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## BLOG

# UK outsourcing expands despite high failure rates

In this article, outsourcing analyst Dexter Whitfield shows how **Public Private Partnerships (public services which are funded and run jointly by government or councils and private companies) have continued to grow - even as they have continued to fail:**

Public Private strategic partnerships (PPP) have increased 35% in just two years, with 18 additional contracts valued at £8bn. These contracts originated in ICT and corporate services, but they now extend into planning, education, police, fire and rescue and property services. PPP strategic partnerships are large, long-term, multi-service £50m - £600m contracts with 50 - 600 transferred or seconded staff.

Sixty-five PPP strategic partnership contracts have been awarded since 1998 worth £14.2bn and employed over 28,600 staff when the projects commenced.

The government made a number of policy announcements about the reform of public procurement and a new ICT strategy in 2011, [including a ban on ICT contracts over £100m](#).

"The £100m threshold relates to all ICT contracts or projects where the total value over the life of the contract exceeds £100m regardless of how the contract is funded" (Cabinet Office, 2012). However, the Cabinet Office 'ban' on ICT contracts over £100m only applies to central government contracts.

All the PPP strategic partnerships are local government contracts. Only 17% of strategic partnership contracts signed to date were less than £100m. If the ban were applied in local government, it would drastically reduce PPP strategic partnerships. Most multiservice contracts would also come within the ban, because ICT has a central role in 'transformation' across many services. The ban would bring the government into direct conflict with the major 'successful' outsourcing companies, such as Capita and BT.

Other reforms of procurement, such as enabling small and medium enterprises (SMEs) to bid for contracts raises fundamental questions about their financial and technical ability to deliver on £100m contracts, let alone absorbing the high cost of submitting bids and the additional risks imposed on the public sector.

### High failure rate

A 22% failure rate is very poor performance by any standard. The rate is devised by combining six contract terminations, major reductions in the scope of four contracts and significant problems in three other contracts.

For example, the Southwest One joint venture operated by IBM for Somerset County Council, Taunton Deane BC and Avon and Somerset Police has suffered a series of financial losses, it has a debt of £47m to IBM, and both councils have returned some services to in-house provision. Savings having been tiny and forecast to be only 30% of the £192m promised by the end of the contract. No new work, jobs and promised social investment are evident to date.

### Underlying causes of failures

**Firstly**, the ability of strategic partnership contractors to win additional work and create additional jobs is severely limited. They are not shared services projects and neighbouring authorities show an inevitable political reluctance to outsource their services to a contractor, which they have had no role in procuring and would, in effect, have secondary status to the host authority.

They would be helping the contractor meet its host authority new work and job targets at the expense of jobs in their own local economy.

**Secondly**, the strategic partnership model imposes conflicting and complex demands, such as achieving savings while simultaneously 'transforming' a range of different services, maintaining if not improving the quality of services and attracting new business and new jobs.

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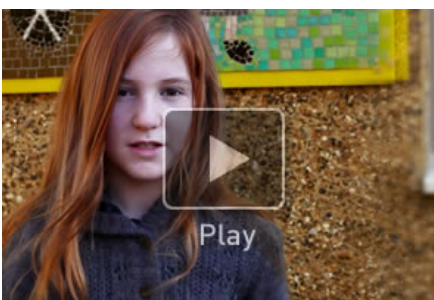
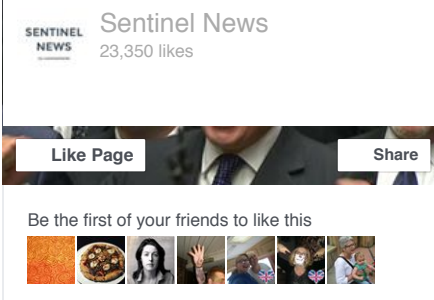
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Private companies have clearly struggled to fulfil all these tasks. The evidence indicates it is often beyond their capabilities. This has less to do with 'misalignment of the partnership' and more about glossing over the important differences between public and private sectors that are more evident in multi-service strategic partnership contracts than single service contracts. It also conceals attempts to turn the public sector into a mirror image of the private sector.

Information technology 'transformation' and digitisation hype has extended other services as the multi-service approach is ramped up, which conceals the private sector's limitations to innovate and reconfigure public services.

**Thirdly**, the strategic partnership payment mechanism is flawed. Procurement concludes with a 10-year financial model that takes account of current costs, transaction costs, the demand for services, a savings profile (sometimes 'guaranteed'), investment in new systems, reorganisation/reconfiguring of services costs, labour costs taking account of reduced staffing levels, and many other estimates.

Contracts have had to bear an unforeseen share of public spending cuts imposed on local authorities, resulting in significant disputes over reductions in unitary payments to contractors. PPP strategic partnerships are, in effect, smaller-scale PFI projects and contain many of the same structural flaws and risks.

**Finally**, the partnership ideology has led most public bodies to adopt the 'thin client' model of minimal contract monitoring, extensive use of key performance indicators and over-dependence on self-monitoring by contractors. This does not make for an intelligent client or the provision of a complete understanding of what or has not been achieved, the public cost, impact on other services, service users and staff.

There has been little systematic monitoring of the effects of TUPE after transfer by either local authorities (who usually claim they no longer have employment responsibility) or by trade unions.

Democratic accountability and transparency in most strategic partnerships is very limited. They are management directed and controlled projects from the outset. Unfortunately, most elected members are little more than extras on the strategic partnership set and have limited grasp of projects pre- and post procurement. Commercial confidentiality and a lack of transparency of complex contracts have restricted meaningful scrutiny.

#### The solution

Bi-annual service reviews with service innovation and improvement plans for in-house services, with selective procurement to meet specific needs. Smaller contracts selected on a 'best in class' basis would provide local government and public bodies with better defined, targeted and more manageable contracts. They in turn would provide more genuine opportunities SMEs.

#### References

Whitfield, D. (2014) UK outsourcing expands despite high failure rates: PPP Database 2012-2013, European Services Strategy Unit, <http://www.european-services-strategy.org.uk/news/uk-outsourcing-expands-despite-high-failure-ra/ppp-strategic-partnerships-database-2012-2013.pdf>  
Cabinet Office (2012) Procurement Policy Note – ICT Contracts less than £100m, Information Note 02/12, 30 March, London, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/62095/PPN-Guidance-on-ICT-Contracts-less-than-100m-new.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/62095/PPN-Guidance-on-ICT-Contracts-less-than-100m-new.pdf)

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Posted by: [False Economy](#) at 4:37pm on 30 January 2014

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