Time to move on from the 'love in' with outsourcing and PFI – here's how

Although public bodies invevitably have to make supply decisions that involve third parties, the law must allow them to impose public interest conditions, write ***John Tizard*** *and* ***David Walker****. They explain why outsourcing has so far failed, and what should be done about it.*

Following the collapse of Carillion comes an authoritative judgement by the National Audit Office that – it uses accountancy speak but the message is clear – the Private Finance Initiative has been a gigantic rip off. The nostrums of New Public Management (NPM) stand exposed. The mantra "private good, public bad" sounds like it always was a pro-market ideology that has dominated British public life for over three decades.

Public services in England (and to varying extents in other parts of the UK) have been stigmatised and eviscerated not just by austerity but by the enforcement of market-inflected doctrine, especially NPM. More a body of precepts and reflexes than an elaborated theory, NPM is a derivative of the global project ("neoliberalism") to expand markets and crimp, cull, and confine the social state. In the UK, Thatcher was the doctrine's high priest, but the gospel was actively propagated by Tony Blair and Gordon Brown and set out canonically in David Cameron and George Osborne's 2011 'open public services' white paper.

A central precept of NPM was "steering not rowing". Public bodies should step back from providing services and outsource to private, often global, companies. Outsourcing, along with the expansion of opportunities for financial intermediation in private finance initiative (PFI), simultaneously secures a route to corporate profit and diminishes the state.

Contracting is not new and there is an untidy continuum in the state's relationship with private markets, as suppliers of goods, finance, and services. But most people see a difference between a council buying disposal gloves from a firm, and contracting for HIV support services. The differences are principled but also practical: the former can be fairly straightforwardly specified and delivered, the latter is necessarily much subtler and much less susceptible to corporate finance accounting.

None the less, outsourcing has been driven into the further reaches of human services. Under perennial financial pressure – now acute – councillors and NHS trust boards reach for the seductively cheaper options offered by companies based, usually, on worse conditions for their staff. Outsourcing has been a perfect match for British administrative empiricism and short termism; it has been both cause and consequence of the dismembered condition of the British social state.

The model has now come unstuck. Grenfell Tower exemplifies the opaque accountability of 'arm's length' management (the Royal Borough of Kensington & Chelsea seemingly neither steering nor rowing). That disaster follows a series of high profile failures, starting with the inability of G4S to meet the terms of its contract to police the 2012 Olympics, followed by large gaps in performance on benefits assessment, refugee housing, offender supervision and so on. The collapse of Carillion is the latest, but not the last.

As for PFI, it was a mixture of pandering to financial institutions that saw state projects as a means of making money and (unevidenced) assertion that private management secured lower cost infrastructure; the first and second generation of PFIs bolted on outsourcing arrangements for facilities management, adding to the profitability of deals. Now the NAO – not for the first time – has redone the sums and found PFI has delivered the profit, but added no discernible public value.

Credit: Matt (CC BY-NC-SA)

Failure hasn't tempered dogmatism; alienation of service delivery remains the default option across central, local, and devolved government and, enforced by Cameron-era legislation, the NHS. Cameron pressed ahead with outsourcing probation services. For example, despite immense practical difficulties and, as it turned out, scant opportunity to make the kinds of profit companies had expected; Tory ministers adjusted the contracts to accommodate them.

But the sheen has undoubtedly come off the outsourcing project. In austerity, companies can't make enough – the problem in social care. Companies that have turned themselves into outsourcers – the construction company Carillion, for example – have fallen apart, discovering that schools and prisons are really quite different places. Investors are realising that there are limits to how far public services can be commodified. Labour has declared it would enter into no new PFI deals. But PFI was so evidently a bad deal for the state that in austerity, the number of new deals has wound down to single figures. Labour's bigger issue is outsourcing and the reconstruction of the state that would be implied if, once again, the default were public provision of public services.

In our new report, *Out of contract: time to move on from the 'love in' with outsourcing and PFI*, we argue for the primacy of information and analysis. We simply don't know how far private interests have inter-penetrated and eroded the public space. In a market society, public bodies buy in markets: there's a continuum in the relationship of the state to external suppliers. This relationship runs from the purchase of goods that public agencies would never make themselves to the transfer of entire service sectors to profit-seeking companies.

We know that in some instances contractors have *become* the public sector. However, this is merely an accountants' illusion. The state is the last resort; it can mitigate but not eliminate risk; as for the banks, outsourcing carries an implicit and uncosted guarantee of bail out. It has become big business. The UK state spends £200bn a year on goods and services from third parties. About half of this – up to £100bn – is paid in service contracts. But some of those contracts go to charities and some for specialist services that were never regularly part of the public services offer. Private sector involvement is heaviest in IT, construction, waste management, building maintenance, social care and defence but also includes prison, probation, ambulances, diabetes care, blood testing, trimming shrubs in Royal Parks and applications for UK visas.

We ask for a Domesday Book spanning central government, the devolved administrations, the NHS and local government. We simply don't know – now – which companies work where, let alone how they book costs and profits; their performance is only recorded at points of crisis and failure. Academic studies have largely failed to elucidate a phenomenon that involves organisations, structures of power, markets and (administrative) cultures. Polemic and anecdote abound, but do not substitute for a dispassionate explanatory description of public bodies' relationship with third-party suppliers. Even taxonomy is lacking, without which it's hard to understand make or buy decisions and the commodification of public bodies' functions.

In our report we start with an immediate pause on any further outsourcing while existing contracts are reviewed, renegotiated or terminated. A central registry should list details on all significant public sector contracts. That sounds like the Cabinet Office, but historically it has been blind to local government and the NHS and it's critical that outsourcing be view panoptically, drawing in evidence and comparison from all sectors.

Public bodies will make supply decisions that involve companies – but the legal framework must allow them to impose public interest conditions. Among relevant factors are a company's market share, previous performance, company ownership, tax practice and avoidance, directors' remuneration as well as staff employment and conditions and union recognition. These criteria should inform contracts, which should be as open as possible and no longer be concealed behind "commercial confidentiality", with the Freedom of Information Act extended to provider and public sector clients.

Such information is not readily available. Acquiring and deploying it imply public service commissioners get a lot smarter than they have been. An overhaul of contracting doesn't absolve councillors or ministers from the Sisyphean task of ensuring public services serve the public with maximum efficiency, effectiveness and – a clincher if Labour is to secure approval for tax increases – economy.

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Note: the above draws on the report 'Out of Contract: time to move on from the 'love in' with outsourcing and PFI', available free on the Smith Institute's website.

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