



The Future of Outsourcing

*Towards an ethical, accountable, transformational and
outcome-focused industry*





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FOREWORD

More than thirty years on, we should have come to terms with outsourcing in the public sector. It has a good track record, delivering both savings and service improvements. In many other economies it is simply taken for granted.

But still there is controversy in the UK, particularly during an era of austerity in public spending.

This report from the MCA Think Tank explores and illuminates the many issues surrounding the topic. It debunks a lot of myths – about outsourcing being a Trojan horse for privatisation, for instance. And it confronts those who argue that it is wrong – even unethical – for any private sector organisation to make a profit by providing public services. If the public benefits, why not?

But there are also some important messages for the outsourcing industry itself and, indeed, for the public sector organisations that contract with them. The report argues that new thinking is needed for new challenges in public services. ‘Business as usual’ outsourcing no longer will suffice. As the authors put it: “Transformational outsourcing must become the norm”.

In a wide-ranging set of recommendations, the Think Tank has suggestions for all parties in the outsourcing chain, including management consulting firms who often provide essential advice and support. This is a comprehensive and thought-provoking survey.

Many consulting firms see the outsourcing process from start to finish. They help with contract and service design, procurement and contract management, performance improvement and the management of services. Our industry is uniquely placed to provide a lead.

For one of the paradoxes is that, as outsourcing has grown, we have debated it less. For brief periods, when a particular contract is in the news or a minister agonises over a decision, there will be media interest. Otherwise, it is striking how little the topic is discussed, still less analysed and interrogated.

So I am particularly pleased that MCA member firms have come together under the leadership of Paul Connolly and the MCA Think Tank to help us to deliver what, I believe, will be a stimulating and influential report.

Alan Leaman, MCA Chief Executive





Introduction

The condition of public sector outsourcing in the UK is paradoxical. Reforms diversifying public services in the 1980s and 1990s produced huge growth in the UK outsourcing industry. Compulsory competitive tendering in local government, and successor initiatives such as Best Value, have made contracting out of waste collection and school catering commonplace. Over time revenues and benefits provision, care homes, leisure, tourism, housing provision and even some library services were added. Across government, back office systems and IT are now provided by specialist companies.

Front office or customer-facing services are also extensively contracted out. Major enlargements of private provision occurred during the comparatively buoyant public spending era of the Blair/Brown years. Innovations include the private sector managing the private sector on behalf of government, with contract management and procurement support provided commercially. The TUPE principle, under which staff are transferred to the new provider under the terms of their existing contracts, has helped 'scale' the industry. In health, successive governments have upheld the principle of services being free at the point of delivery, while being reasonably relaxed about sources of supply. Budgetary flexibilities conferred on health and school administrators have expanded procurement options and supplier choice.

The basic justifications for outsourcing are reduced cost and service improvement. Contestability theory suggests that if a public service is subject to competition, both incumbents and competitors will have to drive down costs. It has long been recognised in the private sector that the core identity of an organisation is not threatened by outsourcing some functions to genuine specialists. The history of public service outsourcing provides many illustrations of the soundness of these analyses. On the whole public service outsourcing has been a success.

However, there are have always been problems with the outsourcing 'narrative', certainly in the UK. In some countries, especially the US, substantial private sector delivery of publicly funded activity is a longstanding given. By contrast in the UK outsourcing is often conflated with privatisation. The 1980s privatisations of utilities have been broadly accepted. Yet some privatisations, such as rail, remain controversial. Further, parts of the public sector are viewed by some as almost



sacrosanct, with the notion of privatisation, real or imagined, in the health sector especially, unpopular.

Outsourcing's reputation is impacted by these perceptions. Where a public service is widely used and valued, some people are sceptical that anyone should make profit out of it, even if that profit is a by-product of improved service quality. The profit is seen as taken away from the public sector, an opportunity cost in the mind of critics: private profit equals fewer doctors and nurses, to put it crudely. This perception is especially compounded where part of the outsourcers' remit is to reduce costs and headcount significantly. These problems of perception have intensified since 2008 and especially since 2010. With downsizing public services an inevitable consequence of the deficit reduction strategy, outsourcers have been caught up in the rhetorical battles between those who regard public spending reductions as essential to balance the national books and those who see only job losses and service reductions. Indeed, even those in favour of reducing the size of the state are sometimes wary of anyone profiting while this is going on.

The case for outsourcing was running into trouble even before 2008 for other related reasons. As the prospect of significant cuts in public services loomed, even those who had been involved in the promotion of outsourcing wondered whether the industry had done rather well out the years of plenty for comparatively limited effort. Outsourcing firms had been insufficiently transformational, suggested some commentators, creating a parallel public sector, a little cheaper and delivering a little more than the status quo ante, but only rarely radically reinventing service models. Well placed government officials started to refer to outsourcing industry players as 'oligarchs'. Francis Maude, the incoming Cabinet Office Minister in 2010, charged with securing value for money in contracted services, promoted alternative models to outsourcing, such as mutuals and cooperatives, as potential routes to transformation. Early in the Coalition Government, the Cabinet Office called in business leaders from the outsourcing industry to discuss the reductions of prices and margins on existing contracts.

And then there were scandals. They require no detailed rehearsing here. To say that they have dented the image of the outsourcing industry would be an understatement. Political, media and public condemnation has been fierce. The impact on the reputation and commercial positions of the firms involved has been significant.

There is however significant hypocrisy here. Politicians have been swift to attack the failings of outsourcing, to decry its limitations and to promote alternatives. Yet while condemning the outsourcers, they have continued to use them. Liberally. Despite shrinking public expenditure, Government spend on outsourced services rose steeply between 2010 and 2015. Ministers, keen to distance themselves from or even exploit scandals have been less willing to explain their continued dependency on outsourcing and very slow to celebrate its successes.

The MCA considers this mismatch of actions and rhetoric to be in no one's interests. We believe outsourcing has a vital role to play in public service delivery. A market in service providers helps prevent monolithic and monopoly delivery models, which can be inefficient and may have little incentive to save money or transform. The private sector can broker collaborations between agencies, and across economic sectors, help deliver economies of scale, and make investments that are impractical within the annual budget constraints of in-house functions. Properly harnessed, the profit motive engenders innovation, benefitting citizens. Indeed, it is simply unthinkable that we will see a reduction in private sector involvement in the delivery of public services. Government needs to enlarge its 'ecosystem' of provision to do



very much more with very much less. It will need to leverage private investment, capacity and capability even more extensively in the future.

However, certain core problems must be addressed. First, honesty is needed. It is no use politicians beating up outsourcers while being largely silent about how much they rely on them. Government needs to work with the outsourcing industry to develop a more compelling narrative, one which engages the public and celebrates outsourcing's benefits.

The outsourcing industry also needs to get its house in order. It must answer the legitimate criticisms flowing from scandals. Firms must maintain the highest standards of ethics and vigilance. They should consider themselves as much custodians of the public purse, representatives of the public service ethos and servants of the people, as those who work in-house.

They must also respond to more fundamental questions. The UK public sector's current challenges require different solutions to those of the past. The 'parallel public sector' model will not suffice. Transformational outsourcing must become the norm. Outsourcers must collaborate with the state in its transformation. They will need to offer radical thinking. While there will still be a place for functional outsourcing, this must gradually be replaced by an accent on outcomes. Outsourcing firms should deploy their commercial nous and freedom in ways that complement the public sector. Commissioners must work across agency boundaries to task outsourcers to reach challenging goals.

Brought to the table by Francis Maude and compelled to reduce margins, the industry sometimes gave the impression of being caught on the hop by the downturn and austerity. Now, they must do their bit and be seen to do their bit. Of course, this is not the same as buying contracts with unmanageably low prices only then to ask for more resources through change requests. It is about ensuring contractors always offer best value to the state, in both new and existing contracts, and work harder to supply much more quality for much less money. The common devolved model, where one contractual relationship with the state is largely separated from others, needs to be qualified. While the contractual shield a particular operation enjoys is a source of innovation, outsourcers should be ready to identify where one service arrangement offers better value than another, generalise best practice, and secure savings for the public sector by merging operations, and sharing capabilities, capacity and systems.

This innovation need not be incompatible with profitability. Certainly, this is not a time for usurious margins. But innovators, provided they deliver quality outcomes, should anticipate a breadth of activity and opportunity to compensate for shallow short-term returns. Where suppliers can use their foothold in one area to reduce costs in another, the public sector should see some of the resulting benefit. But given that the benefit itself is dependent on the supplier, the supplier can legitimately demand some of the productivity gain as profit.

Outsourcers and commissioners alike will need to be upfront with the public about the sensitivities of what they are engaged in. Hoping image problems associated with unpopular contracts go away will not do. Both sides will have to work to shape sensitive contracts and communicate responsibilities to the general public. Where a service is outsourced in the context of a substantial reduction in spend, meaning a likely reduction in service scope and quality, commissioners need to be explicit about this. This will help reduce the chances of the general public associating the outsourced supplier (who may be tasked to do more with the available resources than the in-house service could ever achieve) with cuts.



In the future, public value will be a function of the complementary capabilities of in-house, private, voluntary and community action. Outsourcers should commit to help pluralise this delivery environment, supporting SMEs, mutuals and the third sector. Furthermore, the outsourcing industry should recognise publicly that its customers are not ultimately the client bureaucrats, but service users and the taxpayer. New accountability dynamics should emerge. The formal accountability to public bodies, ministers, councillors, officials and Parliament should underpin and complement a wider accountability to end-users, taxpayers and the general public. This will not merely require a real commitment to service outcomes – changes in the real-world experience of a service. It will also require a new openness and the maintenance of the highest ethical standards.

It goes without saying that across many outsourcing firms these virtues are practised – consistently in some providers and within many of the contracts of almost all. They need to become universal.

MCA management consultants are well placed to examine these issues. Some MCA members are consulting practices of firms engaged in outsourcing – both in service delivery and other parts of the public-sector value chain, such as infrastructure. Some assist clientside, designing requirements and procurement processes, and supporting contract management. Others advise on policy, strategy and operational design and then undertake ‘managed service’ activities. Few industries have such a rounded view of outsourcing, aware of its benefits and challenges.

In September 2015, we gathered a roundtable of experts from across the MCA. We have followed this up with bilateral interviews, in particular with member firms with outsourcing interests. We also examined the outsourcing literature and gathered case studies. This report is largely based on that original roundtable and the body of evidence. It provides the concluding output of the MCA Think Tank Public Services Programme. It should be of interest to public procurement and policy officials, outsourcers and advisers alike.



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Summary of Recommendations

1. Government should be open about its use of outsourcing. It should make the case for the benefits of outsourcing in general and publish the reasoning behind individual outsourcing decisions.
2. Outsourcers should put productivity at the heart of their public service offers. To do this, they should seek step changes in the performance of their own operations. They should explore contract portfolios for synergies. Drawing both basic efficiencies and operational lessons from their own integrated practice, they should then offer more joined up and efficient services to public sector clients.
3. Outsourcers should commit to a step change in their investment in public service R&D. They should engage their shareholders on the benefits of this investment.
4. In pursuing recommendation 1, Government should work with outsourcers on a narrative around complementarity. They should broadcast a vision of the various sectors working together, deploying complementary skills, to realise a substantially enlarged set of public goods.
5. Public sector clients should be upfront with the general public in those cases where the reduction in service scope is essentially a product of budgetary decisions, not the decision to outsource.
6. Greater clarity is needed, across Government as a whole and at the level of individual public sector bodies, about the future scope of activities and the principles governing that scope. Within these clearly defined limits of activity, outsourcing should be used to seek more with less, rather than as a crude instrument of tactical cost-cutting. Clear boundaries would also illustrate where commercial opportunities exist for the private sector to provide services – including digital ones – where the state no longer can.
7. Buying contracts by outsourcers should be strongly discouraged, with sanctions applied where there is evidence of it. Instead, clients and contractors should ensure that there is flexibility in contracts (break points, compulsory renegotiation) to accommodate genuine changes in the conditions of delivery.



8. Government should publish a comprehensive statement on the legitimate and legislatively permissible scope of outsourcing. Where there are manifest anomalies or confusion in that scope, which conflict with Government objectives, then legislative change should be considered.
9. Where appropriate, public bodies should move towards shorter contracts. Where the transformational needs of a service warrant longer contract terms, break points and compulsory renegotiation milestones should be in place. The Crown Commercial Service should provide guidance on contractual timespans.
10. Outsourcers should rebalance the risk/contestability dynamics of long-term contracts by accepting losses or making net investments in the early years of running.
11. Cross organisational commissioning for outcomes should move from the periphery of outsourcing practice to become one of its central characteristics. The Crown Commercial Service should engage public bodies and outsourcers in pursuit of this goal.
12. As part of its implementation of recommendation 11, the Crown Commercial Service should explore with outsourcers, departments and public policy advisers, the organisational, performance and financial incentives needed to promote cross-organisational outcome-focused commissioning. It should then issue guidance on the necessary commercial vehicles.
13. Working with the Crown Commercial Service, the Department for Health should make a renewed push to support the commissioning of work to support positive health outcomes, especially of a community health and preventative nature, at 'whole health economy' rather than functional or silo level. The presumption that existing reforms mean that much of this will happen spontaneously needs to be challenged. Lessons should be learned from integrators, including Digital ones, in other sectors.
14. The Crown Commercial Service should work with MCA member firms and their delivery arms and partners to explore ways in which contracting for advisory outcomes lends itself to managed service models. Departments should be encouraged to foster the necessary dialogue to facilitate the progression of these approaches. The Crown Commercial Service should continue to work with consulting firms to ensure that such activities are properly categorised as value-creating consulting and/or service outsourcing activity. These activities should not be grouped in its data (or that provided to the NAO) with the use of interims for 'business as usual' work.
15. Across the civil service and in the new devolved arrangements in local government, the value creating potential of small cadres of commercially capable, senior, well paid experts should be explored. These professionals would be tasked to extract maximum value from the public/private/voluntary/citizen networks on which the creation of public value will depend in the future.
16. As an appropriate complement to recommendation 15, departments and agencies should consider commercialising client arrangements by outsourcing or partially outsourcing them. The SIAM model should be evolved into a more flexible service integration framework supporting a blend of in-house and outsourced capabilities, and allowing for a shift in this split as business needs change.
17. Departments and agencies should engage 'upstream' with commercial advisers and management consultants on policy-into-delivery questions,



and in particular the design of commercialised and outsourced delivery models.

18. As part of recommendation 1, Government and outsourcers should engage with shareholders in outsourcing firms to forge a common understanding of their collective long-term interests.
19. Government should create a climate in which emerging and 'challenger' outsourcers are encouraged to mutualise.
20. Outsourcers should proactively support the mutualisation agenda. Where possible they should mutualise partnerships and joint ventures. They should also provide back office services, including commercial and contracting support, for mutual partners.
21. Public sector approaches to contracting and outsourcers' 'enlightened self-interest' should combine to create a climate in which contracting for outcomes favours multilateral partnerships, potentially involving large outsourcers as 'prime contractors' supported by specialist SMEs and voluntary sector bodies.
22. Commissioners and contractors should embed engagement with end-users and the general public into contracts. Digitally facilitated feedback should become commonplace. Outsourcers should offer open days to end-users and communities to improve awareness and understanding of their operations.
23. Outsourcers should embrace open-book accounting as an extension of partnership working and complementarity. Commissioners should support this openness by publicly affirming the benefits they believe flow from the commercial arrangements.
24. Outsourcers should have a published code of conduct. This should set out the company ethos, what it will do consistent with that ethos and what it will not do. Adherence to the code should be mandatory for staff. Whistle-blowers should be protected and encouraged. Clients and outsourcers should set down the scope of activities contracted operatives undertake for clients in sensitive contracts.
25. Government should consider creating a universal public service code of conduct, covering directly employed officials, contractors, the voluntary sector, and, where appropriate, community groups, individuals and businesses acting in public capacities. Failing that, it should explore the development of a code for outsourcers, which complements existing public service standards.



The Case for Outsourcing

Contestability, quality, risk transfer, innovation

The historic case for outsourcing public services rests substantially on contestability theory. Left to their own devices, with the prospect of perpetual incumbency, public services can become complacent. Competition keeps them on their toes, generating cost improvements and innovation, either from incumbents themselves or new providers.

The outsourcing think tank, the Serco Institute, produced a report in 2007, *Competitive Edge*, which supports this perspective. A meta-study of numerous outsourcing cases and analyses from around the world, the report quantified the scale of savings realised, both by incumbents and new contractors, across a range of public sector service competitions. It reported savings in defence support of 20-30%, in health support of in excess of 20% , in prison contracting in the UK of 20%+, and a wide range of savings models in local government (from 5% to 25%) owing to the span of services involved.¹

The report acknowledged that in some instances cost savings were achieved at the expense of quality, especially in outsourcing's early phase. This is an issue relevant in the current conditions of public sector austerity, to which we will return later. However, a further argument for public-sector outsourcing is that properly handled contractual and commercial dynamics can drive quality.

This to some extent relates to a longstanding argument in favour of outsourcing in the private sector. In the first half of the 20th Century, it was a hallmark of success for business empires to be large, diverse, good at everything, including the support services sustaining the corporation itself. This phenomenon is still visible in parts of the Japanese economy, where competing business conglomerates have huge lists of functions in their reception areas. However, the model became unfashionable in much of the developed world from the 1950s onwards. According to the new thinking, corporations should differentiate based on the value of their products and services. The rest – back office functions, catering, payroll, banking services – should be outsourced to specialists.

¹ Gary L Sturgess and Briony Smith, *Competitive Edge* (2007), http://www.academia.edu/12012963/Competitive_Edge



In the private sector this argument is now largely uncontroversial. Many corporations would no more provide their own catering than they would manufacture their own lightbulbs. This acceptance impacts much of the largely unprepossessing academic literature on outsourcing. With the exception of one or two tendentious and hostile studies of outsourcing in the public sector, much of the literature of the last ten years, which derives from American academia and business schools, takes the existence of outsourcing for granted. (In the US, this acceptance is true even of large swathes of the public sector, where externalisation of support and other functions in, for example, defence, is longstanding.) Indeed, any controversies relating to outsourcing there are largely confined to whether it should evolve into offshoring.²

Some participants in the MCA roundtable took heart from this cultural acceptance. They suggested that improvement in outsourcing's reputation was in part a function of time. In the UK, the current controversies would abate as years pass and the conditions and boundaries of outsourcing become more permanent and less contested realities.

"Much of the problem with the reputation of UK public sector outsourcing is generational. State intervention is something most of us in the UK have grown up with. Will people feel differently about this in the future? If the outcomes meet expectations, and providers operate as good businesses, millennials are likely to be less concerned about the philosophical arguments as to who is providing the service."

Neil Dempsey, Grant Thornton

The back office expertise argument plainly already applies to much of the rationale for public sector outsourcing. Payroll, IT, functions with a large element of data processing, such as revenues and benefits in local government, have often been first-generation outsourcing targets. It would be wrong to say that this is without controversy. Though the NHS does not produce its own lightbulbs, the fact that a function has been carried out in-house previously makes it sacrosanct for some. Yet back-office contracts, which combine the contestability argument with the expertise argument, have on the whole proved the most saleable. And there is evidence that they work.

"Outsourced facilities management in the health sector has driven down cost per square metre in the maintaining and managing of hospitals."

Bill Green, Arcadis

Persuasive arguments have also been marshalled in favour of frontline service outsourcing. It has been suggested that in many cases outsourcing has actually improved the morale, terms and conditions, and performance of staff, both where TUPE models have applied (in which those currently carrying out a service are transferred to the outsourced supplier) or in 'greenfield' contexts. The Serco Institute report *Good People, Good Systems* highlights contracts liberating public service zeal.³ Contractors

² See for example William Milberg/Deborah Winkler: *Outsourcing Economics: global value chains in capitalist development*, Cambridge University Press, 2013, and *Global Outsourcing and Offshoring* (ed) Farok J. Contractor, Vikas Kumar, Sumit K Kundu, Torben Pedersen. Very largely about offshoring. See also *Vested Outsourcing*. Kate Vitasek. Palgrave Macmillan, 2010, which though critical of some of the processes of outsourcing, does not challenge the fundamentals and cites Bill Gates in support of offshoring as a 'common sense proposition' (p. 44).

³ Megan Matthias and Emma Reddington, *Good People, Good Systems*, 2006: http://www.serco-ap.com.au/media/78870/good_people_good_systems.pdf The report notes rather intriguingly that among interviewees at that time, the benefits of the freedoms of being in an outsourced context tended to be appreciated more



motivated by profit may prove more inclined to respond to and invest in proposed frontline innovations and ideas long-harboured by staff than risk-averse in-house managers. The contract itself can 'shield' operations from day-to-day political attentions, allowing staff to focus on the job at hand. Cost cutting, through a reduction in direct service costs and thus headcount deployed to a client, may be offset by expansion into other areas of service and commercialisation. And in greenfield contexts, new approaches may be encouraged through imaginative hires, such as bringing education and childcare staff into the management of young offenders.

These arguments have proved especially powerful where the outsourced supplier has been able to use the contractual arrangement to achieve savings while, in some way, protecting employment. This may be direct employment, or, more innovatively, indirect employment. In some local authority contracts, for example, net employment in a location may rise, owing to the use of a contract as a hub for the provision of services beyond the immediate client authority, while the net costs to that authority – and the number of people directly employed in delivering its needs – fall.

The range of frontline service outsourcing is a mixed and inconsistent picture. Uptake in the early era of contested services in the 1980s, when the compulsory competitive tendering regime was introduced in local government, led to the outsourcing of some services, such as waste collection, with its straightforward business model, being reasonably accepted. Other more sensitive statutory functions, such as those in social care, have been less extensively contracted out. Even some advocates of commercialisation would caution against putting sensitive services in the hands of private contractors. But this principle does not apply evenly. Schools are themselves now commercial entities through the academies and free schools programmes. Many strategic transport services are provided by private contractors. Offender management services are frequently outsourced. So are assessments of benefit entitlements. And as many of our panellists pointed out, the NHS, most cherished of the public services, had private contractors in the form of GPs built in from the outset.

A final case for outsourced services relates to economic factors. The Julius Review of 2008 estimated the value of the outsourced service industry to the UK economy at that time as being £79bn, employing 1.2m people and representing 6% of the economy.⁴ Many UK service firms are active across the globe, making the sector a significant contributor to export-earnings and growth.

"The National Outsourcers Association, the CBI and other representative bodies need to do more to promote the economic benefits – numbers employed in the industry, contribution to growth – of outsourced services."

Martin Cresswell, iMPower

by people who had previously worked in the public sector than by those with an exclusively private sector background.

⁴ See <http://webarchive.nationalarchives.gov.uk/20121212135622/http://www.bis.gov.uk/files/file46965.pdf>



The Problem

Reputational issues and austerity

In truth, there are many strong examples of outsourced back office and front office functions. Despite this, even in the private sector, where the concept is accepted, some UK studies have noted disaffection over the delivery of benefits, as well as nervousness about the structure of outsourcing itself.⁵

Moreover, it is pointless to deny that something very serious has happened to the reputation of public-sector outsourcing. The main scandals, concerning manipulation of information, insensitive handling of vulnerable people, failure to deliver, spiralling costs, are well documented and it would be invidious to rehearse them here in specific detail.

Indeed, to some degree the scandals themselves are beside the point. Many organisations have high-profile failings, including in-house public services. Yet they command enough respect in their routine running for their shortcomings not to represent an existential crisis. By contrast, controversies in the outsourcing industry have not only drowned out successes, but have been used to call its very existence into question.

“Some high profile outsourcing failures have set matters back. If the public sector gets something equivalently wrong, then business continues. But if the private sector does, then two brands are tarnished: the firm itself and the brand of outsourcing in general.”

John Deverill, GE Healthcare Finnamore

⁵ See *Outsourcing: ICSA Solutions*, <https://www.icsa.org.uk/shop/books/solutions-series/outsourcing-icsa-solutions> where the authors argue that despite outsourcing growth in the private sector, levels of dissatisfaction are still quite high and “Managing Outsourcing Risks” by Cristina Machado Gumaraes and Jose Crespo de Carvalho, in *Andre Deering (ed) Outsourcing: Strategies, Challenges and Effects on Organisations: Novinka (2015)*, which highlights the risks of loss of competencies and control.



This distinction stems from a fundamental uneasiness some people have with outsourced services in general and, more particularly, the intensification of that uneasiness in the context of austerity.

As discussed, in the run up to the 2010 General Election, there was intensifying criticism of outsourcing, right across the political spectrum. Much of it was, perhaps surprisingly, on the centre right and some of it connected to new thinking about the relationship of the state to communities.

A defence of outsourcing that emerged during the Blair era related to the principle of subsidiarity. From the midpoint of the last decade, the Labour Government started to embrace devolution as a complement or even alternative to its target-driven approach to public service reform. This was conspicuous in the 2006 Local Government White Paper. It called for more localist councils, getting out of their town halls, engaging with communities, setting up consultative bodies, reinvigorating the parish council movement, and devolving power and where appropriate budgets to citizens. Simultaneously however (and driven in part by the aftermath of the Gershon Review of public sector efficiency), the White Paper urged local authorities to eliminate redundant decision-making tiers. There was a push for unitary government. Councils were encouraged to share services and collaborate.

Further, the White Paper stated that councils should see themselves less as deliverers of services and more as commissioners. This was seized on as the key to unlocking the apparent paradox in the White Paper – which also applied more generally across government’s organisational thinking – of a micro-dynamic of local focus and a macro-dynamic of sharing and scale. In effect, this subsidiary model placed decision-making and governance at the lowest level possible – a community, a user group, a neighbourhood, albeit potentially one within a large unitary authority – while organising delivery at the most appropriate for the attainment of efficiency. The language here was useful for outsourcers. Localised decision-making could ensure that services were designed to meet people’s needs. Delivery constructs, such as shared services, or provision by third party companies and partnerships could provide services, suitably tailored, efficiently. The economy of getting things right first time would be accompanied by economies of scale.

Critics of this analysis suggested that far from tailoring local service models, many outsourcers used their scale to provide generic, ‘vanilla-flavour’ services cheaply to efficiency-hungry local authorities. Moreover, some localists suggested local services should stay local. Phillip Blond, a centre-right commentator and academic, argued that outsourcers took profits out of localities. In his view, communities were better served by small local enterprises and other ‘Big Society’ initiatives.

Further, some argued that outsourcers had made money during the Blair/Brown, but had patchy delivery records, with insufficient transformation. Their offers and the TUPE process had created a ‘parallel public sector’ – a little cheaper than in-house arrangements, delivering a little more, but with broadly the same structure. Long contracts provided reasonably secure, if unspectacular returns for shareholders: all at a time when many commentators and members of the public wondered if anyone should be making profit from the public sector at all, with the sector tightening its belt and starting to manage down citizens’ expectations of service extent and quality.

Francis Maude had been a pioneering advocate of outsourcing in the 1990s. Yet as Shadow Cabinet Office Minister, and later in post, following the election of the Coalition Government in 2010, he signalled that it was time for the outsourcing industry to put something back. Outsourcing firms, which some of his circle felt emboldened to term ‘oligarchs’, should accept lower margins and higher levels of scrutiny. They should be more transformational and also be exposed to new competitors. Maude advocated the



creation of a new generation of mutuals, owned for the most part by public servants. These new vehicles would bring the benefits of contestability, and provide incentives for transformational performance by staff, while maintaining a public service 'feel'. He and others advocated an enlarged role in the delivery of public services for the voluntary sector and for SMEs. Maude exhorted outsourcers to assist with this agenda. They would be treated reasonably, provided they 'did their bit', aided ministers with their objectives and helped diversify supply.

Discussions about these matters, including contract and margin renegotiations, not always harmonious, followed the Election in 2010. Observers suggested that some outsourcers appeared not to have grasped the new realities. Early gestures of genuinely transformational offers, support for mutuals and a large 'big society' contribution of margin reduction might have helped. But while there were certainly pockets of this, some in the sector seemed to believe they would inevitably continue to do well. The Government would be desperate to achieve more for less. So a steady and even substantially enlarged flow of contracts would continue to come their way.

Against this backdrop, the scandals we have touched on occurred. Seemingly unimpressed by the outsourcing industry, politicians latched onto them and were scathing in their criticism.



The Paradox

Government's continuing and expanding use of outsourcing

Yet this criticism is paradoxical. For on one level at least the outsourcers were right. Government continued to use them, to a greater extent than ever before. While spend on advisory services contracted in the last parliament, it has been estimated that outsourced service delivery expanded. The Department for Business, Innovation and Skills (BIS) estimated in 2012 that around one third of all public spending (£238bn) is on private sector goods, works and services.⁶ Of this, some commentators estimated that the share devoted to outsourced services had doubled over the course of the Coalition.⁷

Thus the public/private dialogue is dysfunctional, even hypocritical. Government and politicians are vocal when things go wrong with outsourcing. Yet they draw less attention to their decisions to outsource and devote little time to selling outsourcing's benefits to the public. Some outsourcers have argued that this lack of openness has 'privatised' and transferred some of the risks and pain of austerity to them. This is especially so where resources are reduced to an extent that curtails service scope and/or quality, and then an outsourced provider is brought in. The provider may then be blamed for what are essentially budgetary decisions.

The case for outsourcing needs to be made. It is not self-evident to many. Austerity has compounded a public nervousness about outsourcing in general. Some oppose austerity itself, arguing that the retention of spending capacity and jobs in the public sector is vital to ensure that the economy has sufficient aggregate demand. The connection of outsourcing to reduction in public spending scope and public sector jobs thus makes it inimical to their objectives.

So does the tendency to elide the term 'outsourcing' with 'privatisation'. This is especially powerful in sensitive service contexts, such as health. The poor communications around the last Government's health service reforms have not helped here. Opponents have characterised the use of non-public entities to achieve public goals as an irretrievable

⁶ See *Strengthening UK Supply Chains: Public Procurement*, BIS (2012): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32264/12-756-strengthening-supply-chains-public-procurement-tunnelling.pdf

⁷ See Financial Times, <http://www.ft.com/cms/s/0/244f0bd8-eccb-11e4-a81a-00144feab7de.html#axzz3zZbhOncB>



loss of public capacity – irrespective of that fact that the service itself remains entirely publicly funded or that much of the NHS has always been privately delivered.⁸

“In Health, it is clear that GP practices, pharmacists and opticians are all commercial businesses.”

Stewart Johns, Prederi:

“Outside the political classes, health is a dog-whistle, politically dangerous. Yet no one suggests that hospitals should manufacture their own lightbulbs. But buying outsourcing is just buying different skills and capabilities. Of course, a lot of this is about jobs. Highlighting where outsourcing has achieved net job creation would be valuable.”

David Freedman, Huthwaite International:

The terms of the debate urgently need to be changed. Outsourcers must own what has gone wrong, learn from it and offer the most transformational and innovative options to the public sector. Ministers need to level with the general public. Outsourcing is here to stay. It can be a great force for good in the delivery of effective public services. Politicians need to own that case and communicate it.

Recommendation 1

Government should be open about its use of outsourcing. It should make the case for the benefits of outsourcing in general and publish the reasoning behind individual outsourcing decisions.

⁸ See <http://www.noa.co.uk/files/722.pdf> : *Shared Services in the NHS Winning hearts and minds - and keeping them won*, Glen Hickling. The pamphlet notes that outsourcing, which is then associated with privatisation, is a political hot potato in the NHS context



Transformational reinvention

Opportunities in current public service thinking:

Complementarity and 'permissions'

The success of many outsourcing firms has come from providing services that are cheaper and more productive than those in-house. Interspersed among these are the instances where services have been genuinely transformed and reinvented. The current conditions in the public sector mean that it is now essential that this latter variety comes to predominate. Transformational outsourcing must become the norm.

There are of course many examples of genuinely transformational practice. Perusal of award-winning case studies reveals significant innovation. avarto's 10-year partnership with Chesterfield Borough Council, achieved £4m savings and inputted £1.7m new investment across a range of support services. Thales and Transeo digital transformed Network Rail's contact centre. In the related area of utilities, and an illustration of the clientside support that outsourcers can bring, Efficio's MCA Award-winning contract to run the strategic sourcing function of Thames Water, secured four times the planned in-house efficiency savings and a six to one ROI on £400m spend.⁹

Yet it is perhaps true of the relatively young industry of UK public sector outsourcing, with its comparatively thin analytic literature and limited traditions of research and development, that it lacks the necessary self-awareness to maximise its transformational intent. That intent is certainly needed. The simplistic argument that outsourcers run stuff well and so should be allowed to run more stuff well will simply not wash in a context where much more radical measures are needed. The evolution of outsourcing must continue.¹⁰

⁹ For these and many more, visit the National Outsourcers Association website www.noa.co.uk

¹⁰ See "Managing Outsourcing Risks" Cristina Machado Gumaraes and Jose Crespo de Carvalho, in *Andre Deering (ed) Outsourcing: Strategies, Challenges and Effects on Organisations: Novinka (2015)*. The essay, focusing on healthcare, notes a shift from transactional outsourcing in the 1970s and 80s towards strategic outsourcing in the 1990s, and now, in the 21st century towards transformational outsourcing.



Indeed, there may be structural impediments to the most effective mobilisation of the industry. Contracts with TUPE staff and separate management teams have an inherent centrifugal tendency. They can become fiefdoms in their own right, disconnected from the outsourcing firm's strategic centre. This is inimical to learning lessons and identifying weaknesses. Indeed, the transformation of the outsourcers themselves into learning entities, able to find and generalise best practice across their portfolio, share capabilities and opportunities across similar contracts, may be an essential precondition of them offering best value to clients.

Some outsourcers of course do this, by pooling back office capacity, intelligence, or sharing resources, such as vehicle fleet, across similar contracts. However, more needs to be done. Outsourcers could offer better deals to existing clients, reengineering ongoing contracts and identifying potential economies and best practice for future ones, by maximising the interoperability of their existing portfolios. Indeed, the urgency of this transformational need was linked in the roundtable session to the issue of public sector productivity.

"Outsourcers need to move beyond the small-scale cost-cutting case for what they do, which has become bland. They must focus on innovation. Twenty years ago, outsourcers could deliver more productive services. But now, right across the public sector, productivity has flatlined. Outsourcers need to show what they can do about that."

Martin Cresswell, iMPower

Of course, the facilitation of improved productivity has been a case for outsourcing historically. Yet the narrative around it has not always been especially attractive, at least in common perception.

"I work with many support service organisations in the public sector. The reality is they cannot be commercial until the attitudes of the people in the organisation change. I've heard many people complain that the real role of outsourcing is to bring in the hard-nosed project managers to stir things up until staff leave and are replaced with more business orientated people. That is not attractive to the public sector nor, for that matter, the outsourcers."

Stewart Johns, Prederi

Improved productivity within the outsourcing industry itself may prove essential to the achievement of productivity on behalf of clients.

Recommendation 2

Outsourcers should put productivity at the heart of their public service offers. To do this, they should seek step changes in the performance of their own operations. They should explore contract portfolios for synergies. Drawing both basic efficiencies and operational lessons from their own integrated practice, they should then offer more joined up and efficient services to public sector clients.



One consultee for this exercise suggested that a reason the industry lacked the intellectual heft and capacity to deliver transformational solutions was that it was very far from being globalised. This is an extreme way of saying that the industry is not integrated, networked and insight-sharing, both intra-organisationally and inter-organisationally.

Certainly, there is a perception that the outsourcing 'offer' has changed insufficiently.

"There hasn't been much of a shift in the offer from the outsourcers in the last 10-15 years. They don't seem to have invested in a new model of what the public sector needs to be about. What they have done historically is organised good people better or disintermediated with technology. But most organisations have already done that now. Outsourcers in the future will need to work to empower the frontline to be more effective and productive. That will mean investment in new offers and new thinking."

Martin Cresswell, iMPower

Recommendation 3

Outsourcers should commit to a step change in their investment in public service R&D. They should engage their shareholders on the benefits of this investment.

Many outsourcers are of course already self-aware, self-analysing and thoughtful. They are confronting these issues. There are emerging insights. The most successful firms are putting into practice a core understanding: that service and functional outsourcing is less important than private providers' ability to provide complementary capacity and capability to the public sector in pursuit of target outcomes.

To some extent this is defined in the language of partnership – though this term has also become connected with joint ventures, risk and gain sharing, some of which we will explore later, as well as the rebranding of existing outsourcing arrangements. Rather what is meant here is the degree to which the private sector and directly employed state functions can complement each other to produce an enlarged public good. Indeed, there is a significant opportunity for outsourcers to align themselves with the current dynamics of public service reform.

In what used to be styled the *Big Society*, an agenda that persists despite the discontinuance of the term, the Government wishes to ensure that where public capacity is reduced, communities, third sector organisations and businesses step in to take up the slack. By presenting themselves as complementary elements in a networked public realm, outsourcers and other private providers can provide positive inputs and succeed commercially.

In effect, as contributors to this report noted, the private sector has 'permission' in the current context to borrow, invest, spend money on training and development



and new equipment, a permission that in-house services do not enjoy. By making offerings to the public sector that exploit this permission, outsourcers can position themselves as the public sector's helpmates.

Recommendation 4

In pursuing recommendation 1, Government should work with outsourcers on a narrative around complementarity. They should broadcast a vision of the various sectors working together, deploying complementary skills, to realise a substantially enlarged set of public goods.



The Size and Shape of the State

Clarity about what is being asked for

Outsourcers ability to achieve this repositioning depends in part on greater clarity from public sector decision-makers about the scope of the state. This is particularly required in areas where the service status quo ante is no longer sustainable owing to reductions in available resources. An outsourced service provider may then be brought in to operate a reduced service. What the contractor can achieve may well be more extensive than the public sector could itself provide for the reduced spend, but will nevertheless be less than citizens are used to. It is imperative that politicians and officials join with the outsourced service provider to explain these conditions. This is especially needed, owing to the tendency of the general public to associate outsourcing with cuts.

“Outsourcing is rarely sold as an innovative company coming in to transform things. It is usually sold as cuts. So even if the service has got better, the perception is that it has got worse.”

David Beggs, Managementors

“Outsourcing can reduce costs and drive service improvement. But currently there is too much emphasis on the first point. Cost reduction and transformation should go hand in hand.”

Sarah Ashley, EY



Recommendation 5

Public sector clients should be upfront with the general public in those cases where the reduction in service scope is essentially a product of budgetary decisions, not the decision to outsource.

Moreover, if there is clarity on the part of public sector decision-makers about the scope of its activities, it may be easier for outsourcers to focus on helping achieve more for less, rather than less for less. Indeed, clients' contracting patterns and scoring systems for bids to support this intent.

Many service areas can do much more through the introduction of digital systems. These may be self-managed channels, or in other instances entrepreneurial innovations. An example of this is where digital integrators, such as in the area of transport, have rendered the need for public transport timetables largely redundant. With a bit of imagination, the public sector could do more of this informed withdrawal, or franchise existing digital integrators to run additional services at minimal cost.

A clear focus on the limits of the state, the role of the private sector in delivering, demarcating and complementing the state, rather than enlisting outsourcers to support death by a thousand cuts (and then blaming them for it) are all highly desirable. This approach would help especially where the race for cuts is not always sustainable. A relentless commissioning emphasis on cost reduction can cause quality reductions that induce a backlash from end users and ultimately force more spend.

"I know a client that has outsourced almost every service. They have forced down prices by allocating 70% of the bid assessment marks to price. This is now leading to failure of services and greater cost to the taxpayer to rectify the failures. A better balanced evaluation of bids to allow for quality and innovation is essential."

Stewart Johns, Prederi

Recommendation 6

Greater clarity is needed, across Government as a whole and at the level of individual public sector bodies, about the future scope of activities and the principles governing that scope. Within these clearly defined limits of activity, outsourcing should be used to seek more with less, rather than as a crude instrument of tactical cost-cutting. Clear boundaries would also illustrate where commercial opportunities exist for the private sector to provide services – including digital ones – where the state no longer can.

Short-termism on pricing can also contribute to a bad bidding practice on the part of outsourcers: buying contracts. In this, contractors make unrealistic, loss-making



bids and then seek to secure margins through change requests and scope creep. This lack of realism on both the buying and supply side is counterproductive and should be avoided.

A lack of realism about pricing and associated contractual inflexibility are also seen as being at the root of the recent insourcing of longstanding commercialised delivery arrangements.¹¹ Both clients and contractors need to build flexibility and renegotiation into contracts to allow for genuine shifts of policy and service priority (especially in long contracts).

Recommendation 7

Buying contracts by outsourcers should be strongly discouraged, with sanctions applied where there is evidence of it. Instead, clients and contractors should ensure that there is flexibility in contracts (break points, compulsory renegotiation) to accommodate genuine changes in the conditions of delivery.

¹¹ For more detail on this, see <http://www.european-services-strategy.org.uk/>



Where to outsource and where not to

Efforts to clarify the scope of public services would in turn help focus the question of what is suitable for outsourcing and what is not. There is some confusion about this – even among outsourcers themselves. Some maintain that certain statutory services, especially in sensitive areas, such as social care and social work, have to be carried out by directly employed public professionals. Others point to ways of circumventing that requirement, noting that other functions of as great sensitivity are carried out privately. Individual legal departments in different local authorities might have quite contrasting interpretations of the same statutory framework.

The lack of clarity on this question can have some damaging results, fuelling the use of tactical interim appointments, rather than strategic, contractually focused and managed external capacity. However, to make contracted capacity a permissible recourse in sensitive areas, outsourcers may have to humanise their operations.

“How do you address the problem of children’s social care? People in post have to be employees of the local authority, so in truth most are interns. We need a legal change to outsource more capacity in this area. But we also need to ensure the humanisation of the service delivery.”

Martin Cresswell, iMPower

As we will see, some of this humanisation may result from greater progress on openness.

Recommendation 8

Government should publish a comprehensive statement on the legitimate and legislatively permissible scope of outsourcing. Where there are manifest anomalies or confusion in that scope, which conflict with Government objectives, then legislative change should be considered.



Risk Transfer

The potential complementarity of the private sector to the public can be demonstrated readily in the area of risk. The public sector faces considerable hazards as it downsizes. Shouldering a greater proportion of that would be one way the private sector could regain its standing with both the public sector and the wider public.

Indeed, risk has often been cited as a key rationale for use of the private sector. The risks of commercialisation should drive innovation. For example, if a franchise operator for a public service operates at full commercial risk – meaning they have to collect usage payments and reward themselves entirely from those revenues – then that exposure should encourage innovation in publicising the service, in customer care and retention, and in service standards. Where the franchise lacks this clarity – through revenue transfers to the client, guaranteed payments to the contractor, subsidy – then innovation is less likely.

Risk transfer should be crucial to the success of outsourced services. Where the contractual requirements for the service, the commercials and risk transfer are aligned, then innovation and quality service outcomes can be incentivised. In the last ten years, the public sector has tentatively explored a variety of commercial models for outsourcers that build risk-transfer into commercials, from full revenue risk, payment by results, to risk and reward. The MCA favours these in relation to the contracting of advisory services and believes that they should be extended in the case of public contracting more generally. (Though there may be a case for adjusting some of the language and understanding around some of the models, especially risk and reward. See later in this section.) For such models to be genuinely transformational, a linkage should be established between the commercials and the attainment of outcomes that benefit citizens and end-users, rather than simply the contracting client. This is explored in the next section covering clientside spans of contractual control.

However, since the financial crisis of 2008, the dynamics of risk have changed. Take public infrastructure. Prior to 2008, investors were reasonably bullish about committing resources to projects, based on the prospect of reasonable long-term returns. However, in a more cautious investment climate, governments have had to underwrite investment risks to attract private capital for major transport and energy projects.



It remains to be seen whether this co-option of tax payers as the guarantors of private investment – and thus potentially of private gain – has adverse consequences for quality and innovation. Certainly it is understandable in those instances where there is a significant and probably uninsurable hazard in the build. It seems however to have become a default investor demand. That may prove problematic where nugatory risks are offset, leading to complacency.

In the case of outsourcing, offsetting risks is almost built into the structure of many contracts. Operators may carry out activities under threat of contractual sanction for failure. Yet some do so in long-term arrangements. Ten, fifteen, even twenty year operating contracts are reassuring for company shareholders. But they can also encourage the ‘parallel public sector’ dynamic of limited savings, limited improvements in quality, and steady returns for investors. They make a nonsense of the contestability argument by substituting new incumbents for old.

Of course, many such contracts are in place to guarantee employment for public servants who are TUPE-ed to the new arrangements. And a balance needs to be struck. It would be absurd in some contexts to move from contracts too long to permit real contestability to contracts too short to allow genuine transformation, a phenomenon compounded where the clientside size (if not its capability, which we will discuss in due course) is disproportionate.

“Sometimes substantial clientside management teams, almost as large as the delivery contract, especially in local government, are in place, micromanaging the outsourcer – with councillors micromanaging them in turn. Sometimes the contract terms are too short to allow for the innovation.”

David Beggs, Managementors:

Yet whether these benefits should be purchased by substantially de-risking the lives of investors and shareholders is questionable in a context that is supposed to be about bringing the conditions of the commercial sector into a public service context.

The commercialisation, contestability and risk-transfer dynamics that unlock benefit from contractors are not supported by long contracts, save in special cases, for example where the contractor has full exposure to revenue generation risks. Where possible, excessively long-term arrangements should be avoided. Indeed, procurers of public service contracts are increasingly alert to this. Just as long-term systems integration contracts in IT are being replaced by more agile Digital engagements, so there is an appetite for shorter contracts with outsourcers.

Recommendation 9

Where appropriate, public bodies should move towards shorter contracts. Where the transformational needs of a service warrant longer contract terms, break points and compulsory renegotiation milestones should be in place. The Crown Commercial Service should provide guidance on contractual timespans.



Nevertheless, there will be numerous instances when it serves the interests of the client, service users and contractors for more long-term relationships to be in place. A failing service may require major reconstruction and transformation to reach an acceptable standard of performance. What is usual in such cases is the classic transformation curve: performance may dip even further in the first years of operation as measures are put in place for long-term improvement, before reaching a higher standard in later years than was achieved during the status quo ante.

Yet even here, there is a real opportunity for outsourcers to show willing and shoulder associated risks. An in-house public service would expect significant challenges during the poor performance phase of a transformation programme – for instance, some budgetary pressure – in the interests of producing better results later. Similarly outsourcers should not expect to make significant – if any – margins at this stage. (Note that this, of course, is quite different from buying contracts. Suppliers should be clear about the significant gains they expect to make later in exchange for this upfront cost.)

Indeed, many contributors to this report suggest that they should anticipate being *net investors* in the service during the early phases of a transformation, and work with clients to construct contractual and commercial schedules that reflect this. Expecting returns during the painful phases of a long-term transformation is unrealistic (and potentially unreasonable) commercially, and reputationally damaging. When end-users see problems in service owing to teething troubles around new systems being introduced or fundamental changes in business models they will not welcome the news that the contractor is making money. Conversely, high-profile complaints from service operators that they cannot make money in the early stages of difficult transformations do nothing to enhance the reputation of the industry. Cross-contractual interoperability, mentioned in previous section, should make such approaches more manageable and achievable for outsourcers.

Moreover, break points, flexibility and renegotiation of long contracts, as referenced in recommendations 7 and 9, should be a given. Changes in policy and service priorities are likely over the course of a long contract. Flexibility on such matters is essential.

Clarity about risk transfer, through contractors making upfront investments in the service, can have other positive implications. In a previous MCA Think Tank report on local government reform, the language of ‘risk and reward’ has been challenged.¹² In a context of austerity, it can create the sense on the part of clients that successful contractors can achieve over-the-odds returns at a time when the public sector is tightening its belt. An adjustment of language to ‘investment and return’ might be desirable.

Recommendation 10

Outsourcers should rebalance the risk/contestability dynamics of long-term contracts by accepting losses or making net investments in the early years of running.

¹² See *Local Government: Time for Reinvention*: <http://www.mca.org.uk/reports/reports-data/local-government-time-for-reinvention>



Contractual spans of control

Outcomes and complex, multilateral problems

What matters in public services, and especially in the context of austerity, is securing better outcomes for end-users at reduced cost.

Yet the attainment of high quality outcomes is challenging in a fragmented public sector. Achieving reductions in child poverty, recidivism, heart disease: these are inherently multi-agency tasks.

Historically, outsourcers have for the most part been contracted to run back office functions or service areas that are compartmentalised: the responsibility of one client organisation.¹³ Rightly, with the renewed focus on outcomes in public service delivery, both commissioners (at least in theory) and the outsourcers themselves are interested in new models of contracting to promote high-quality outcomes. This thinking includes but moves beyond payment by results and other risk-based remuneration models and into an examination of how contracted suppliers can help deliver outcomes that are by their nature multilateral. The complementarity points made earlier are also relevant here, not least as third party outsourcers may have the necessary agility to work across organisations and align efforts to support complex outcomes, more so than the organisations themselves. This integrative capacity, offered with upfront investment and at risk, is at the heart of concepts such as social enterprise bonds. We recommend that these models be expanded wherever possible.

Recommendation 11

Cross organisational commissioning for outcomes should move from the periphery of outsourcing practice to become one of its central characteristics. The Crown Commercial Service should engage public bodies and outsourcers in pursuit of this goal.

¹³ Though back office outsourcing does occur across multiple organisations (especially since this is where substantial savings accrue) this has often faced challenges of governance, accountability and agreements on financing.



Many outsourcing firms – and certainly many of those charged with the management of sensitive contracts – understand these issues very well. Indeed, multilateral commissioning and cross-organisational spans of control in budgets and clientside management will be needed to realise the basic outcome goal of maximising operational economies of scale, a key objective of many collaborations between local authorities, for example.

Some clients, including those that are multilateral within themselves, insofar as they have many distinct functions and ‘fiefdoms’, such as local authorities or health bodies, can also choose to commercialise the pursuit of quality outcomes by outsourcing the commissioning of services to a third party. This type of service can be provided by a consulting firm. We will examine these models in more detail later.

Payment by results (PBR) is one of the most obvious ways in which contracting lends itself to the pursuit of outcomes, potentially in multilateral arrangements. The achievement of complex, multilateral outcomes, through PBR commercials, may be the area in which outsourced suppliers can be most valuable. An integrating partner, with the right incentives, may be the best way to use the investment and risk-taking flexibilities commercialisation can provide to achieve real public goods. Yet developing these sorts of models requires two things. One is very professional procurement and contract management. We will explore the skills and capacity the public sector has at its disposal later in the report. The other, to restate, is the necessary cross-institutional permission and span of control to commission the work. This itself may need to be underpinned by shared client-side arrangements, including shared risks and benefits. Given that the incentives and interests of the various agencies involved may not be aligned, this may prove challenging.

Recommendation 12

As part of its implementation of recommendation 11, the Crown Commercial Service should explore with outsourcers, departments and public policy advisers, the organisational, performance and financial incentives needed to promote cross-organisational outcome-focused commissioning. It should then issue guidance on the necessary commercial vehicles.

One thing that should help provide active partnering opportunities is the Government’s devolution agenda. Enlarged fiscal autonomy and spending devolution for places such as Manchester should open up the prospect of more thematic commissioning for outcomes. Authorities that hold previously dispersed spend on vocational training, policing, housing, transport, social care, may be able to make genuinely planned and integrated investments to support social inclusion, improved health outcomes and safer communities.

The rewards of arrangements to promote complex outcomes, such as PBR and cross-agency commissioning, could be great. They would also allow sustainable commercial opportunities for the private sector – in the interests of the public sector to cultivate. As public spending shrinks, so certain panellists suggested, the commercial model of much outsourcing – that of increasing numbers of contracts – is challenged. Of course, as we have noted, that challenge does not yet seem to have materialised, in that revenues devoted to outsourcing have risen. Nevertheless, at some point, for traditional functional outsourcing models, the sums may cease to add up. This may drive innovation inherently, with those most able to offer exciting



and commercially attractive outsourcing products most likely to succeed. But the most sustainable models will be those where outsourcers offer at risk provision to realise step changes in service quality and cost reduction in exchange for shares in the savings dividend, where appropriate, or a results payment (or ideally a combination of both).

“We’ve still not quite got PBR models right, but they are getting better. The NHS should move more boldly towards that kind of model. If providers are sufficiently innovative, and if they have adequate freedom to redesign services, then while the scope of public sector work may be shrinking, there should still be opportunities available for them.”

Michael West, GE Healthcare Finnamore

Nowhere is this sort of model more attractive than in health, where outcome focus can really work, accenting prevention above costly iterative interventions.

The Coalition Government and the current administration have been keen to challenge the problems associated with the appearance that the NHS is in effect a National Sick Service, its structures and incentives aligned towards acute provision, with expensive and reactive hospital readmissions being the norm. Successive Health Secretaries have introduced new commissioning entities and promoted smaller, community-based delivery structures. The thinking is that less monolithic bodies, operating in quasi-commercial conditions, will coalesce around patient needs. This should challenge the ‘factory hospital’ mentality. The commercial incentive of cost reduction, combined with local commissioning responsibility, should place a greater emphasis on community care and preventative health, since these are almost always cheaper than acute care, as well as being better for patients.

However, the dynamics of care and prevention, lifestyle, the activities of other agencies, such as local government, housing associations, and even the commercial activities of retailers and advertising, are complex, especially in areas such as smoking cessation or obesity. In practice, the spontaneous and integrated coalescence around patient needs will no more happen in the health context without more work on integrated commissioning than the disparate components of the transport system wrap themselves around passenger needs – that is, without the overlay of a digital integrator like Uber. Accordingly, what is needed, is integrating partners, working with commissioners at a ‘whole health economy’ level, to deliver multilateral solutions.¹⁴

¹⁴ This is a large topic, outside the scope of this report, but one touched on elsewhere by the MCA. See our Public Services Supplement to the 2015 Annual Industry Report: <http://www.mca.org.uk/reports/reports-data/public-services-supplement-uk-consulting-industry-statistics-2015>



Valencia case study

In Valencia, Spain, a single, integrated provider, Ribera Salud, has responsibility for almost all care provided to the population. Services are publically regulated and subject to universal access requirements. Primary and secondary care are integrated, with GPs being an integral part of the system. Clinical pathways are integrated across settings. Consultants take responsibility for building relationships between the hospital and each of the provider's 40 primary care health centres. There are strong incentives for clinical staff to follow agreed standard pathways and operating procedures. A shared patient record between GPs and specialists is a key component of the model. A unified information system links all service components, and can also access data from some external systems when required. Shared diagnostic support is provided right across the network of sites, rather than replicated on each. Performance management is based on outcomes, rather than inputs or process. Patients may seek care elsewhere if they wish - in which case the provider must pay. The provider is therefore incentivised to maintain both high standards of care and patient health, in order to inspire patient loyalty.

Recommendation 13

Working with the Crown Commercial Service, the Department for Health should make a renewed push to support the commissioning of work to support positive health outcomes, especially of a community health and preventative nature, at 'whole health economy' rather than functional or silo level. The presumption that existing reforms mean that much of this will happen spontaneously needs to be challenged. Lessons should be learned from integrators, including Digital ones, in other sectors.



Managed service models

The role of consultants in delivery

As experts on the challenges of running complex organisations and managing multi-lateral value chains, management consultants are well placed to advise on how the spans of control and multilateral commissioning opportunities might work.

Furthermore, consulting firms, in advising the public sector, have been at the forefront of payment by results, outcome-based contracting, and gainshare models. Plainly, in order to be rewarded against the workability of their recommendations, consultants need in some way to be associated with their delivery.

These 'managed service' approaches take a variety of forms. Capability sourcing is one. Here, advisers support the identification of permanent new capabilities within the public sector or the resourcing of impermanent needs.

"We offer to support clients through capability sourcing, potentially in partnership with organisations like Penna. This includes providing workforce strategies, managing skills profiles and needs, and developing integrated approaches, in which the capability can be built or sourced."

Nick Ringrose, Atkins

Other forms of managed service include the temporary management of an emergent problem or the development of an integrated approach to an ongoing issue. Here, consultants integrate and manage teams, within or across agencies. They provide additional capacity either temporarily, ensuring that the expertise, guidance and integrative steers are then imported permanently into the host organisation, or, if the nature of the service warrants it, on a more permanent basis, in effect as an outsourced or 'greenfield' provider.

Despite the regrettable tendency of the NAO to group consulting activity with temporary labour and manpower substitution, it needs to be stressed that neither of these types of interventions is the latter. They are the provision of additional expertise. In the first case, that expertise supports workforce and manpower sourcing strategies. In the second case, the adviser provides capacity and skills transfer for emerging and usually temporary problems, or integrative capabilities and outcome-focused interventions, where the public sector lacks the skills. These



may turn into service outsourcing. For the most part, however, that will be the outsourcing of an emergent or challenging problem, rather than the core 'business as usual'.

Case study

EY managed service approach. In the course of their work as public sector advisers, EY often encounter instances where a different delivery approach could achieve an outcome effectively for clients. This is based in part on a track record as service integrators in the private sector, or as suppliers of short-term, organised reactive team capacity – as distinct from singleton body-shopping or manpower substitutions – where clients face emerging challenges. In the finance sector, for example, the model has been used to help organisations scale up in response to PPI claims. Existing assets such as EY's contact centres can be deployed. As Tracy Harrison, Partner Managed Services, explains, "Much of this isn't necessarily big stuff. But it's vital for a local authority needing to improve performance or NHS Trust wanting to understand its data better." The model is an example of commissioning after dialogue between public bodies and suppliers, generally regarded as good practice, but often inhibited by departmental procedure. "But it's not monopolistic or exploitative. Even where we've advised on the shape of a delivery arrangement, we have ensured that it is appropriately tendered for. However, we have also advised on reducing the bureaucracy of tenders, so they focus on outcomes and not on needless compliance issues." Where the outcome sought is a complex and multilateral one, the emphasis is on finding ambitious leaders within the public sector. "Those who don't show ambition to transform services will not be able to lead cross-organisation visionary initiatives. Our aim is to help empower those who wish to rise above the norm and deliver outstanding public service outcomes." These outcomes can be achieved through attractive commercial arrangements, as Sarah Ashley, Director at EY, explains. "We run co-managed services at Enfield and City of Edinburgh. We work in a partnership with the procurement, commissioning and contract management teams of both authorities to identify, assess and, most importantly, deliver savings. In these partnerships we are only paid when the savings are delivered. We are incentivised to make sure that the savings are delivered, locked in for the medium term and that there is no value leakage in the implementation. Not only have we helped deliver multi-million pound savings in both organisations. But our approach has helped up-skill the existing commercial teams."



Recommendation 14

The Crown Commercial Service should work with MCA member firms and their delivery arms and partners to explore ways in which contracting for advisory outcomes lends itself to managed service models. Departments should be encouraged to foster the necessary dialogue to facilitate the progression of these approaches. The Crown Commercial Service should continue to work with consulting firms to ensure that such activities are properly categorised as value-creating consulting and/or service outsourcing activity. These activities should not be grouped in its data (or that provided to the NAO) with the use of interims for 'business as usual' work.



Better Procurement

The role of consulting on the client side

The SIAM model

The development of more advanced outsourcing and partnership models is predicated on appropriate clientside arrangements, in both procurement and contract management.

The weaknesses of government procurement are well documented and need not be rehearsed here in detail. Academic literature has also shown that in some areas, such as the management of IT contracts across government, the reductions in capacity needed to achieve austerity targets may have left a situation, at least initially, in which the residual client capabilities could not optimise the value extracted from contracted services.¹⁵

To procure and manage novel contracts, across agencies, with risk transfer and rewards vesting well beyond the political cycle, requires adaptability, agility and commercial savvy, as well as permission and accountability. Procurement officers must build flexibility into contracts to ensure the public purse is protected and operators are encouraged to innovate. Managers need to adjust to emerging conditions, brokering new deals with suppliers that fit current policy preoccupations, while also protecting the public and taxpayers from poor performance.

Such skills and capabilities do not abound across the public sector.

¹⁵ See *The Outsourcing Enterprise*: Leslie P. Wilcocks, Sara Cullen, Andrew Craig. Palgrave Macmillan, 2011. The authors focus on the Coalition Government's initial IT strategy, essentially a paring back and sweating of assets, with very little, until the later emergence of Digital as a priority, in the way of invest to save. They argue that "The Achilles heel of large-scale public sector outsourcing is likely to be lack of investment in the key in-house management capabilities needed to shape procurement, strategy and service delivery." (p. 272)



There are several ways to respond to this capacity challenge. Significantly, none of them necessarily require very large scale recruitment. Indeed, overly 'thick' procurement and contract management teams can encourage process-fixation and rigidity. If the public sector is to become an effective commissioner, it does not need huge armies of procurement officers and contract managers. Rather, small teams of highly paid clientside experts, permanently within departments or shared between them, perhaps in arrangements brokered by the Crown Commercial Service, would be effective. Indeed, in general, a future civil service comprising expert cadres of more highly paid commercial managers and more highly paid frontline experts, with stark reductions in the middle tiers, would seem a sensible response to both the need to extract value from third parties and to the inherent requirements of austerity.

Recommendation 15

Across the civil service and in the new devolved arrangements in local government, the value creating potential of small cadres of commercially capable, senior, well paid experts should be explored. These professionals would be tasked to extract maximum value from the public/private/voluntary/citizen networks on which the creation of public value will depend in the future.

Of course, as many successful initiatives, such as the Olympics have shown, effective management of procurement, projects and suppliers can themselves be commercialised, either through the appointment of teams specifically recruited to manage projects and incentivised to deliver success, or through the outsourcing of the clientside itself.

One successful model of partial outsourcing has been the Service Integration and Management or SIAM approach.

"In the SIAM model, which we run in a number of parts of government, we act as commercial advisers to clients for outsourced contracts in IT. Because we have no formal contractual relationship with the IT suppliers, we rely on good relationships and collaboration to get things done. We act as a partner for the client, allowing them to make management decisions in relation to contracts and even partially insource, where they need to. It's essential at the moment, with so much disruption impacting IT. You can't apply a traditional IT service management model to the Cloud. So you have to do something different. That's where a service integration adviser can really help clients."

Anthony Golledge, BAE Systems Applied Intelligence



SIAM is now evolving as a construct towards an environment in which a range of service integration and management capabilities are sourced both internally and externally, a sourcing mix that is expected to change over time. The MCA supports evolutions of this sort, which can start to blend commercial and in-house capabilities effectively.

Recommendation 16

As an appropriate complement to recommendation 15, departments and agencies should consider commercialising client arrangements by outsourcing or partially outsourcing them. The SIAM model should be evolved into a more flexible service integration framework supporting a blend of in-house and outsourced capabilities, and allowing for a shift in this split as business needs change.

Consulting also has a very important role to play on the clientside more generally. Even where the procurement or contract management functions are not themselves outsourced, Government will often need consulting input on the strategic rationale for the outsource, the procurement process and contract design, as well as post-implementation evaluations and performance assessments.

“As advisers we should assist the public sector to purchase the best services to achieve their objectives. Many MCA members are involved in setting up and shaping transformations which rely upon effective outsourcing. We can help embed innovation in contracts to enable effective transformation. Our clients employ us as they are unsure as to what is the best way to transform their organisation and approach the outsource market to achieve their desired outcomes at an improved cost. It is our responsibility to assist in the delivery of quality outcomes and share with our clients the benefit in our experience, since transformation is our day job.”

Jason Sprague, ASE:

The public sector in general, and the Crown Commercial Service particularly, are keen to see a clear focus on outcomes in the purchase of consulting. The MCA fully supports this intent. Indeed, we suggest that MCA members are well ahead of the actual practice of government in their enthusiasm for this sort of model.

Commissioning for outsourcing outcomes is inhibited by the fact that it is easier for functional and decision-making silos to commission to support their parochial interests. Similarly, trying to secure real outcome-orientated consulting propositions can fall foul of similar considerations.

Indeed, a weakness of the policy into delivery process is its many points of discontinuity. Policy officials who may have little understanding of delivery realities hand off to deliverers with little awareness of (or patience with) the sensitivities of the political environment. As commercial partners, tasked to secure outcomes, consultants can support the integration of this potentially fissile delivery chain. Indeed, earlier upstream engagement between government and specialist consulting teams on the design, spans of control, commissioning, clientside arrangements for delivery models, including those that are outsourced, could prove beneficial and promote strong outcomes. The complementarity of consulting to state policy functions – its ability to apply objectivity, frontline insights and systems-



thinking, thereby promoting the practical deliverability of policy initiatives – can enhance the prospect of securing a downstream complementarity of the outsourcers as a delivery partners to Government.

Furthermore, many consulting firms either have delivery capabilities of their own or partnerships with outsourcing organisations. These relationships will be beneficial to developing effective delivery models. It does not of course mean that the advisory firm's delivery wing or partner would necessarily win the downstream opportunity. That would be anti-competitive. It should however help guarantee the operability of the service model proposed.

Recommendation 17

Departments and agencies should engage 'upstream' with commercial advisers and management consultants on policy-into-delivery questions, and in particular the design of commercialised and outsourced delivery models.



New Models

Activist shareholders, mutual, SMEs, the voluntary sector

Nervousness in the public and sections of the commentariat about outsourcing stems in part from the notion that public money enriches shareholders.

In truth, this is at best a partial analysis and at worst misleading. Shareholders are simply the owners of companies. Companies working for the public sector must make profit – profits which often underpin wider public benefits, such as the buoyancy of pensions funds dependent on business dividends. Properly constructed, contracts that incentivise those companies with margins dependent upon high standards of service and lasting improvements in the public sector, shared efficiency gains and even commercial opportunities for the public sector itself, are effective and enlightened appropriations of the profit motive.

UK law requires public firms to place primacy on creating value for shareholders. The 2006 Companies Act requires that value to be ‘enlightened’ by other considerations than mere profit maximisation. Nevertheless, some remain concerned, rightly or wrongly, at the implications of this primacy in the public service context. It is beyond the scope of a study like this to suggest major legislative changes in this area. Yet if Government concluded that in public service delivery shareholder value should be balanced against other considerations, such as the interests of citizens and taxpayers, it could legislate to that effect.

However, as has been seen in other parts of the economy, shareholder activism can be an important driver of change and the securing of ‘enlightened’ value. Poor investment decisions by executives have been scrutinised. The constructive harnessing of outsourcing shareholders will be a function of openness, considered in the next section. But there may also be a case for fostering the shared long-term interests of the public sector and outsourcers by providing better information for shareholders.

Given the dysfunctional discourse between Government and outsourcing suppliers, it is easy to see how a temptation could emerge to realise shareholder value in the short term, through the timing of the pursuit of margins or the management of cash positions. Such activities would not be in the interests of shareholders in the long term. The health of the outsourcing industry is ultimately dependent on its reputation. That reputation is a function of its capacity to deliver high-value outcomes to public sector clients, service users and taxpayers. Those outcomes are



dependent on long-termism. Not, as we have seen necessarily the longtermism of long contracts. Rather the longtermism that resists the counterproductive pursuit of immediate margins and upholds instead a shared interest in sustainable service outcomes and the public and commercial benefits that flow from them.

If the Government, as part of an accord with the outsourcing industry, spelt out that the reputational standing of the industry would be a function of its long-termism and commitment to realising outcomes, then shareholders might well react accordingly. Many would seek secure long-term returns and show willingness to sanction the investments needed to achieve them, either in individual contracts which are loss making or require resource inputs in the short term, or in public service R&D and the building of transferrable capabilities and capacity to offer the public sector.

“Investors have become activist in other sectors. Many of those investing in outsourcing already understand that the low, steady, secure returns of the past are not guaranteed. New transformational models and an improved reputation for the industry are what matters, both publicly and commercially.”

Kru Desai, KPMG

Recommendation 18

As part of recommendation 1, Government and outsourcers should engage with shareholders in outsourcing firms to forge a common understanding of their collective long-term interests.

Nevertheless, there are still opportunities for other ownership models to diversify the outsourcing landscape. New mutuals and cooperatives have not emerged in numbers to match Francis Maude’s ambitions. Yet the revival of this agenda may prove a popular way to diversify provision, achieve efficiencies and improved performance, while keeping staff incentivised and onside.

Outsourcers could make three major contributions here. First, the next generation of outsourcers could consider the PR advantages of mutualisation. Government should support their emergence. The benefits may be significant. In the aftermath of the financial crisis, the standing of financial mutuals, which had been in retreat since the 1980s, rose again. There may be similar gains from mutualisation by new or existing public service bodies. Indeed, the diversification of ownership structures relating to the public sector remains a laudable aim and should be pursued.



Recommendation 19

Government should create a climate in which emerging and ‘challenger’ outsourcers are encouraged to mutualise.

Secondly, outsourcers could mutualise some of their contracts, partnerships and joint ventures. Even for publicly quoted companies, it should be possible to create vehicles that give workforces stakes in service transformation.

Thirdly outsourcers could support others wishing to mutualise or create cooperatives. The queue of public servants pursuing this reform option for their service area has not been as long as the Government might have wished. There are numerous barriers to incorporation: legal and financial complications, VAT liability, issues of risk, concerns about changes in pensions, and so forth. But perhaps the main impediment is that most public professionals are exactly that – skilled nurses, social workers, librarians, environmental health experts. They do not necessarily have the acumen to run a business: financial, managerial, and marketing experience. Outsourcing companies could give new mutuals access to these capabilities and other support services in exchange for management fees. The model could have many applications, including expanding the free schools programme. Significant progress in supporting the stalled mutuals agenda would repay in reputational terms.

Recommendation 20

Outsourcers should proactively support the mutualisation agenda. Where possible they should mutualise partnerships and joint ventures. They should also provide back office services, including commercial and contracting support, for mutual partners.

This approach may have wider applications. The Government wants to see more SMEs and voluntary sector organisations provide outsourced services. This is not diversification for its own sake. Policy-makers believe SMEs’ specialisms and the voluntary sector’s commitment can help support the delivery of quality outcomes.

“Proactive support by outsourcers to the Government’s goal of raising SME contracting and the involvement of the voluntary sector in service delivery would have positive reputational and outcome benefits.”

Andreas Credé, Cass Business School



Enlargement of SME and voluntary sector involvement can be achieved in partnership with larger providers, especially as the latter, as in the mutual model above, may be better placed to act as prime contractors, handling the bureaucratic requirements of the client relationship. There is widespread evidence that clients want tailored, comprehensive support to achieve their goals. In consulting, for example, clients from the private and public sector alike suggest that even the largest and most multifunctional suppliers have limits to their insights and abilities. Hence, they welcome multilateral approaches to addressing their complex needs. Many large suppliers have responded by creating advisory ecosystems. In these they act as lead contractors to clients, sourcing advice on specialist matters, such as aspects of Digital, from their approved partners.

The more outsourcers engage in similar approaches, creating their own supplier ecosystems, the more they will provide opportunities for SMEs and third-sector partners and the better they will advance public sector policy aims and outcome goals. Of course, many outsourcers already do so. However, some outsourcers have been criticised for heavy-handedness with suppliers and subcontractors in the past. The success of ecosystems of supply is of course dependent on avoiding any 'Tesco-style' dealings with subcontractors to manage cash balances and other self-interests.

Recommendation 21

Public sector approaches to contracting and outsourcers' 'enlightened self-interest' should combine to create a climate in which contracting for outcomes favours multilateral partnerships, potentially involving large outsourcers as 'prime contractors' supported by specialist SMEs and voluntary sector bodies.



Openness and Accountability

In all areas of public life, there is an intensifying appetite for transparency. Citizens want to understand what large corporations and public institutions are doing. They seek greater control over their own destinies and greater understanding of how they are affected by the actions of others. And the appetite for openness is not just confined to the public at large. In consulting, clients have expressed a desire for more information on what consultants do, to ensure that they are getting value.

The issue of openness has three applications to outsourcing.

First, there is the general thesis of this report and the thrust of recommendation 1. Government must be more open about why it uses outsourcing. The outsourcing industry is subject to relentless criticism when it fails. It is owed the reciprocity of greater explanation of why it is so extensively employed and celebration of its successes.

Secondly, outsourcers should be more open about what they do, particularly with the general public. Contracts are let and managed by public sector client organisations. This encourages a mindset that sees the client, rather than the end-user, as the customer. For back office contracts, this may be appropriate. For services to citizens, rather less so.

Of course, outsourcers must never lose sight of the 'state' client. Formal accountability to public bodies, ministers, local councillors, Parliament and local authorities is important.¹⁶ In general however, given its reputational challenges, the outsourcing industry should communicate more directly with the general public. Open days have helped turn around the reputation of some industries. Initiatives of this sort, as well as standing arrangements for engaging with the public through focus groups, Digital channels, and other mechanisms, would be very welcome.

"Part of the remuneration for a London borough's waste collection contract was based on the satisfaction of individual households with the service. But desirable

¹⁶ As we will see in the final section, that accountability may be at once strengthened and extended through a new standard.



though that was, it is now towards the analogue end of the scale. Digitally enabled feedback loops on service quality and individuals – Trip Adviser, Uber, Rate My Teacher – are becoming commonplace. Outsourcing will have to match this.”

Andreas Credé, Cass Business School

“McDonalds turned its ‘McJobs’ reputation around by throwing its doors open and letting people understand its working environment and conditions. Outsourcers could learn from this.”

Martin Cresswell, iMPower

Recommendation 22

Commissioners and contractors should embed engagement with end-users and the general public into contracts. Digitally facilitated feedback should become commonplace. Outsourcers should offer open days to end-users and communities to improve awareness and understanding of their operations.

The other area of openness concerns contracts and finances. Some portions of the outsourcing industry argue that preoccupation with open-book accounting is a distraction, leading to pseudo-scandals about margins and moving the focus away from the value of what outsourcers do. However, the horse has almost certainly bolted here. If the Public Accounts Committee or the Cabinet Office were minded to make open contracting mandatory they would. They would have the weight of public opinion on their side – as well as many individual allies in the outsourcing industry itself. Far better, therefore, for the industry as far as possible to adopt the practice up front.

This approach would encourage outsourcers themselves to be wise to any areas where payments, while technically contractual, are of questionable ethics – such as those obtained in scandals relating to offender management. But then outsourcers should, as we will explore in the final section, be live to these issues in any case. More particularly, there will be cases where outsourcers secure unexpected windfalls from contracts. Openness could create a compulsion to share those gains with clients. But that compulsion may in any event be inherent in a service and partnership mentality. Further, there will be many instances where open-book practice will illustrate the smallness or even non-existence of margins. Openness would thus provide the basis for investigating the sustainability or efficiency of contracts, and even help repudiate myths, potentially providing an opportunity to set expectations and even renegotiate.

“In a recent public sector engagement, huge savings have been identified yet the supplier will continue to achieve significant profit with little risk. The supplier should willingly share the information about its profit which in this case had grown to be significantly more than envisaged when the service was first outsourced. It would build a stronger, more effective relationship. Some of the renegotiations of contract margins in the last Parliament were hard – openness would reveal the pain of public sector contracts as not all contracts are windfalls. Going forward, the outsource



service providers should drive transparency and improve collaboration to achieve client-centred outcomes.”

Jason Sprague, ASE

Reputable outsourcers have nothing to lose and everything to gain from openness. Of course, such openness only works if it is counterpointed by clients. Commissioners need to ensure that they accent the value end-users and communities get from commercial providers. This is sometimes about improved use of language.

“Commissioning bodies such as councils should change the language they use around contracting in ways which will foster openness. For example “We are choosing the best supplier for...” should replace “We are outsourcing...”

David Beggs, Managementors

Recommendation 23

Outsourcers should embrace open-book accounting as an extension of partnership working and complementarity. Commissioners should support this openness by publicly affirming the benefits they believe flow from the commercial arrangements.



An ethical industry

A new service standard

Outsourcers frequently claim, with considerable evidence to support their proposition, that they are ethical companies. However, as we have seen, their reputations have been tarnished by staff conduct and in contract administration.

As mentioned at the outset, many public services also experience instances of staff failure. Public sector prison officers are accused of violence. People die in police custody in suspicious circumstances. Local authority officers are convicted of misconduct and fraud. Yet these institutions and professions survive. When similar scandals happen for outsourcers, they provoke an existential crisis. The connection of wrongdoing to popular concerns about profit is potent.

To address this, outsourcing companies frankly have little choice but to maintain a standard of moral conduct as high, if not higher, than that expected of civil servants and officials.

Two illustrations of potential tensions between an ethical standpoint and the dynamics of a contract will suffice.

A culture of openness would flag to both clients and outsourcers' management teams any cases of deliberate contractual manipulation. Yet some cases are at the margins. In offender management, outsourcers have been condemned for claiming fees for offenders – tagged, transported, etc – who do not exist, were freed, deceased etc. In some cases, the contractor claimed for things within the letter of the contract – for example, where the client failed to inform them of a death. Of course, mistakes happen. But if contractors knew payments were being claimed for nugatory activities, then the self-defence that the contract permitted this pending client action will not do. Human expectations of ethics, especially in relation to public services and, as importantly, the use of taxpayers' money, are categorical. They override contractual niceties utterly. Where such absurdities are known to individual contract officers, it is their manifest duty to raise them. Outsourcers should maintain a high ethical standard, which makes clear that any action *or lack of action* that prove not to be in the interests of clients, end-users or the general public will not be tolerated.

The second and more nuanced case is where the outsourcing work entails sensitive and difficult interactions with vulnerable or comparatively defenceless people.



Cases relating for example to asylum management and removals, with handcuffing of children, door-painting and the use of coloured identity bands, have been prominent in recent times.

It is important to ask, as the Government must do, how far these activities are simply contractual requirements, client authorised actions, or legitimate interpretations of political will. Discourse opining on asylum seekers and refugees as 'swarms', 'bunches', 'threats', 'alien', are extraordinarily powerful communications of ministerial wishes and contractors may be swayed by them.

However, for the reasons indicated, it is critical for outsourcers to be beyond reproach. There are three possible responses to these challenges.

The first is the simplest: not to bid for contracts entailing this kind of activity. This approach would be particularly suited to outsourcers for whom the creation of public value is underpinned by an explicit humanitarian or religious moral code.

The second would be to bid for contracts but to ensure that the SLAs and activity plans set clear limits on the contractor's scope of action, consistent with the company's ethos. That ethos should in turn require staff to report instances where they felt pressure to act or saw others acting in ways which were not consistent with the SLAs or the ethos itself.

The third approach would suit those companies who, because of core expertise, work at the 'harder end' of custodial, people management, removals and similar challenges. Acting in these capacities probably means reputational risk is a given. Yet these companies must still be conscious of an obligation to the wider outsourcing industry – and to their own employees working in less sensitive areas – and manage down that risk. They and the client should be utterly explicit about what operatives are required to do, and that they act as agents of the client, working on behalf of taxpayers and the body politic. Such openness should eliminate information asymmetries between contractors and clients, and between both parties and the general public. If that in turn provokes debate among citizens about whether the state should undertake or commission such activity, then that is one of the benefits of democracy.

Recommendation 24

Outsourcers should have a published code of conduct. This should set out the company ethos, what it will do consistent with that ethos and what it will not do. Adherence to the code should be mandatory for staff. Whistle-blowers should be protected and encouraged. Clients and outsourcers should set down the scope of activities contracted operatives undertake for clients in sensitive contracts.

Directly employed public officials are said to uphold a public service ethos and are bound by related codes of conduct. As the creation of value in the public realm will increasingly stem from interactions of public servants, citizens, private contractors, the voluntary sector, as well as the free operation of other private concerns, there is a case for a common ethical standard covering all participants. It would help reinforce the accountability of outsourcers to ministers, councillors, and public bodies etc. But it would also strengthen the collective accountability of all participants in public service delivery to end-users and the general public.



The MCA is currently developing *Consulting Excellence*, a framework upholding the highest standards of ethics and client service in advisory services, including those in the public sector. We believe there is a case for a similarly challenging commitment across the outsourcing sector. Government should either require something from outsourcers that complements its own codes or better still a unitary code covering all those involved in the delivery of public services. Such a code, which could build on work done on standards for contractors by the Committee for Standards in Public life¹⁷, could be comparatively self-monitored, built into procedures, rather than an exacting regulatory burden, especially if it enshrines that most important quality indicator – client and end-user satisfaction.

Recommendation 25

Government should consider creating a universal public service code of conduct, covering directly employed officials, contractors, the voluntary sector, and, where appropriate, community groups, individuals and businesses acting in public capacities. Failing that, it should explore the development of a code for outsourcers, which complements existing public service standards.

Since *Consulting Excellence* has these elements at its heart, and since our members work on both the client and contractor sides of outsourced services, we would be delighted to assist in the development of a new public service code.

“We will increasingly see the interpenetration of private and public sector workforces, which requires genuine partnership and a win-win mind-set. The BS11000 standard references that collaboration. It and other standards could be used as the basis to develop a new set of common and complementary assumptions about how the various parties should go about the pursuit of delivering the public good.”

Nick Ringrose, Atkins:

¹⁷ See <https://www.gov.uk/government/publications/online-guidance-on-ethical-standards-for-public-service-providers>



Conclusion

Outsourced services are here to stay. They are an essential check on the weaknesses of incumbency. Innovative outsourcers bring fresh and transformational ideas to bear on complex problems. Properly deployed, the enlightened self-interest underpinning the fulfilment of contractual requirements can drive positive outcomes for citizens and for governments of whatever political colour.

However, to get the best from outsourcing, both government and suppliers need to get their houses in order. Government needs to level with people. There will be no end of outsourcing. Ministers need to counterbalance their habit of lambasting failure with the promotion of benefits and the celebration of success. Outsourcers should come into the sunshine. They should be open about what they do and maintain the very highest ethical standards. Both parties should work together to ensure that outsourcers are contracted in ways that maximise value. The traditional model of functional outsourcing will still have a part to play. But on the whole it should be replaced gradually by a networked public sector of complementary capabilities, interacting constructively, securing more for less, for the benefit of service users and taxpayers alike.

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