measure and attribute to providers, generating data or writing detailed contracts that specify proxies for performance are useful tools to measure the value of the provider.

For complex services, there are new methods that seek to develop approaches to procurement or commissioning by focusing on collaboration and learning rather than specifying outputs and outcomes which allow services to adapt.

# 3. The service should not be so integral to the nature of government as to make outsourcing inappropriate, for example, when a supplier has to make key policy decisions

The report authors suggest that outsourcing key government responsibilities is problematic, especially when the government loses the ability to guarantee acceptable performance levels. This is because decisions can have huge consequences which affect public trust and can cause hardship. These responsibilities include:

- making or informing decisions that affect people's eligibility for services or involve highly vulnerable people
- making key policy decisions such as on regulation, tax and spending
- applying coercive authority to maintain law and order
- making decisions relating to the government's duty to protect the public.

Authorities wanting to outsource these responsibilities should make a special effort to ensure that there is robust oversight and appeal mechanisms.

## Conclusion

Despite the report stating the triumphs and downfalls of outsourcing, whether a service is delivered by public or private body is clearly not the only factor which affects its overall success (or lack thereof). Therefore, until the government decide on their plans for outsourcing in the future, the factors like good management and sufficient funding must continue to be given the highest priority by public and private partners alike.

---

Written by Tara Cole

## Contact



**Peter Ware**

Partner

[peter.ware@brownejacobson.com](mailto:peter.ware@brownejacobson.com)

+44 (0)115 976 6242

---

## Related expertise

### Sectors

Central government

Government

Local government