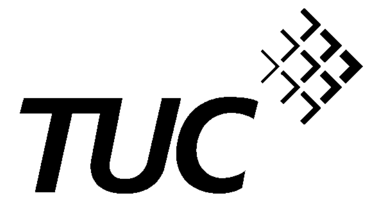

Outsourcing Public Services

Trades Union Congress and the New Economics Foundation

TUC

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Section one

Introduction

This report presents findings from research undertaken by the New Economics Foundation (NEF) which was commissioned by the Trades Union Congress (TUC).

This research is intended to add to the growing evidence-base about outsourcing of public services in the UK. There is a substantial body of literature about outsourcing from academic institutions, research bodies, business organisations, journalists, and unions covering aspects of the debate about the experience, merits, opportunities, and risks of outsourcing an expanding range of services. A number of reports have set out the main economic and political arguments and theories for and against outsourcing but empirical evidence about the market, and its impact on costs and quality remains patchy. There are a number of reasons for this, amongst which the complexity of the market and the multiplicity of sectors that it covers, the rapidity of change, and the lack of transparency around contract and company data are uppermost.

In this research we set out to go beyond a general analysis of the political and practical drivers of outsourcing and to fill in some of the detail as to the shape and extent of outsourcing by:

- looking at the scale and scope of outsourcing in five key sectors: offender management, employment services, health care, social care and local government
- assessing the impact of outsourcing on the public service workforce.

As well as bringing together available information, our research makes clear the current limits to understanding quality and cost-effectiveness impacts of outsourcing. We highlight where gaps occur in data and information that would be needed to reasonably assess the value gained or foregone by outsourcing and to hold decision-makers and providers to account.

Our methodology encompassed an extensive review of academic literature, analysis of departmental and contract data in each sector, and analysis of Labour Force Survey data to shed light on workforce impacts.

This report is structured as follows:

Section 3 provides a short introduction to some of the latest thinking and theory around public service delivery and ownership of public service assets. Much of the theory is discussed in previous literature. We do not set out to restate what has been explained elsewhere but to briefly summarise the overall context for the remainder of the report and refresh the analysis for latest thinking.

Section 4 comprises the landscaping pieces for the five sectors. Taken one at a time, these present a brief overview of the history, scale and scope of marketisation in each of the five key sectors identified above. More detailed analysis on each sector will be published as a separate report as part of this project.

Section 5 looks at the impacts of outsourcing on the public service workforce in aggregate terms from our analysis of Labour Force Survey data as the most robust way of making an objective assessment. Data by sector is limited and offered a less fruitful approach.

We conclude the report by summing up the lessons learned from the research and outstanding issues which remain obscure or that require further detailed analysis if we are to be able to properly make and assessment of the value considerations.

Based on this research, the TUC has identified a set of policy recommendations to address specific issues related to the outsourcing of public services, with recommendations applicable to both national policy makers but also commissioning and procurement practitioners across the public sector.

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Section two

Executive summary

For the past three decades governments of both leading parties in the UK have been committed to marketising and outsourcing public services. Over time this trend has encompassed more sectors and has expanded in scope and scale across a vast range of services.

In the current period changes to healthcare commissioning and the contracting out of probation services represent another step-up in the extent to which the private sector is at the heart of the relationship between state and citizen. In this context, this research was aimed at helping to build an evidence-based narrative about the scale and nature of public service outsourcing in the UK.

Along with a short analysis of the theoretical and practical drivers of and counter-arguments to outsourcing, this report provides an overview of the history, growth, market composition and impacts of outsourcing in five key public service areas: employment services, offender management, healthcare, local government and social care. The report then goes on to look at some of the impacts on the workforce resulting from outsourcing.

Section 1: Overview of key themes

Contracting out of public services began in the late 1970s, but began in earnest with the introduction of Compulsory Competitive Tendering in local government through the Local Government Acts of 1988 and 1992. This was built on by successive governments until by 2007–08 the market in public service contracts was worth an estimated £79bn. By 2012 it had grown to £93.5bn and is expected to reach over £100bn in 2014–15. The theoretical basis of outsourcing derives from the notion of competition as the driver of efficiency, quality improvement and innovation. The theory is overlaid with practical considerations around cost-cutting in an age of austerity and the need to tackle failings in public services. Strong counter-arguments are put forward which highlight theories of market failure as particularly relevant in the realm of public services and, on a practical level, the absence of any clear and robust evidence about the impacts of outsourcing, especially the extent to which it does or does not achieve what is claimed in terms of either efficiency or quality improvements. Concerns around governance, transparency and accountability are paramount, as is the moral concern around change to the fundamental relationship between state and citizen.

Section 2: Mapping sectors

There is no single market or even single approach to outsourcing public services. The landscape differs from one area to another so that any meaningful analysis has to take place for each public service sector separately.

In employment services, contracts have become larger and longer so that only organisations with significant financial capability are in a position to take them on. This means that the market in employment services is heavily concentrated towards a small number of prime contractors. This raises real concerns that smaller voluntary organisations which may be closer to the ground and have specialist expertise are increasingly at risk of being squeezed out. In addition, difficulties of accurately valuing and pricing the work and its outcomes, practices which exclude the most vulnerable job-seekers, and a lack of monitoring of service quality remain big challenges without clear means of resolution.

The market for **offender management** services via the Ministry of Justice (MoJ) is also highly concentrated with all prison contracts being held by just three companies, G4S, Serco and Sodexo and all electronic monitoring contracts being held by just two of those – G4S and Serco. The market has therefore been highly disrupted by alleged fraud around electronic monitoring contracts. This has affected the process to outsource the bulk of probation services due to be operational in February 2015, a process which has also seen the award of over half of all new probation services contracts to just two multinational companies, Interserve and Sodexo. In prisons, cost-cutting pressure as a result of contracting out has had significant impacts on delivery as a result of reduced staff numbers and lower pay evident in private prisons.

Healthcare has hitherto been a story about marketisation rather than outsourcing. The government's reforms have, however, launched a major restructuring of the landscape with enhanced outsourcing and privatisation of services. CCGs will increasingly commission services from the market through the tendering of services and care pathways and through the Any Qualified Provider (AQP) route. Meanwhile NHS Foundation Trusts are increasing their private patient income and engage in more partnerships with non-NHS providers. These changes have created much more favourable conditions for private and voluntary sector organisations which leads to an expectation that outsourcing will grow in provision of healthcare from its current relatively low share at around 10 per cent of healthcare provision. Among the concerns around further outsourcing in health are issues of fragmentation, accountability, regulation and market oversight. Changes to commissioning arrangements mean that CCGs are more likely to opt for prime provider models, outsourcing the management of care pathways to alternative providers over long term contracts, focussing on monitoring outcomes rather than managing individual care providers. This increases the potential for the outsourcing of the commissioning process itself.

Local government has been at the forefront of public service outsourcing and the space where a diverse range of services has been subject to competitive tendering for three decades. Most recently local government outsourcing has been given additional impetus from cuts to local authority budgets that have forced authorities to find innovative ways to maintain services with much-reduced funds. Even so there has been no across-the-board trend in outsourcing with some authorities responding by bringing services back in-house, citing value for money and service improvement as a result.

Social care is the sector in the headlines on outsourcing and in many ways encapsulates the problems inherent in the outsourcing of public services, particularly those dependent on high-quality relationships between providers and service users. Since 1990 local authorities have increasingly moved away from offering social care services directly so that direct provision from local authorities now accounts for less than 10 per cent of residential care and around 16 per cent of domiciliary care. Both the markets for residential care and domiciliary care are diverse, largely made up of small private sector and some voluntary sector providers, although in each there are some larger private and third sector organisations including private equity firms. The diversity of small providers is in part due to low barriers to market entrance. These low barriers mean there are substantial levels of competition but also instances of provider failure. Provider failure presents risks of service continuity particularly where providers are large as with Southern Cross. Although social care provision has expanded, quality is a real concern. Although better integrated services between health and social care could aide service improvement, forecast demand pressures and fiscal austerity suggest the outsourced market for social care will continue to be extensive, yet underfunded and of relatively poor quality.

Section 3: Workforce impacts

Understanding the impact of outsourcing on the conditions, qualifications and pay of staff who deliver public services is instructive for labour market trends but also as a proxy for service quality in the absence of direct measures of quality.

Our research show that in most cases analysed, the private sector has a larger proportion of full-time employees regularly working more than 48 hours per week. In addition, private sector workers experience shorter job tenures and greater job insecurity than in the public sector. This is because the private sector has a larger proportion of employees who want more hours in their current job or a new job. Private sector employees are also more likely to be on a short-term contract, to be an agency worker, or to be self-employed than in the public sector. Not only do private sector employees experience more job insecurity than those in the public sector, things have been getting worse since

2011. Private sector employees in the health and social care occupations analysed are also mostly less likely to have a degree or other higher education level qualification than public sector counterparts and conversely are mostly more likely to have no qualifications at all. Yet, despite poor working conditions private sector employees in the occupations analysed also take home lower median hourly wages than public sector employees.

Taken together these findings suggest that workers who are employed to deliver public services by private sector contractors enjoy fewer protections and decent working conditions than their public sector equivalents. It would be expected that this would impact indirectly on commitment, motivation and therefore service quality. There is some evidence to bear this out in different sectors, for example the higher incidence of hospital infections following contracting out of cleaning services.

Conclusion

Our overall conclusion from this work is that a robust framework for assessing quality and social value in outsourced services must be a priority. It should start from a definition of what social value means in the context of public service provision and go on to propose a broad set of qualitative and quantitative indicators that can be applied and that can push thinking and accountability structures further than a narrow focus on cost savings and perceived efficiencies. At the very least such a framework would need to include measures to capture full costs, and indicators capable of shedding light on service quality experience, not just performance against pre-determined targets.

We contend that commissioning and contracting arrangements with providers could embed such a monitoring and evaluation system in order to build a clear evidence base to inform debate and decision-making in the future. Only then can theories around competitiveness, innovative potential and incentives really be opened up to examination.

Recommendations

Based on this research, the TUC has identified a set of policy recommendations to address specific issues related to the outsourcing of public services, with recommendations applicable to both national policy makers but also commissioning and procurement practitioners across the public sector.

Decision-making

- Public services provide benefits to both individual service users and wider society. Universal access, delivery according to need, services free at the

point of use and delivered for the public good rather than for profit should be at the heart of any model of service delivery. The public sector is best placed to provide public services that meet these criteria and should be the default model of delivery.

- Before a public service, be it national or local, can be put out to tender a thorough public interest case needs to be put forward incorporating both quality and value for money considerations.
- There should be full consultation with relevant stakeholders, staff, service users and the public on the case for outsourcing prior to the decision to undertake an outsourcing process for any public service.
- If the merits of competitive tendering a public service have been shown to be in the public interest, private and third sector providers should be assessed against a realistic and thorough in-house bid from the public sector.
- Consideration should be given to the appropriate model of provider and commissioner relationships and arrangements to deliver high quality public services in each sector. In particular, this should recognise that the design of the delivery model and tendering processes, including assessment criteria, size of providers, monitoring systems and quality assurance can have a significant impact on the services delivered both now and in the future.

Standards of transparency

- The Freedom of Information Act should be applied to all providers of public services and all public sector commissioning, procurement and contract management.
- The same transparency requirements should be applied to all providers of public services, within the public, voluntary and private sector, including details on supply chains, company ownership and governance structures, employment, remuneration and tax policies and practices.
- The public sector equality duty should apply to all providers of public services, both within the public, voluntary and private sector.
- Public sector authorities commissioning services should not be able to stop the publication of contracts or joint venture details except in cases of national security.
- The ownership of all companies, including those with offshore or trust ownership, which provide services under contract to the public sector should be available on public record.
- Public sector authorities should disclose details of relationships between providers and decision makers/influencers in public bodies commissioning and procuring services or with influence over the commissioning and procurement process.
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Standards of accountability

- The public should have the ‘right to recall’ contracted out services due to poor quality or performance that is not in the public interest.
- Previous poor performance of bidders, including breaches of UK employment law, health and safety, environmental and tax obligations, should be taken into account during any tendering process.

Accounting practices and cost appraisal

- Where services are outsourced, standardised accounting procedures and practices for ‘open book’ accounting should be enforced including an annual independent audit on all public service contracts. There should also be a requirement to publish audited and verified statements on contractors’ operational and financial performance, with access to relevant information, systems and personnel for the National Audit Office (NAO), internal public sector auditors and their external auditors.
- Regular reports on the full costs of procurement should be published, including contingency costs required to cover unforeseen circumstances, the use of external advisors, and the contract management and monitoring costs for individual contracts.
- A robust and consistent framework must be developed which is capable of measuring service quality from the experience of users, not simply performance measure against targets.

Employment terms and protection for staff delivering public services

- Mechanisms for the protection of employment standards and collective bargaining should be promoted through the strengthening of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), the creation of a new two-tier code of practice and the adoption of mechanisms to ensure that existing sectoral collective agreements are extended to all providers of public services.
- Procurement and commissioning should be used as far as possible to promote social, environmental and economic objectives, such as the living wage, investment in training, skills and apprenticeships, union recognition and an end to zero hours contracts and other forms of vulnerable employment, through the full use of the revised EC Directive and UK legislation including the Public Services (Social Value) Act.

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Section three

Overview of key themes

This section provides a brief overview of the development of outsourcing in the UK and the current policy context.

The history and scale of outsourcing in the UK

The history of outsourcing in the UK has been discussed in much of the literature and is briefly summarised here for context. In the first place, the public sector has always contracted with private providers in, for example, the building of roads or purchase of equipment. Change started in the late 1970s when some councils started to contract out a small minority of services to private companies. But it was the escalation of compulsory competitive tendering (CCT) under John Major's Conservative government that began the shift in earnest. Through the Local Government Act 1992, CCT spread the requirement for competition and a remit for private sector involvement to a range of local government and administrative services.

The Labour Government of 1997 to 2010 replaced CCT with an approach based on 'best value'. Whilst maintaining the competitive approach, this attempted to ensure that considerations other than price per unit were central to commissioning. But the extension of market principles and private sector involvement continued to new areas. The Labour Government introduced large-scale 'quasi-markets' in the delivery of public services, most notably within the NHS. At the same time, Labour introduced Public Private Partnerships expanding and intensifying the Conservatives' Private Finance Initiative with contracts of huge scale and longevity for designing, building, managing and operating facilities including schools, prisons and hospitals.

Since the Coalition Government came to power in 2010 expansion of outsourcing has continued with attention to opening up public services as much as possible and alleviating any potential barriers to delivery by private and voluntary sector providers. A shift to outcomes-based commissioning and payments-by-results models has also taken place with important implications for contractual relationships and market concentration.

Significant developments in recent public service outsourcing have been the increasing use of 'black box commissioning' and the tendering of out of entire service areas, including the commissioning process itself. Both approaches have given greater scope for external providers to design and shape in addition to delivering public services.

The ‘black box’ approach means that commissioners stipulate cost and outcomes but do not determine or monitor delivery mechanisms which are left to the providers to determine. In this way it becomes the remit of independent providers to determine the level of service provision in order to best meet contracted outcomes. Concerns have been raised that this has, for example, led to the practices in the privatisation of employment services such as the ‘creaming off’ of certain easier-to-place clients and parking of those clients in more difficult circumstances. While the underlying flat-rate payment structures behind this phenomenon were addressed in the design of the Work Programme, it nevertheless appears that differential fees for different types of client are having less of an impact than intended.

The prime contractor model used in the Work Programme and soon to be implemented in the probation service, sees large independent, largely private, providers managing entire supply chains of service provision, effectively co-managing the commissioning process itself. More recently, in the NHS, we have seen the tendering out of entire ‘care pathways’ such as cancer and end of life care in Staffordshire, where the prime contractor will be responsible for commissioning and managing a range of services. Furthermore, within the NHS, Commissioning Support Units that were established to help GP-led Clinical Commissioning Groups with the tendering of services will be expected to be independent organisations competing for business by 2015–16, in effect privatising the commissioning support process itself.

Size of the market

As a result of this history over the past three decades, it has been estimated that by 2004 around nine per cent of government service delivery was contracted out through a combination of outsourcing contracts, Public Private Partnerships and Private Finance Initiatives.[1] By 2007–08 revenues earned in the public services industry were £79bn and the industry employed 1.2 million people.[2] More recently the NAO estimated that the UK public sector spent £187bn on goods and services in 2012 (Figure 1), with half of this, £93.5bn, being spent on contracted-out public services.[3] However, this is only an estimate as the NAO state that “there is no agreed definition of contracted-out services or measure of how much the government is spending on them”[4]

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1 NAO (2008) *Protecting Staff in PPP/PFI Deals* (London: NAO), p. 20

2 Julius, Dr DeAnne (2008) *Understanding the Public Services Industry: How big, how good, where next?* (London: Department For Business, Enterprise and Regulatory Reform)

3 NAO (2013) *The Role of Major Contractors in the Delivery of Public Services* (London, NAO)

4 Ibid

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Figure 1

Estimated public sector spending on goods and services in 2012			£187bn
1) Local Government		£84bn	
2) National Health Service (NHS)		£50bn	
3) Central Government		£40bn	
Ministry of Defence (MoD)	£19.951bn		
Department for Work & Pensions (DWP)	£3.448bn		
Ministry of Justice (MoJ)	£2.847bn		
Department for Transport (DfT)	£2.798bn		
Home Office	£1.916bn		
Department of Health	£1.773bn		
HM Revenue & Customs	£1.533bn		
Department for Business, Innovation and Skills (BIS)	£1.446bn		
Department for the Environment, Food & Rural Affairs (DEFRA)	£1.359bn		
Foreign & Commonwealth Office (FCO)	£0.712bn		
Department for International Development (DfID)	£0.694bn		
Department of Education (DoE)	£0.410bn		
Department for Culture, Media & Sport (DCMS)	£0.327bn		
Department for Communities and Local Government (DCLG)	£0.277bn		
Department of Energy & Climate Change (DECC)	£0.187bn		
Cabinet Office	£0.176bn		
HM Treasury	£0.079bn		
4) Develved and independent bodies		£13bn	

Source: NAO. (2013). The role of major contractors in the delivery of public services.

Of the estimated total £187bn spent by the public sector on goods and services the largest portion, £84bn, was through local government. The National Health Service accounted for £50bn while Central Government accounted for another £40bn. Within the Central Government portion of spending, the Ministry of Defence (MoD) accounted for around half of the total with the Department for Work and Pensions (DWP) spending £3.4bn, the MoJ £2.8bn and the Home Office £1.9bn.

Unfortunately data is not available for the breakdown by department of the estimated £93.5bn spent by the public sector on outsourced public service delivery accounting for half of total spending on goods and services. As part of this research Freedom of Information (FOI) requests were sent to thirteen government departments requesting details of expenditure on contractors for out-sourced public services. However, as there is no agreed definition of contracted-out services this was not expected to be especially fruitful.

At the time of writing, only Department for Environment, Food & Rural Affairs (DEFRA) and Foreign & Commonwealth Office (FCO) had replied to the FOI requests, both explaining that their departments do not hold information regarding expenditure on contractors for out-sourced public services, and that it would incur undue expense to collect the data. While a

new government initiative, www.contractfinder.gov.uk provides information on government suppliers, it only has details about very recent contracts.

In addition to explicit contracting out of services, in some sectors we are also seeing a blurring of the boundaries between private and public management and funding and revenue streams. Examples of this include Academy Schools, which are publicly funded but often operated by private organisations and NHS foundation trusts which are permitted to take up to 49 per cent of their income from private patients.

As outsourcing has gathered pace and the political appetite for private sector involvement in delivery of public services remains strong it is estimated that total public sector outsourcing could reach £101bn by 2014–15.[5]

A change in the landscape of public service provision

Although the drive to contracting out public services has cut across party political divides and has formed a major part of public policy, there is nevertheless a sense that the landscape for public services has been quietly and fundamentally changing. As the Confederation of British Industry (CBI) put it:

"Developing shared services and extending outsourcing is unlikely to generate significant public controversy because, handled well, the public using the services should not notice things are changing behind the scenes."

The issue of whether who delivers services matters is considered later in this section, but indeed there has been no concerted critique or real counterpoint in political debate to the growth of outsourcing. Yet, despite its low salience, the growth of outsourcing has played its part in a broader societal shift.

"Without quite realising it, without ever deciding to do so, we drifted from having a market economy to being a market society."[6]

Some observers have suggested that the marketisation of state provision has fundamentally altered the relationship between individuals and the state, creating consumers of public services rather than citizens with a collective interest in social institutions[7].

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5 Report by Seymour Pierce, cited in Plimmer, G. (2013) "Outsourcing Soars in Public Services", in *Financial Times*, 31 January, http://on.ft.com/1zw7L4J
6 Sandel, M "What Isn't for Sale?", in *The Atlantic*, April 2012, http://theatln.tc/1uxSoHy
7 Ibid

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Open Public Services – the coalition government's narrative on outsourcing

The government's position on public service outsourcing conforms to prevailing neoliberal theory that competition on price and/or quality generates a combination of cost-cutting and greater efficiency, as well as quality improvements and innovation in public services. While many have attributed the government's escalation of outsourcing to its broader austerity programme, heavily predicated on cuts to public spending, the stated aims of the Open Public Services agenda are much more clearly linked to public service reform. Counter-factual speculation is rarely helpful but it is highly probable that the current government would have pursued this agenda regardless of the state of public finances, due to its belief in the benefits of a diversity of providers competing in a market for services.

In this government's view, state-run 'monopoly' that is not subject to the discipline of the market cannot produce the best outcomes. Instead systems will ossify and incentives to improve cost and process efficiencies will be absent. As David Cameron put it:

"From now on diversity is the default in our public services…instead of having to justify why it makes sense to introduce competition…the state will have to justify why it makes sense to run a monopoly".[8]

Francis Maude, the Cabinet Office minister, echoes this point:

"Public services are too important to too many people to be allowed to be the monopoly of the public sector."[9]

Consistent with a theory based on the power of competition to deliver better, more flexible and innovative services is agnosticism about the type of provider that delivers public services. The question simply becomes a practical one, as described by Dr DeAnne Julius:

"The question of who delivers them – whether it be the public, private or third sector – is essentially a practical one."[10]

"Competition, contestability and the process of structuring specific contracts for service provision are instrumental in achieving the potential gains (which may be in cost savings, quality improvements and/or innovation). The benefits accrue whether private, public or third sector firms win the bid."[11]

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8 Cabinet Office, Prime Minister's Office, 10 Downing Street and The Rt Hon David Cameron MP (2011) *Speech on Open Public Services*, http://bit.ly/1yK7Xxw
9 Maude, F. (2013) "We Need a Vibrant Ecosystem of Providers but I Expect G4S to Emerge Stronger after Review", *The Independent*, 19 November, http://ind.pn/1AMkUlt
10 Julius, Dr DeAnne (2008) *Understanding the Public Services Industry: How big, how good, where next?*
11 Ibid

This agnosticism was echoed by David Cameron speaking about the Open Services White Paper:

"It shouldn't matter if providers are from the state, private or voluntary sector – as long as they offer a great service."[12]

And the idea is encapsulated in the Health and Social Care Act which makes space for "any qualified provider". However, as we discuss below, the form of ownership might not matter in theory but in practice it raises legitimate concerns about governance, transparency and accountability.

In support of its Open Public Services agenda, the government has enacted a range of legislation and reforms, including the Health and Social Care Act, the Localism Act and the Transforming Rehabilitation white paper, that enable the further marketisation of public services.

The case against outsourcing – in theory and practice

Theoretical considerations

Theoretical concerns about outsourcing stem from the problem of market failure whereby the allocation of resources via the market mechanism turns out not to be efficient. This is not to say that it is impossible for a market in a product, such as a public service, to exist, rather that it will not work properly in delivering the best possible outcome.

The key theoretical problems highlighted in critiques of outsourcing concern:

- the adverse selection in decisions about who wins the contract
- conditions of imperfect information which compromises the ability of commissioners to adequately monitor the quality of services being delivered
- the principal-agent problem which suggest that in complex services separation of commissioner and provider roles and objectives is sub-optimal compared with a model of vertical integration.[13]

The operation of quasi-markets in public services raises key questions for efficiency and customer experience:

- Are there low barriers to market entrants?
- Are "customers" able to easily switch between providers?
- What are the transaction and whole-life costs of the project and how are they factored into price?

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12 Cabinet Office, Prime Minister's Office, 10 Downing Street and The Rt Hon David Cameron MP (2011) *Speech on Open Public Services*

13 For further discussion see: Jefferys, S. (2012) *Shared Business Services Outsourcing: Progress at work or work in progress?* Working Lives Institute and London metropolitan university

- How is risk shared and managed and to what extent are rewards commensurate with this?
- Do "customers" have sufficient information on which to compare quality and make informed decisions?

There are also theoretical considerations of a more philosophical nature which counter the agnosticism among proponents of outsourcing as to who delivers public services. According to the government view, different providers will not fundamentally change the character and availability of public services which are taxpayer funded and commissioned by public institutions. This appeals to common sense at one level but it skates over theoretical and moral debates about public services and citizens' relationships with them, as well as to fundamental issues about the distribution of benefits and control under different delivery models. Michael Sandel is instructive in this context.

"Looking back over three decades of market triumphalism, the most fateful change was not an increase in the incidence of greed. It was the expansion of markets and of market values into spheres of life traditionally governed by non-market norms."[14]

The real insight put so well by Sandel is that markets are not neutral instruments or innocent mechanisms, rather "*markets leave their mark*". In the context of delivering public services this could mean a change in the norms of practice, in the relationships between providers and the public, in the incentives to engage in public service delivery and implications for quality and in who has control over decisions and whether they are directly accountable.

In this theoretical context it has been noted that different production methods and delivery mechanisms mean that what a private contractor, or commissioner, sees as waste can in fact be the public sector's contingency. The nature of some critical services is such that cost efficiency is less important than resilience and capacity to cope well with exceptional demands. The spare capacity and duplication required for such resilience is likely to be squeezed out by marketisation because it lead to optimising profits rather than service. Lean processes and 'just-in-time' supply chain management which work well for stable and predictable tasks may not be well suited to services which need to be ready to respond to complex human relationships and events. This touches on the idea that an outsourcing model may be more appropriate for some public services than others.

Where front-line services are delivered by private and voluntary organisations, any failure in service will still be the responsibility of the state. This is true the closer the service is to front-line delivery and the more vulnerable the recipients of services are. This is noticeable in the failures of social care providers as well

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14 Sandel, M. (2009) "A New Citizenship", in *The Reith Lectures*, BBC Radio 4, http://bbc.in/1yNeKDo

as when the government has had to take poorly managed prisons back into public control.

Practical considerations

Alongside theoretical drivers for outsourcing there are practical drivers around cost-cutting and a search for quality improvements in light of failings in public services. However, serious practical concerns have been raised about the extent to which outsourcing achieves either efficiency or quality improvements. At the same time, critics have highlighted potential risks, firstly from the way in which the market has concentrated in some key sectors and, secondly, from the shift in the role of the public sector to commissioner rather than provider.

Cost savings and efficiency

The potential of competitive processes to deliver cost savings has been particularly salient since 2008, due to the recession which followed the financial crisis and the desire of the government in the UK to significantly reduce public expenditure.

Recession and the aims of deficit reduction, along with a strong underpinning desire to reduce the size of the state, have given the natural impetus for cost-cutting and efficiency huge force. The promise of cheaper services for cash-strapped local authorities has been especially compelling.

Evidence for the potential of outsourcing to deliver cost-savings is available in some areas of public service, particularly relating to the early period of contracting out. For example, one particularly influential review of 203 case studies from a range of countries identified that cost savings occurred in 75 per cent of cases with just over half of cases yielding savings of between 10 and 30 per cent.[15] However, there is considerable debate around the validity of this figure and its subsequent recycling in a number of reports since then.[16] There is also some evidence to suggest that cost-reduction is directly related to competition. For example, one study suggests that as the number of bidders increases, cost decreases.[17]

Other studies have found that over time the cost savings achieved by privatisation are reduced, that claims made for the level of cost-reduction tend

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15 Australian Government (1996) *Competitive Tendering and Contracting by Public Sector Agencies*, Australian Industry Commission Public Inquiry report (Australian Government Publishing Service)

16 See Jefferys, S. (2012) *Shared Business Services Outsourcing: Progress at work or work in progress?*

17 Gupta S. (2002) "Competition and Collusion in a Government Procurement Auction Market", *Atlantic Economic Journal*, Vol. 30, Issue 1, pp. 13-25

to be over-stated and the qualification statements associated with the estimates ignored.[18] In addition, it has been highlighted that the importance of assessing full-cost – including investment in target-setting, monitoring and evaluating contractors' performance and legal and administrative costs - is often overlooked with the focus more narrowly placed on delivery costs.[19]

A 2011 review of the impact of outsourcing on the cost of delivering services concluded that claims of reduced cost and/or quality improvements for the same cost were not borne out.[20] It found that the best to be said was that in some cases competitive tendering produced greater efficiency as public sector providers sought and achieved efficiency improvements.

Research for this report found some evidence to suggest that introducing competitive pressures can bring down the cost of public services, including those delivered through the public sector. For example, observers of outsourcing in the UK prison sector have observed that competition encouraged the publicly run Prisons Service and the Prison Officers Association (PoA) to collaborate to find innovations which could reduce staffing levels, enabling the public sector to perform well in competitive bidding processes.

Quality and service improvement

Real and perceived failings and short-comings in public services have been drawn into the case for outsourcing as answers have been sought to ensure improvement. The 2011 Open Public Services White Paper described the current approach to delivering public services as "old, centralised and broken". Proponents have argued that outsourcing will bring in fresh thinking from the voluntary and private sectors and incentivise services to innovate to improve service quality and be more responsive to the needs of users. Under New Labour, in particular, advocates of marketisation pointed to the potentially beneficial impact of offering end-users the opportunity to choose between services, essentially offering them the same power of 'exit' that they would enjoy in a competitive private market, without stratifying them by ability to pay.

Proponents of outsourcing argue that markets and market mechanisms are preferable to bureaucracies. Competition can foster innovation and remove hierarchical top down processes. It can also ensure service provision is based on the needs and wants of recipients, as they convey information via the market mechanism. The validity of these arguments hinges crucially on

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18 Bel, G. and Costas A, (2006) "Do Public Sector Reforms Get Rusty? Local Privatization in Spain", in *Journal of Policy Reform*, Vol. 9, No. 1, March
19 Jefferys, S. (2012) *Shared Business Services Outsourcing*
20 Reed, H. (2011) *The Shrinking State: Why the rush to outsource threatens our public services*. A report for Unite by Howard Reed, Landman Economics, http://bit.ly/15CJBcj

whether markets for public service can operate in a way that efficient markets do.

A serious challenge to this is that objectives and outcomes in terms of the public good have not been tested and either proved or disproved via evidence. Commentators have highlighted the lack of evidence as a major concern, for example, Steve Jeffreys suggests that:

"Surely, after three decades of outsourcing, the theoretical debate should have been resolved in concrete evidence? Yet it has not. There is surprisingly little evidence about the impact of outsourcing over time."[21]

As Jeffreys notes, it may be possible to assess relative costs, the distribution and use of surpluses and changes to staffing levels and working conditions, but as to quality improvements or depletion there are real difficulties in making an assessment, and no robust dataset currently exists.

Existing evidence about the impact of outsourcing on service quality in different sectors is mixed. For example, research suggests that while NHS hospitals in the 1990s reduced waiting times in the face of competitive purchasing by GP fund holders, this was at the expense of other aspects of quality which were more difficult to measure. However, the introduction of direct competition for patients via the 'choose and book' system was associated with falls in mortality rates in the most competitive areas. Overall, researchers conclude that evidence is inconclusive.[22]

Evidence from other sectors is also mixed. In the prisons service, for example, there is significant poor performing provision under private management. HMP Oakwood and HMP Thameside, both large, newly opened, privately managed institutions, were two of the three worst performing prisons in England and Wales in 2012-2013, receiving ratings of 'overall performance is of serious concern'. However, other private prisons, such as HMP Parc are performing well.

Overall, the lack of substantive evidence for the benefits of outsourcing in efficiency and quality terms raises serious concerns about accountability in policy-making and the reasons why outsourcing is pursued so vigorously. In this regard, Wilks firmly places outsourcing of public services in the context of 'the privatisation project' at the core of economic transformation from the late 1970s.[23]

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21 Jefferys, S. (2012) *Shared Business Services Outsourcing*

22 Propper, Carol (2011) "The White Paper, Competition and the NHS", in *Research in Public Policy*, Issue 13, Winter 2011, http://bit.ly/15fwahp

23 Wilks, S. (2013) *The Political Power of the Business Corporation* (Cheltenham, Edward Elgar)

Diversity of provision

Although the current government narrative extols the virtues of market-driven diversity, the results of our work to map five key sectors support findings from other studies that there appears to be considerable market concentration within and across key areas of public service. The matter of some players in the market being 'too big to fail' has been raised as has the design of certain contracts which are so large that very few companies have the required infrastructure to deliver them or the financial capability to invest upfront in a payment by results system.[24]

If the market depends upon a few large companies then this appears to undermine the central argument underpinning the case for outsourcing, that competition is the driving force for quality and efficiency improvements. But it does also highlight the view in support of public delivery of services whereby some public services require economies of scale and a more integrated, systemic approach in order to cope with complexity and reach but one which is also transparent and as directly accountable to public scrutiny as possible.

The related issue of companies being too big to fail raises the risk that the public purse would have to prop up or subsidise a company in trouble if it is the main or only provider of a particular service or collection of services. It would be difficult for others to step in and fill any gaps in such circumstances leaving the taxpayer exposed to problems of governance or management of private firms over which there is little information in the public domain let alone control.[25]

Contract management

Public sector organisations are transforming from service providers to commissioners. This requires a different set of skills and expertise around negotiating terms and contracts, setting up and running monitoring and evaluation systems and managing contractual disputes. As noted above, full-cost accounting needs to take account of the transaction and administrative costs arising from the contracting process, such as legal fees for example, but also the risk of being exposed to unexpected costs when contracts are not fulfilled or disputes incur remedial costs on the part of the commissioning body. The Prime Minister attributes this largely to a skills deficit within Whitehall, David Cameron commented:

"I think there are skills shortages in the civil service that have to be addressed … there are examples of good contracting and bad contracting ... the more

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24 Williams, Z. (2012) *The Shadow State: A report about outsourcing of public services*. Commissioned by Social Enterprise UK, http://bit.ly/1y35QxR
25 Ibid

general point is that the civil service needs to have more expertise across the piece on this."[26]

This change in the relationship of public sector institutions to the services they are responsible for requires new approaches and skills. It also suggests that reverting back to public delivery from an outsourced market could become increasingly difficult as institutional knowledge, structures and expertise are lost.

And while there may be deficiencies in contract management capability within the public sector, the failures in effective management can also be attributed to structural issues related to public service markets highlighted above. These include the difficulties in prescribing contract outcomes in complex 'relational' services, imperfect market information and the appropriate transfer of risk which make the effective specification, tendering and management of public service contracts problematic.

Governance, transparency and accountability

Although governments of both parties have been intellectually committed to the expansion of outsourcing, a number of observers have commented on the role of major outsourcing contractors in shaping the policy environment to support this movement.

Wilks suggests that the political power of business has been used to create new markets and extend the role of corporations towards policy-making itself. He gives the example of the flagship review of outsourcing undertaken by DeAnne Julius on behalf of the Department for Business, Enterprise and Regulatory Reform (now BIS), which recommended that the UK government "demonstrate their long-term commitment to open up public services and maintain effective competition".[27] He argues that the appointment of Julius, who was previously a senior non-executive director at Serco to undertake this review, offers a clear demonstration of the blurred boundaries between corporate management and public sector policy making.[28] Critics have also pointed to the role played by consultants and advisers with links to private healthcare in the development of market policy within the Department for Health.[29]

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26 "Prime Minister Acknowledges Public Sectors Shortcomings when Outsourcing", *sourcingfoucs.com*, 16 September 2013, http://bit.ly/1sh5hxB
27 Julius, Dr DeAnne (2008) *Understanding the Public Services Industry: How big, how good, where next?*
28 Wilks, Stephen (2013) *The Political Power Of The Business Corporation* (Cheltenham, Edward Elgar)
29 See detailed discussion in Tallis, R., and Davis, J. (2014) *NHS SOS: How the NHS was betrayed – and how we can save it* (London, Oneworld Publications)

Bel and Fagada describe how decisions about local services are:

"Dependent on the existence of pressure groups having a particular interest in the rents derived from a given form of service delivery."[30]

In this context the relationship between government and key corporations is central. Although there are concerns that it will be increasingly difficult to row back from marketisation of public services for reasons of cost and competence, it is still to some extent a quasi-market over which government maintains control. For that reason, corporations invest in the government relationship, for example, by reshuffling top management in response to failings or concerns as in the example of fraud in the case of electronic tagging.

Jeffreys points to the underestimated role of hedge funds in pressing for outsourcing of public services. As entities aggressively focused on achieving the highest possible rates of return for investors, public service incomes provide a secure revenue base, guaranteed by the state. Associated with the issue of market concentration discussed above, long contract periods and the nature of public service infrastructure also effectively provide near-monopoly status increasing the relative bargaining power for companies once embedded in a contract.

The broader issue of accountability encompasses points of debate around the relationship between citizens and state, and more practical matters of recourse for the citizen when things go wrong. The line of accountability between a service user and their elected representatives becomes more shaded when the state acts as intermediary rather than provider of a service. Contractors are accountable to the commissioning authority on the citizen's behalf which represents a lengthening of the value chain in the delivery of public services and reduces the direct accountability of democratic institutions[31]

This also raises the difficult issue of access to information because of issues of commercial confidentiality. As the NAO has pointed out, there is too little information in the public domain to conduct an effective analysis of the performance, rewards and governance of major contractors delivering publicly funded services.[32]

Conclusion

In this section we have looked briefly at the history of outsourcing and current government policy as well as assessing some of the key theoretical and practical considerations.

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30 Cited in Jefferys, S. (2012) *Shared Business Services Outsourcing*, p. 10
31 Jefferys, S. (2012) *Shared Business Services Outsourcing*
32 NAO (2013) *The Role of Major Contractors in Delivering Public Services* (London, The Stationary Office)

In this section we established that:

- Current government policy on outsourcing is closely linked to its stated aims of public service reform, while being undertaken within a wider policy of an austerity programme heavily predicated on public spending cuts.
- A central focus of the government's narrative is on the diversity of provision, driven by the market for public services, and agnosticism over the nature of public service ownership.
- However, there are a range of theoretical and practical considerations that call into question the case for public service outsourcing, including:
  - Structural issues related to the imperfect nature of public service markets
  - The 'principal-agent' problem resulting from the commissioner / provider split.
  - A paucity of evidence on the benefits of outsourcing in terms of cost-effectiveness, quality and service improvement
  - Barriers to accountability and transparency that should be integral to public services in a democratic state.

In the next section we turn to a detailed analysis of five different public services sectors, looking at the similarities and differences in the markets for employment services, health, offender management, local government and adult social care.

Section four

Mapping sectors

As described in Section 3 the theoretical and practical drivers for outsourcing public services follow common threads across all types of services. However, the extent to which individual public service sectors are outsourced and what effects this has had on service provision is different for different services. We have therefore focused our research on a five of the key public service sectors:

- employment services
- offender management
- health
- local government
- social care.

Similarities and differences

Within each sector the historical developments which have led to services being outsourced are distinct. The character of the service provided, as well as the institutional structures, rules and regulations and market composition differ in each case. This means it makes little sense to analyse the effects of outsourcing en masse as the extent to which outsourcing occurs and the implications are essentially sector-specific and different depending on the public service in question.

However, despite unique differences within each area, there are nevertheless some consistent themes which arise across the different public service sectors. These include the difficulty of properly valuing the services providers offer and thus pricing them correctly; whether an appropriate balance of power can be struck between commissioners and providers and contracts can be effectively monitored and managed by both parties; whether the market is open, free and translates sufficient information to provide the disciplining mechanism which improves both quality as well as price; and whether adequate levels of transparency and accountability exist where public money is spent on commissioning services.

Across all sectors, the following five themes and experiences are common:

- There is a tendency towards market concentration in effective market areas, whether that is on a national or local level. Even in areas with low market entry and numerous providers, such as social care, there is a tendency toward concentration on a local level which, in the case of social care, is the

effective market area.

- Within this market concentration, it is private provides that dominate. Despite current government narrative around the diversity of provision and the role of charities, community organisations, social enterprises and mutuals playing a part in provision, it is the private sector that dominates both in terms of delivering services but also in capturing prime contractor position with subsequent control over supply chains.
- Accountability is compromised by a lack of transparency regarding ownership and corporate governance among private providers, exacerbated by commercial confidentiality and the lack of exposure to Freedom of Information and other transparency requirements applied to public providers.
- Quality outcomes are difficult to specify, measure and price, particularly in 'relational' services based on high-quality human relationships. Attempts to use pricing mechanisms to incentivise behaviour have largely failed to prevent 'gaming' by contractors.
- With the workforce forming such a large proportion of provider costs, margins have been increased mainly through downward pressure on headcount, pay and conditions of public service workers.

Mapping the sectors

We now turn to some of the key findings from each of the sectoral studies and we attempt to draw some lessons and conclusions from each.

Taking each of the sectors in turn we have looked at:

- the development of the market
- current market composition
- performance and impacts.

As far as possible a consistent approach has been taken with each sector, but the quantity and depth of information is variable and some differences in the analysis are therefore unavoidable.

Employment services

Development of the market

Outsourcing of employment services, whereby voluntary and private sector providers have been commissioned to help those furthest from the labour market, has a long-standing history in the UK and is now common practice.

Over the past two decades there has been a transition in employment services away from public provision to a fully marketised system. The shape of provision has transitioned from Labour's New Deal programme in the late 1990s, which emphasised forms of partnership between the public sector and private and voluntary service providers, to the current Work Programme through which services for entire regions are fully outsourced to large private contractors.

This evolution has been characterised by a growing emphasis on payment by results or outcomes achieved, through a 'black box' approach to commissioning and by an expansion of the scope and size of the contracts awarded. This has taken the total value of Work Programme contracts over the five-year contracting period to between £3bn and £5bn (with the range allowing for different levels of achievement on performance).

Even at the bottom of this range, the overall sum is nearly three times greater than the five year estimate for Phase 1 of the Flexible New Deal (FND) implemented by New Labour in 2009. This does not compare with the total intended size of the FND since Phase 2 would have added 18 contract areas to the original 14 in Phase 1, but it does demonstrate the evolving scale and ambition of the market for employment services.

At the date of writing, employment services contracts are large and cover entire regions of the UK. Outsourcing is at the core of the current government's infrastructure for delivering employment services, services whose stated aim is to help those outside the labour market into sustained employment.

Market composition

As prime contracts have become larger and longer only organisations with significant financial capability are in a position to take them on. This has raised concerns that small voluntary organisations, those closely linked with service users and with specialist expertise, will be increasingly at risk of contract failure and squeezed out of the market.

The market in employment services is characterised by heavy concentration towards a small number of prime contractors to the extent that 60 per cent of the total contract value under the Work Programme is accounted for by the top five firms.

Looking across all 40 of the prime contracts awarded under the Work Programme, only three went to voluntary and third sector organisations and two to public sector organisations. Thirty-five out of 40, equivalent to 88 per cent of the contracts, were won by private sector organisations. Further analysis of the value of the contracts awarded shows that the top four primes: Ingeus Deloitte, A4e, Working Links and Avanta, hold 47 per cent of the contracts by number and 53 per cent of the value of all the Work Programme contracts.

Alongside this considerable concentration in the market, it should also be noted that there have been very few new entrants to the field of provision. Only G4S and JHP can be called 'new entrants' - those who have not previously held New Deal, Flexible New Deal (FND) or Employment Zone prime contracts. The result is that just eight per cent of the market share is accounted for by new entrants.

The nature of this market for prime contracts is reflected in the distribution of work through Work Programme supply chains. In their review of sub-contracting through the Work Programme, Inclusion estimate that 43.1 per cent of the participants will receive employment services directly from the primes, while 18.3 per cent, 8.5 per cent and 30 per cent will receive services from voluntary, public and private sector sub-contractors, respectively.

In terms of the share of frontline work carried out by different types of provider – private, public and voluntary – it has been found that over 70 per cent of job seekers receive front-line services from private firms, with 18 per cent seen by voluntary organisations, and 8.5 per cent by public organisations.

Even for those primes who are classified as voluntary sector organisations, a large proportion of participants will receive employment services from private sector suppliers. For CDG, 30.1 per cent of their participants will receive services through private sector suppliers, while for Rehab the proportion is 67 per cent. Inclusion have concluded from this that "there is little doubt that there has been a voluntary sector squeeze" as private sector primes and sub-contractors are picking up a huge chunk of the work programme.[33]

The character of the supply chain is particularly telling as the 'black box' approach adopted in the Work Programme, in effect, outsources the commissioning process itself by placing responsibility for the management of whole service areas to the prime contractors. As the University of Greenwich research team put it "the black box involves centralised and contracted-out government contracting. One result is the outsourcing of the DWP's relations with the voluntary sector and local government to the private sector"[34]

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33 NAO (2013) *The Role of Major Contractors in Delivering Public Services* (London, The Stationary Office), p.11

34 Greer, I., Schulte, L., and Symon, G. (2014) "Inside the 'Black Box': Ten Theses on Employment

TUC

Performance and impacts

On the whole, evaluations of **New Deal** programmes found positive effects on employment but with some evidence that the long-term effects were smaller than the short-term ones.[35] As with any labour market programme, it is difficult to distinguish who would have found a job in the absence of the programme and this is particularly salient for the New Deal, where several of the programmes were voluntary in nature and therefore likely to attract more motivated participants.

The DWP's analysis of **Flexible New Deal**, after 11 months into the contracts, showed that the programme had placed only 16,238 people in work for 13 weeks at a cost of £508m. This equated to a cost of £31,284 per job. This, however, is a short period in which to assess a programme which is ultimately designed to achieve long-term benefits. The high cost was blamed on payments to private sector providers of £477m in upfront service fees for contracts.[36] Part of the explanation for this is bound up with the impact of the economic downturn, which saw many more participants enter the scheme, pushing up service fees at a time when labour demand was poor and thus job outcomes harder to achieve. However, it is also suggestive of the reduction in cost-effectiveness of outsourced services commissioned in bulk contracts.

Critics of the FND pointed out that a flat-rate outcome payment scheme encouraged providers to identify which clients were easiest to help into work and focus their efforts on them, to the cost of "harder to help" clients.[37] This practice, evident in both the FND and previous employment programmes, became known as 'creaming and parking', as providers would "cream" off payments from the easiest to help participants and "park" those more costly to help on their books.[38]

The Work Programme has been running for three years and a full evaluation of the expected long-term benefits has yet to be undertaken. However, in its evalution of July 2014, the National Audit Office found that the Work Programme had found sustained employment for easier to help groups, such as

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Services in Britain", paper presented at the University of Greenwich, June

35 See Blundell, R., Reed, H., Reenan, J.V. 'The Impact of the New Deal on the Labour Market : A Four Year Assessment', (2003), in P. Gregg and J. Wadsworth (eds), *The State of Working Britain* (2nd ed.), Palgrave MacMillan (with A. Shephard and J. Van Reenen), http://bit.ly/16SA3tz; Beale, I., Bloss, C., & Thomas, A. (2008) *The Longer-Term Impact of the New Deal for Young People* (London, DWP), DWP Working Paper, http://bit.ly/17f24wd; Millar, J. Joseph Rowntree Foundation (2000) *Keeping Track of Welfare Reform: The New Deal programmes* (York, JRS), http://bit.ly/16RhJRt

36 See Timmins, N and Barker, A. (2014) "Minister Attacks Labour Work Scheme", *Financial Times*, 17 November, http://on.ft.com/1D6q39l

37 Work and Pensions Committee (2012) *Written Evidence Submitted by the Social Market Foundation* (London: House of Commons), http://bit.ly/1J7me8X

38 It ought to be noted that such practices were less prevalent when programmes were specifically aimed at those hardest to help, such as the New Deal for Disabled People.

JSA claimants, at around the same rate as previous welfare-to-work schemes, with around 27 per cent of JSA claimants over 25 achieving sustained employment.This is a considerable improvement on significant under-performance in the first year of the scheme, with a success rate of just 8.5 per cent after its first year.[39]

The DWP points to an increasing success rate, with 32 per cent in more recent cohorts; this still remained below DWP estimates of 39 per cent and bidders' original expectations of 42 per cent, though in line with minimum performance levels of 33 per cent. Performance for JSA claimants under 25 years old has been better.[40] Of course, further analysis would be useful to determine the extent to which this improved performance is a result of broader improvement in the labour market or the added value of the contractors in the programme.

However, the differential fees offered to supporting those further from the labour market, designed to rectify shortcomings in the FND programme, appear to be having less of an effect than they were supposed to. Performance for Employment and Support Allowance claimants who have completed the programme of around 11 per cent is still below expectations of 22 per cent and previous programmes rate of 12 per cent. But this performance, too, is an improvement on the very low levels seen in the first years of the programme where only 5.5 per cent of ESA claimants were achieving sustainable job outcomes.[41]

The achievements on JSA compared to ESA claimants suggest that 'creaming and parking' may continue to be an issue, with providers focussing on achieving job outcomes for easier claimants and under investing in their more costly participants. As noted in an early evaluation of the programme. In its initial review of the implementation of the Work Programme in January 2012, the NAO highlighted a number of risks related to the scheme's value for money:[42]

- It is likely that providers will seek to recalibrate prices and other contract conditions during the lifetime of the contracts. This is due to the bargaining power prime providers will undoubtedly be able to wield due to their monopolistic status in their contract regions. The Department will need to ensure that providers do not see changes in circumstances as an opportunity to weaken the price and performance conditions of contracts.
- The Work Programme's demanding performance targets combined with price discounts offered by providers may encourage providers to target

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39 DWP (2013) "Work Programme Transforming Lives as Number Finding Lasting Work Soars to 132,000", *DWP Press Release*, 27 June, http://bit.ly/1xW7263
40 NAO (2014) *The Work Programme* (London, NAO)
41 "More find jobs on Work Programme, DWP figures suggest", *BBC News*, 27 June 2013, http://bbc.in/182MB2H
42 NAO (2012) *DWP: The introduction of the Work Programme* (London: NAO), http://bit.ly/1AMksnf

easier-to-help claimants while not helping others, reduce the level of service provided in order to reduce costs, or to put disproportionate pressure on subcontractors.

- It is possible that one or more providers will get into serious financial difficulty during the term of the contract. The unprecedented performance and cost propositions expected by the Department and offered by prime contractors mean that it is highly likely that one or more will struggle
- The Department might not refer claimants to prime contractors in a way that secures best value. Currently many fewer harder-to-help claimants than expected have been referred to prime contractors. As a consequence, some subcontractors are frustrated at the speed with which claimants have been referred to them. In previous schemes, there was a risk that when providers were finding it difficult to place claimants in employment the Department referred easier claimants to them.

In its latest evaluation, the NAO found that "On average, prime contractors have reduced what they plan to spend on the hardest-to-help. The support for the Work Programme's harder-to-help participants is lower than for those with better employment prospects. Providers' own estimates show that they plan to spend 54 per cent less on each participant in harder-to-help groups than when they bid. Several contractors told us that they do not use payment groups to help target support, and that funding for harder-to-help groups is lower than expected. [43]

Employment services – conclusions

There is a significant expansion in the scope and size of contracts for employment services, with some contracts covering entire regions, together with a growing emphasis on payment of providers by performance or outcomes achieved.

The outsourcing of employment services has transitioned from a system of direct public provision to a partnership model and more recently to a fully marketised system, where many of the contracts are operated by just a few large private companies running networks covering entire regions.

The increased size and scope of the contracts in employment services and the capital required has squeezed out most voluntary sector providers, with serious concerns raised about the loss of specialist knowledge. As we have shown, over one third of Work Programme clients will be handled by just two providers.

Serious concerns have also been raised about the focus on value for money contained within the Work Programme, not least by the NAO. The

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43 NAO (2014) *The Work Programme*

combination of demanding performance targets with the cost propositions expected by the DWP may lead to a serious reduction in service quality.

Evidence indicates providers continue to engage in 'creaming' and 'parking'; reducing costs by creaming payments from those who are deemed 'easier-to-help', while parking those who are deemed 'hardest-to-help'.

There is also a serious concern that the concentration of provision in the hands of a few companies, facilitated by the efforts to achieve value for money, will lead to provider failure – that providers will become 'too big to fail'. The NAO point out that the government has no plan to prevent or mitigate against the failure of multiple providers.

The valuing and pricing of contracts is done on very uncertain grounds, while monitoring of service quality is insufficient to improve standards. The initial outcomes of current outsourced employment services reveal that only one in 10 people referred to employment services have found sustained work.

There is too little transparency required of providers of employment services at present, with little ability of the public or service users to hold them to account.

Offender management

This section looks at the outsourcing of offender management – prisons and the supervision of offenders in the community – in England and Wales.

Development of the market

The market for offender management developed in the early 90s through the contracting out of prison management and the escalation of private prisons through the Private Finance Initiative (PFI). Over the following decade, a further eight private prisons opened with successive governments appearing to form a consensus that the private management of prisons could offer savings and provide performance improvements. Over the same period, other offender management functions were outsourced including prisoner transport and electronic monitoring.

Marketisation progressed through the formation in 2004 of the National Offender Management Service (NOMS), created through the merger of the National Probation Service and Her Majesty's Prison Service. This followed the 2003 Carter Review which stated that benefits would be gained through extending competition from the private and voluntary sector across prisons and probation. The structure of NOMS incorporated a clear purchaser/provider split, with its commissioning arms operating separately from the Prisons Service and probation trusts.

Even so, following the creation of NOMS there was a slowdown in outsourcing offender management, with probation trusts staying in the public sector and no further expansion of private prisons between 2005 and 2010.

Outsourcing has resumed its momentum under the current government, with the largest prison competition process so far and the privatisation of 70 per cent of the probation workload. This however has been disrupted by the high-profile dispute between NOMS and two of its largest contractors – G4S and Serco – over millions of pounds worth of fraudulent pay claims made under the electronic monitoring contracts.

Within NOMS, there are three service areas where outsourcing features, or will feature heavily:

- electronic monitoring – electronic monitoring allows the imposition of movement restrictions on offenders and the remote monitoring of curfew compliance. The service has been outsourced since its inception and is commissioned nationally by NOMS.
- private management of prisons – the UK has the most privatised prison system in Europe with one in six prisoners held in privately managed prisons.[44]
- probation supervision - the Ministry of Justice's Transforming Rehabilitation programme includes a major expansion in the outsourcing of offender management. From February 2015 the bulk of the service, which is currently delivered almost entirely by the public sector, will be contracted to external providers.

Market composition

Electronic monitoring and prisons

The market for offender management services is highly concentrated. All prison contracts are held by just three companies, G4S, Serco and Sodexo, and all electronic monitoring is delivered through a single national contract, currently held by Capita.

The market has been disrupted by the dispute between the MoJ, G4S and Serco after both companies admitted overcharging the taxpayer for electronic monitoring contracts. As a result G4S and Serco were temporarily prevented from bidding for any new contracts, which in turn posed problems to the government in its efforts to outsource probation services.

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44 Prison Reform Trust (2013) *Bromley Briefings Prison Factfile Autumn 2013* (London: Prison Reform Trust)

Current expenditure on outsourced offender management services takes place mainly via contracts for electronic monitoring which incurred public spending of £108m in 2012–13, and privately run prisons (£428m in 2012–13).

England and Wales are the biggest users of electronically monitored curfews outside the US. Data for 2011–12 shows that there were around 105,000 new tags, an average caseload of almost 25,000 offenders, and a total cost in that year of £117m[45], around 3 per cent of the entire NOMS budget, which subsequently reduced to £108m in 2012/13.[46]

Spending on privately managed prisons has risen sharply over the past few years as private companies are now managing HMP Birmingham (privatised April 2012), HMP Thameside (opened March 2012) and HMP Oakwood (opened April 2012).

The market in offender management services is dominated by a few large companies. Electronic monitoring is commissioned in a single national block. Currently the contract is held by Capita on an interim basis while new permanent contracts are drawn up. Fourteen of the 130 prisons in England and Wales are currently privately managed. All the private contracts are held by just three suppliers – G4S, Serco and Sodexo.

Private prison management contracts are split into two types – design, construct, manage & finance contracts (DCMF), and maintain and manage. DCMF arrangements contract out both the construction and operation of a prison to a consortium of contractors grouped together in a special purpose company. DCMF contracts typically last 25 years. In maintain and manage contracts, a publicly owned prison site is leased to a private operator who agrees to run the prison and maintain buildings and infrastructure. These contracts are typically for 15 years.

Further expansion of the private management of prisons was put in doubt in November 2012 when it was announced that three of eight proposed privatisations were to be cancelled. The MoJ announcement suggested that bids for these prisons had not produced "a compelling package of reforms for delivering cost reduction, improvements to regimes and a working prisons model."[47]

In the same month, it was also announced that HMP Wolds, which had been run by G4S since 1992 would be returned to the public sector at the end of its contract term in July 2013, following an inspection report which described the

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45 Geoghegan, Rory (2011) *Future of Corrections: Exploring the use of electronic monitoring* (London: Policy Exchange), p11
46 HMI Probation (2012) *It's Complicated: The management of electronically monitored curfews* (London: Criminal Justice Joint Inspection)
47 MoJ (2012) "Next Steps for Prison Competition", *MoJ Press Release*, 9 November, http://bit.ly/1E1qcjk

prison as having "very clear weaknesses."[48] This direction of travel was confirmed when the transfer of three prisons to private management by Serco was cancelled, with management remaining in the public sector.

The November 2012 announcement pointed to a new model oriented towards the outsourcing of some services within prisons rather than the management of whole institutions (although further prison-by-prison outsourcing was not ruled out). In particular the announcement pointed to the potential outsourcing of services such as resettlement (preparing prisoners for release) and maintenance. The total value of this new market is estimated by G4S to be £1bn per year.[49] Precise details of what this new market may look like are elusive, although the contracting out of a range of other services within prisons, including education and healthcare, is well established. In both of these sectors, however, a significant proportion of contracts are held by public bodies.

In the medium term, the length of prison management contracts makes the sector relatively robust. The next set of prison contracts is not due for renewal until 2022 when contracts at HMP Parc and HMP Altcourse will expire. We are unlikely, therefore, to see any significant decline in the private prison market over the next decade.

The MoJ announced the outsourcing of "a range of works, maintenance and facilities management services across public sector prisons"[50] in June 2013, with the successful bidders (multinational companies Amey and Carilion), announced in November 2014. The tendering and bidding process has been criticised by the Prison Officers Association (POA) and others for there being little information available publicly, as well as little opportunity for public scrutiny.[51]

Probation

Probation in England and Wales is now delivered by a regionally-based National Probation Service (NPS), as well as 21 Community Rehabilitation Companies (CRCs), following the government's major restructure of probation services, under the policy 'Transforming Rehabilitation'. Prior to 31 May 2014, probation services were delivered through 35 probation trusts, which were closed down on that date. At Autumn 2014, the CRCs together employed 8,446 staff of whom 84 per cent worked in offenders services, while the NPS

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48 HMCIP (2012) *Report on an Announced Full Follow-up Inspection of HMP Wolds*, April (London, HMCIP)
49 G4S (2012*) Annual Report and Accounts 2012*, p10, http://bit.ly/1wqkC1a
50 MoJ (2014) "Preferred bidders of prison services competition announced", *MoJ press release*, http://bit.ly/1CbaHF1
51 Steve Gillan, POA, cited in TUC (2014) "Preferred bidders announced in hugely delayed, secretive prison services privatisation", *TUC blog post*, http://bit.ly/1D28lF4

employed 8,200 staff, of whom 3,040 were probation officers.[52] At the end of June 2014, caseload across probation services was 217,866 offenders.[53]

Under the government's Transforming Rehabilitation programme, the bulk of probation's rehabilitation and supervision workload is being delivered by the CRCs. The CRCs are responsible for managing the majority of offenders on community or suspended sentence orders, or those who are subject to a supervision requirement following a custodial sentence. Alongside the CRCs, the NPS is providing advice, support and management to offenders judged to present a high risk of harm. The NPS will remain under the management of NOMS.

Prior to the establishment of CRCs, the MoJ estimated in 2011 that the number of offenders with shorter sentences likely to be eligible for supervision by CRCs on their release would constitute around 80 per cent of the total caseload.[54]

Contracting arrangements for the CRCs will be broadly similar to those used in the Work Programme. CRCs will be run by tier one suppliers who will contract directly with the MoJ. They will directly bear the risk of the potential payment by results claw-backs and will be expected to demonstrate access to a high level of capital to assure that they can deliver the service and meet any claw-back requirements.

Below tier one, will be tier two and tier three providers who will form part of the supply chain via sub-contracts for the services under the rehabilitation programme contracts (tier two) or through the award of grant funding arrangements (tier three). This supply chain may potentially include many smaller providers who do not have the capacity or access to capital to act as a prime.

The signing of the CRC contracts has, at the time of writing, recently been completed, with the contracts due to become mobilised on 1 February 2015. The MoJ has published a list of the contract winners.[55] Due to a general lack of transparency and clarity in the tendering and awards process, it has been difficult to ascertain a clear picture of what that market might look like.

In contrast to the announcement by the MoJ that the CRC contracts will be awarded to "a diverse range of public, private and voluntary organisations",

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52 MoJ (2014) *Community Rehabilitation Company (CRC) Workforce Information Summary Report: Quarter 2 2014–15* (London, MoJ), http://bit.ly/15lVcvp; MoJ (2014) National Offender Management Service Workforce Statistics Bulletin (London, MoJ), http://bit.ly/1yD9of6

53 MoJ (2014) *Offender Management Statistics Quarterly: April to June 2014* (London, MoJ), http://bit.ly/1yrD6iq

54 MoJ (2011) *Offender Management Statistics Quarterly Bulletin, September–December 2010* (London: MoJ)

55MoJ (2014) *Transforming Rehabilitation Programme: The new owners of the Community Rehabilitation Companies* (London, MoJ), http://bit.ly/1yYYaUu

large private companies, not staff mutuals or charities typify the list of successful bidders.[56]

Together, multinational companies Sodexo and Interserve (both outsourcing firms with a major presence in the UK justice market), will lead over half of the CRCs, while Ingeus UK, a further multinational, will be leading two CRCs. Only one CRC, Durham Tees Valley, has been awarded to a joint venture in which there is no large private company or multinational (or an organisation with large multinationals as shareholders), as a prominent partner.

The significant scale, complexity and capital requirements of these contracts led the MoJ to encourage potential providers to form consortia to bid for the contracts. Some of the bidders had particular geographic orientations, either because they were based in a former probation trust or because they represent charities with specific local knowledge. The consortia are made up of a mixture of private sector, voluntary and public providers, though as noted, major outsourcing firms are due to lead over half of them. At the time of writing, it is unclear what further specific roles each organisation will carry out.

Performance and impacts

Electronic monitoring

Assessing the performance of the current electronic monitoring providers is complicated by the fact that there is no comparable public sector service.

However, a review of the contracts by the NAO in 2006[57] found some issues with the delivery. A case review identified that only 85 per cent of cases were tagged within the contractual timeframe – midnight on the day that the curfew starts. More seriously, breaches of curfews issued as part of a sentence were only referred to the court within the specified time period (five working days) in 31 per cent of cases.

Overall, the NAO report concluded that that the current contracts represent value for money, offering a 40 per cent saving compared to their predecessors, and a significant saving compared to the cost of custody – £5,300 over the course of a 90 day sentence.[58] In terms of reducing reoffending however, the NAO could find no evidence that electronic monitoring made any difference.

The market for electronic monitoring has been overshadowed by a high profile dispute between the MoJ and its suppliers which are being investigated by the Serious Fraud Office.

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56 Ibid
57 NAO (2006) *The Electronic Monitoring of Adult Offenders* (London: NAO), http://bit.ly/1GHkEg6
58 Ibid, p. 4

Providers were found to have been charging on the basis of orders rather than the number of actual clients, continuing charges after a tag had been removed but where no formal end to the order had been issued, and charging from the first attempted installation of a tag whether or not the installation had taken place. Serco and G4S argued that the charges were within the scope of the contract but conceded they may not have been appropriate. The precise value of the disputed charges is unclear, but they are described as running into 'tens of millions of pounds'.[59]

G4S's initial offer of credit notes to the value of £23.3m to cover the disputed payments was declined but an increased offer of £109m was accepted.[60] Serco's offer of a £68.5m repayment has also been accepted.[61]

The fall-out from the dispute has been extremely disruptive to the MoJ's outsourcing plans. Both Serco and G4S withdrew their bids for the third round of electronic monitoring contracts, which left the other main bidder, Capita, without a serious competitor. Both companies also withdrew their bids for the Transforming Rehabilitation probation contracts. In November 2013 three prison contracts underway with Serco in South Yorkshire were cancelled for 'operational reasons.'[62]

Private prisons

The introduction of outsourcing into prison services has placed competitive pressure on the Prison Service, forcing it to explore cost-cutting measures to secure prison management contracts. The Prison Service has negotiated with the Prison Officers Association to secure more flexible staffing arrangements which has helped secure bids. When the Prison Service regained the contract to manage HMP Blakenhurst, for example, the winning public sector bid was 10 per cent cheaper than the incumbent private sector contractor, and was also ranked first in terms of quality.[63]

Supporters of privatisation suggest that the reduced cost of delivering prison places has been achieved as a result of changes which allow the reduction of staffing levels, such as CCTV and electronic keys, and regime improvements such as increased use of female officers which has led to a less violent prison culture.[64] However, in 2010 the ratio of staff to inmates in private prisons was

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59 NAO (2013) *The Role of Major Contractors in the Delivery of Public Services*, p12.
60 "Security Firm G4S Cleared for Government Contract Bids", *BBC News*, 9 April 2014: http://bbc.in/1E1q3MJ
61 "Serco to Repay £68m for Wrongly Billed Electronic Tagging", *Channel 4 News website*, 19 December 2013: http://bit.ly/18ZrBqp
62 Osborne, A. (2013)"Fears over Contracts as Serco Loses out on £450m Prisons Deal", *The Telegraph*, 22 November, http://bit.ly/1BE8IbW
63 NAO (2003) *The Operational Performance of PFI Prisons* (London, NAO), p.7
64 Sturgess, Gary, L (2012) "The Sources of Benefit in Prison Contracting" in Helyar-Cardwell

1 to 3.78, compared to 1 to 3.03 in the public sector.[65] Critics have argued that this reduces the opportunity for individualised personal attention.[66]

There is also concern that competition over price may have driven down the quality of service. As far back as 2003, the NAO found that competitively priced bids are often priced too low which can make meeting performance and contractual obligations difficult.[67]

There are particular concerns about the standard of provision in private prisons. Private prisons are more likely to be overcrowded than publicly owned prisons and have held a higher percentage of their prisoners in overcrowded accommodation than public sector prisons every year for the past 16 years.[68] Three private prisons, HMP Forest Bank, HMP Birmingham and HMP Altcourse have particularly high rates of overcrowding, with 43.3 per cent, 47.8 per cent, 60.6 per cent and 66.6 per cent of prisoners held in overcrowded accommodation respectively.[69]

Only one private prison, HMP Parc, gained a rating of "exceptional performance" in 2012–13. HMP Oakwood and HMP Thameside, both large, newly opened institutions, were two of the three worst performing prisons in England and Wales, and where "overall performance is of serious concern."

The selection of multinational companies Amey and Carillion in the competition to provide prison services will serve to further concentrate the burgeoning market in prison services into a small amount of large companies. There are further concerns that the bidders have little experience in the criminal justice system. Amey is part of the GEOAmey corporate group, whose contract to deliver prison escort services has been beset with numerous problems, documented by the Howard League for Penal Reform.[70]

Probation

The CRC contracts aim to give maximum flexibility to providers to manage the delivery of supervision and rehabilitation through a 'black box' approach similar to that adopted in the Work Programme. Accountability will be

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(ed.) *Delivering Justice* (Criminal Justice Alliance: London)
65 Hansard (2010) Hansard 15 Sep 2010: Column 1037W (London: HM Govt.), http://bit.ly/1Jhim5c
66 Teague, M, (2012) "Privatising Criminal Justice: A Step Too Far?" in Cardwell, V, (ed) *Delivering Justice: The Role of the Public, Private and Voluntary Sectors in Prisons and Probation* (London, Criminal Justice Alliance), p.43
67 NAO (2003) *The Operational Performance of PFI Prisons*, ibid
68 Prison Reform Trust (2013) *Bromley Briefings Prison Factfile 2014 Autumn 2014* (London: Prison Reform Trust), http://bit.ly/1E1iRhk
69 Ibid
70 Howard League for Penal Reform (2014) *Corporate Crime? A dossier on the failure of privatisation in the criminal justice system* (London, Howard League), http://bit.ly/15ETlNa

through the inclusion of an element of ‘payment by results’ (PbR) in the funding model which is intended to encourage good performance.

Providers will receive a ‘fee for service’ (FFS) based on the number of clients they manage. Providers who manage to reduce reoffending rates will receive an additional PbR bonus, while providers with worsening reoffending rates will have a portion of their fee clawed back.

The value of the FFS portion of the contracts will be determined following providers bidding against a prediction of the number of offenders they will work with, specified as the ‘predicted annual volume range’, weighted for sentence type. The value of the PbR portion of the contracts will be paid based on a binary metric (the reoffending rate), as well as a frequency rate (the frequency of reoffending – per reoffender).[71]

There is an assumption that over the course of the contract, there will be a shift from a FFS to PbR. The contracts will be fully FFS for the first year so that baseline reoffending rates can be set following the potentially disruptive switch to CRCs.

Concerns have been raised about the proposed structure of the PbR system, critics have noted that the primary assessment will be a ‘binary’ measure of reoffending. This refers to whether an offender has or has not reoffended irrespective of the severity of the offence, and/or the number of re-offences. As such, some critics argue that the performance will be assessed and rewarded in an over-simplified way that fails to capture the real value that providers can add through tackling complex and high risk individual cases or through a reduction in the total number of offences committed by their cohort of offenders.

Over-emphasising the binary measure which counts every offender who offends at least once as a failure can distort the incentives on providers. This directs attention to offenders who can most easily be prevented from offending. Using a binary measure discourages work with the most difficult offenders since trying to make sure that they don’t offend at all is likely to be impossible. It also provides no incentive to work with those who have already reoffended, given that they will already have been assessed as a failure to meet contract requirements.

In order to accurately measure the added value that a provider is delivering a ‘statistical uncertainty’ threshold related to the baseline reoffending rate has to be established. This reflects the estimated change to the reoffending rate within a cohort that is likely to occur due to a number of factors that are beyond the control of the provider and therefore cannot be attributed to their performance within the contract. Before any bonus payment can be made or part of the fee

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71 MoJ (2014) *Procurement: Transforming rehabilitation programme payment mechanism. Explanatory note* (London, MoJ), http://bit.ly/1Eooqcb

for service is clawed back, this must be exceeded. The average threshold is 1.7 percentage points but it can be as large as 2.3 percentage points in the smallest areas, which can be a challenging target. Critics have noted that this could discourage investment.

To put that into perspective, the Peterborough social impact bond (SIB) probation services pilot achieved an 8.4 per cent reduction in reoffending (compared with a national control group), and a spend of £1,700 per offender. However, CRCs are likely to have between half and a quarter of these resources per offender to spend on rehabilitation services. The Peterborough SIB was cancelled before it was due to finish as a pilot, and it differed substantially to the CRC model adopted by the government.

Under SIBs the investors carry the risk rather than providers, while the CRC model contains much more private investment than under SIBs. Furthermore, in the Peterborough SIB the participants were all volunteers, which is not the case under current provision. Despite this, the 8.4 per cent reduction in reoffending was below the target which would have triggered payment for the investors under the SIB model. A PbR pilot of a model of probation services similar to the model adopted by the government took place with offenders from HMP Doncaster prison. The interim outcomes prior to its early cancellation detailed a high reoffending rate of 52.2 per cent among short-term offenders, and an increased reoffending rate (compared to a 2009 baseline), among long-term offenders.[72]

Following the division of probation services between the CRCs and NPS in June 2014, trade union Napo launched a Judicial Review against the outsourcing process including the sale of the CRCs. During this process, the MoJ provided documented evidence detailing "significant failures with the new system." At the time of writing, the MoJ has not published the documentation, while Napo note that the probation service is "in utter chaos, with IT systems failing...significant staff shortages and excessive workloads."[73]

Conclusions

This research is set in the context of an escalation in outsourcing in the justice sector in England and Wales. The government plans to privatise 70 per cent of probation work and has proposed the largest-ever prison privatisation programme.

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72 Interim findings of the Peterborough SIB can be found here: Les Huckfield Research (2014) *Note on Peterborough Social Impact Bond Pilot and Transforming Rehabilitation Programme*, http://bit.ly/1zoVxv8. For the MoJ data on both pilots, see MoJ (2014) *Final results for cohorts 1 payment-by-results prison pilots* (London, MoJ), http://bit.ly/1lCUSdT
73 MoJ and Ian Lawrence, cited in TUC (2014) "Probation privatisation contracts signed despite serious safety concerns", *TUC blog post*, http://bit.ly/1DcTOa0

However, this report has shown that the market for offender management is highly concentrated – with three companies managing all private prisons, and only one company holding the contract for electronic tagging.

The outsourcing of offender management has raised concerns about the government's ability to manage large-scale contracts, which is particularly important in view of the risks to public safety. Ensuring that providers meet their contractual obligations is essential to monitoring the delivery of justice and for making sure that taxpayers receive value for money.

Holding providers to account requires transparency, but the G4S and Serco fraud cases demonstrate that this is lacking, and commercial confidentiality creates further barriers to accountability.

Plans to introduce payment-by-results in probation as a mechanism for accountability could discourage providers from working with the most difficult offenders, and encourage a focus on working with those who can most easily be prevented from reoffending.

There are additional concerns that competition over price may drive down service quality – as highlighted by the NAO in relation to prisons. This suggests that cost savings made by privatised prisons could be lost through reduced standards of service provision and higher levels of overcrowding.

Service quality is also likely to be affected by fragmentation following on from the outsourcing of services, which will lead to challenges to deliver an integrated approach to offender management.

TUC

Healthcare

Development of the market

The provision of universal healthcare, free at the point of use, provides the overarching political context in which the commissioning of healthcare from the private sector and voluntary organisations has taken place. Instances of outsourcing within healthcare have increased over the last two decades in an ever changing policy environment, originating in the purchaser-provider split and the introduction of an internal market followed by further developments such as the creation of Foundation Trusts, Independent Sector Treatment Centres (ISTCs) and an increasing focus on patient choice.

More recently the current government has initiated a major restructuring of the landscape of healthcare provision, through the Health and Social Care Act 2012, with the creation of Clinical Commissioning Groups (CCGs), NHS England and the use of increased competition amongst providers through Any Qualified Provider and the increased tendering of services..

These changes have removed the Department of Health from direct control of healthcare provision through the NHS and removed 'preferred providers' status of NHS organisations. These recent changes have created more favourable conditions for private and voluntary sector providers and it is likely that outsourcing within healthcare provision will increase as a result.

Outsourcing within healthcare, however, currently accounts for a relatively small proportion of provision, with public sector (NHS) organisations accounting for just over 90 per cent of provision. The vast majority of outsourced healthcare is found in secondary rather than primary care, services such as treatment centres, diagnostics and hospital care.

Within the outsourced provision, focussing on secondary care, public spending on non-NHS providers has increased by around 75 per cent in the last five years, with private sector providers making up the vast majority of this increase. Third sector organisations are not a significant feature within the outsourced healthcare market.

There is evidence to suggest that outsourcing may have increased more dramatically in the last two years, however, no amalgamated data is available to accurately measure the increase at present. Healthcare consultancies have reported almost £6bn of contracts offered to private sector firms in 2014, a 14 per cent increase since 2013.[74] Others point to an increase in mergers and acquisitions and the entrance into the market of large US healthcare providers and real estate investment trusts as evidence of expanding opportunities for profit.

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74 Plimmer, G., and Neville, S. (2014) "£5.8bn of NHS Work Being Advertised to Private Sector", 29 July, *Financial Times*, http://on.ft.com/1COEnVi

The origins of the current economic landscape for healthcare provision in England- whereby a universal publically funded system is delivered by a mixture of public, private and voluntary organisations – can be traced back to the NHS and Community Care Act 1990 brought in by the then Conservative Government which began a period of 'marketisation'.

Reforms can be thought to have happened in three waves. First was the Conservatives' policies to promote competition between suppliers of secondary care (largely hospital care) – the so-called internal market of the 1990s. Second were the Labour government's reforms of the 2000s, initially framed around modernisation not marketisation, but ultimately aimed at increasing competition. The third major shake-up of the system has happened recently, with the current government's Health and Social Care Act 2012. This Act has dramatically changed the system, reorganising purchasers and increasing competition amongst providers through AQP and the tendering of care services.

In understanding Labour's reforms particularly the policies which increased competition between providers, a critical factor is that they occurred in a context of record real-terms NHS financial growth. Labour's spending on the NHS increased with an annualised average real increase of 6.3 per cent between 1997 and March 2008.[75] This was a substantially higher rate of growth than at any other time as shown in the chart below. It meant that providers were essentially competing with each other for a portion of an increasing pie.

Since the current government came into power this situation has reversed. NHS funding declined in real terms in 2010–11 before increasing slightly in 2011–12. However, on this basis, it still remains below the level of 2009–10[76], meaning that any growth on the part of an individual provider will more likely be at the expense of another provider, as the total pie is shrinking. This will likely have a significant impact on the future of the NHS market, where increased competition will more likely result in greater financial instability amongst providers resulting in a more fragmented system of provision.

The current government's term in office has seen a major restructuring of the NHS system through the Health and Social Care Act 2012.

The key market-based changes brought about by the legislation included:

- removing the Secretary of State's responsibility to ensure universal healthcare coverage
- the abolition of Strategic Health Authorities and Primary Care Trusts and

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75 Crawford, R., Emmerson, C., and Tetlow, G. (2009) *A Survey of Public Spending in the UK: IFS briefing note BN43* (London: Institute for Fiscal Studies), http://bit.ly/1dj5eim
76 NHS Confederation (2013) *Tough Times, Tough Choices: An overview of NHS finances – factsheet* (London, NHS Confederation), http://bit.ly/1yHtync

TUC

the transfer of the majority of the NHS budget and commissioning responsibilities to consortia of GPs through Clinical Commissioning Groups

- the expansion of the remit of Monitor, with specific responsibilities as an economic regulator for prevention of 'anti-competitive' practices
- the establishment of a legal framework geared towards increasing competition between private health companies and other providers to deliver health care under the NHS logo, firmed up through the regulations passed in April 2013 under Section 75 of the Act
- the requirement of all NHS Trusts to become Foundation Trusts
- allowing Foundation Trusts to raise up to half their income from non-NHS sources, including through the treatment and charging of private patients.

Although often portrayed as more of a consolidation or continuation of Labour's reforms, the Act achieved a step-change in the marketisation of the NHS through establishing a duty on Monitor to prevent anti-competitive practices and the requirement placed on CCGs through the Section 75 regulations that require CCGs to open up services to tender, unless subject to one of three forms of exemption as advised by Monitor.[77]

NHS England has a budget of £95.6bn of which £65.6bn has been allocated to local health commissioners: that is, Clinical Commissioning Groups CCGs of which there are currently 211 in England taking over from Primary Health Trusts, although this number is prone to change as CCGs begin to merge[78] Clearly, CCGs will have the prime commissioning responsibility, worth 69 per cent of the total budget, followed by NHS England's commissioning of specialised healthcare, with a budget of £25.4bn, the latter making up 26.5 per cent of the total NHS allocation.

The various different commissioning that will occur will therefore be by:

- CCGs – planned hospital care, urgent and emergency care, rehabilitation care, community health services, mental health and learning disability services
- NHS England - primary care (including GP, opticians, dentists, and pharmacies), highly specialised services on a regional basis and prison and military healthcare
- local authorities - health improvement services, physical activity, sexual health, children, alcohol, tobacco, obesity
- Public Health England – advice on health promotion programmes and commissioning some services, such as screening services.

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77 NHS Support Federation, *Section 75 Regulations*, http://bit.ly/1COEe40
78 NHS England (2013) *NHS Allocations for 2013–14*, http://bit.ly/158Lz31

Overall, NHS spending on healthcare provided by non-NHS providers increased from £4.9bn in 2006–07 to £10bn in 2013–14 – an increase of around 73 per cent. Over the same period, total NHS spending increased by per cent from £78.9bn to £111.4bn. This means that NHS spending on non-NHS providers grew over twice as fast as overall spending. As such, the proportion of the NHS budget spent on healthcare provided by non-NHS providers rose from around six per cent to nine per cent[79].

The impact of the current government's reforms is still emerging but the escalation of outsourcing is apparent. £13bn worth of contracts to run or manage clinically related NHS services have been advertised in the 12 months since the competition regulations (section 75) were passed by parliament in April 2013. This is more than three times the value of the previous year. Four hundred and ninety-two clinical contract opportunities have been advertised over the last year and there has been a 30 per cent rise in adverts inviting bids from the private sector and charities. Sixty-eight per cent of the contracts that have been awarded (80) since April 2013 have gone to commercial companies.[80]

In terms of service types, outsourcing is increasing fastest in diagnostics (16 per cent), mental health (eight per cent), domiciliary care (eight per cent) and pharmacy (six per cent). [81] This is also the case in community services, research from the Nuffield Trust shows that "one pound in every five spent by commissioners on community health services in 2012/13 was spent on care provided by independent sector providers, an increase of 34 per cent in one year alone."[82] Among the range of services being put out tender, there are some significant long term contracts on offer.

More recently, a number of CCGs are moving to consolidate a range of contracts into a prime provider model, where a lead provider will assume clinical and financial responsibility of an entire care pathway.

Bedfordshire CCG is in the process of finalizing a £120m contract with Circle to manage its musculoskeletal programme. While in Staffordshire, it has recently been announced that a 10 year contract worth £1.2bn will be put out to tender by a group of four CCGs for the management of a Transforming Cancer and End of Life Care programme, the largest NHS outsourcing project to date.

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79 2006–07 figures taken from Nuffield Trust analysis and DH annual accounts 2006–07, 2013–14 figures taken from DH annual accounts (CPI Health annual rates from Office for National Statistics (ONS) used to compare real changes in prices).
80 NHS Support Federation, *Contract Alert Report (April - 2013–14)*, http://bit.ly/1ulPv73
81 NHS Support Federation, *Contract Alert, April – August 2013*, http://bit.ly/1xxjWbQ
82 Nuffield Trust (2014) "Sharp Increase in Non-NHS Provision of Community and Mental Health Services, whilst Private Provision in Hospital Care Slows", *Nuffield Trust press release*, http://bit.ly/1L01Ulj

East Staffordshire CCG has also short-listed two private providers, Virgin and Optum part of United Health, to run a £280m contract for the Improving Lives programme, which provides support to 6,000 older people suffering from long-term conditions such as diabetes and heart disease. While in Yorkshire, the Greater Huddersfield and North Kirklees CCGs in Yorkshire have put out to tender a £285m prime provider contract for community beds, specialist community nursing, community therapy, podiatry and early supported discharge services.

The new prime contractor procurements seen in Bedfordshire, Yorkshire and Staffordshire, among others, represent an important development in that the management of entire care pathways could now be outsourced to large private providers According to details published by the Staffordshire CCGs, the prime provider will "manage all the services along existing cancer care pathways" for the first two years after which "the provider will assume responsibility for the provision of cancer care, in expectation of streamlining the service model."[83] Private providers could now be in a position of not just providing individual services, but designing whole systems. Introducing the profit motive into the design and delivery of entire care pathways could have significant repercussions for those involved in the supply chain and, with contracts of ten years, those that are excluded of course.

Market composition

Publicly funded healthcare provision continues to be dominated by NHS (public sector) organisations. In secondary care hospitals and treatment centres run by NHS Trusts and Foundation Trusts continue to dominate the market, although there has been some growth in the market share of private sector providers.

Voluntary sector organisations appear to have fared less well and are likely to make up a small amount of the healthcare market. This may be due to the high costs and high inflationary pressures which are particularly applicable to healthcare provision.

When looking at primary care the majority of independent providers are private sector companies some of which are publicly listed. Many private companies describe themselves as 'GP-led' essentially claiming to apply local knowledge and local efficiencies to win commissioning contracts from larger organisations. While this may have been true, efforts to expand in a growing NHS-funded market have led these companies away from a GP-led structure.

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83 Campbell, D. (2014) "NHS Cancer Care Could Switch to Private Contracts in £700m plans", *The Guardian*, 2 July, http://bit.ly/1z8Blpa

Some larger public companies have moved into the primary healthcare market, companies that on the whole have experience in residential care and/or treatment centres. These include both publically listed companies such as Nestor Primecare (part of Acromas Healthcare), and Atos Healthcare (part of the Atos Group, the French IT and outsourcing firm that recently won the £1.6bn tender to provide Work Capability Assessments (WCA) from the Department for Work and Pensions (DWP)). The larger private companies in primary Healthcare include Care UK, Bondcare Medical Services and Assura, a property development company with an interest in pharmacies.

In 2013 Assura, renamed Virgin Care following the acquisition of a majority stake by the Virgin Group in March 2010, had a property and investment portfolio of 162 medical centres. Their business model is based primarily on securing rents on these properties – 67 per cent of which is being reimbursed by the NHS for GP practices and 22 per cent is being paid for directly by the NHS.[84]

Care UK owns over a dozen GP clinics, 11 NHS Treatment Centres, covering a variety of specialty areas, including orthopaedics, endoscopy, urology, gynaecology, ophthalmology, general surgery and diagnostic imaging, as well as four Clinical Assessment and Treatment Service (CATS) facilities covering a growing number of specialties, including urology, ENT, gynaecology, dermatology, neurology musculoskeletal and general surgery.[85]

In 2011, Allied Healthcare and Nestor Healthcare became part of parent company Acromas Healthcare, the company made revenues of £2,248.8m in 2013 and an operating profit of £547.9m. By the company's own definition of business area, care accounted for 334.5m of their turnover in 1st January 2013 and made an operating profit of £18.4m for the company.[86]

A thorough analysis of the market for outsourced healthcare is extremely difficult. Although NHS England provide an online list of all providers who have qualified to provide services on behalf of the NHS (the AQP directory),[87] the database holds no amalgamated information on the contracts which have been won, in terms of their value, size, length and who the winning providers are.

As such, assessing who exactly are the major providers in this rapidly changing market for outsourced healthcare is a difficult, if not impossible, task. This raises serious concerns about transparency and accountability as it is near

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84 Assura Group Limited (2012) *Annual Report and Accounts 2012* (Warrington: Assura), http://bit.ly/1woCABe

85 See "NHS Healthcare Services", *CareUK's Website*, http://bit.ly/1yHuMAb

86 Acromas Holdings Ltd (2013) *Annual Report and Financial Statements* (Acromas Holdings Ltd), http://bit.ly/1BE8emb

87 NHS England, *Any Qualified Provider Directory*, http://bit.ly/1yHuLfE

impossible to see where public money is being spent within the NHS due to the recent growth in outsourcing.

Partial evidence points to the fact that the outsourced market is rapidly changing and may have already grown substantially.

Clearwater, the independent corporate finance house, stated in 2012 that the outlook for the "Alternative Provider Medical Services (APMS)" market is "optimistic", and that "in primary care independent involvement will increase over time as AQP and CCG come on line".[88] This is borne out by recent announcement that all new GP contracts will be commissioned through time limited APMS contracts.[89] In 2013 they noted "it is little wonder that more investors are eyeing up the sizeable opportunities", with specific market developments, such as American Real Estate Investment Trusts (REITs) moving into the UK healthcare market.[90]

They also note a dramatic rise in rise in mergers and acquisitions within health and social care, 83 in 2012, 97 in 2011 and 56 in 2010, suggesting that providers may be looking to secure market strength in response to new opportunities.[91] They also point to deals which suggest the market to be developing in a new direction with a notable deal seeing Care UK and the Sussex Partnership NHS Foundation Trust form a joint venture company, Recovery and Rehabilitation Partnership Ltd.[92]

Also noticeable is that there are signs that private equity firms may be deploying 'buy and build'[93] strategies which have to date only been seen in residential care rather than healthcare specifically.[94] Research from Bain has estimated that at present around 160 large-scale NHS contracts worth £5bn are being advertised to private sector bidders. Christian Mazzi, head of health at consulting firm Bain, describes what is happening currently as "an arms race" as "whoever can prove first that they are effective in working with the public sector and creating value will be best positioned to become future leaders,"[95]

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88 Clearwater (2012) *UK Health and Social Care* (Clearwater)
89 Matthews-King, A. (2014) "Revealed: All new GP contracts will be thrown open to private providers", *Pulse*, 18 August, http://bit.ly/1rsBYJe
90 Clearwater (2013) UK Health and Social Care (Clearwater)
91 Ibid
92 Ibid
93 'Buy and Build' strategies are when a private equity group buys a company with a strong track record and reputation, then makes further acquisitions, expanding the company, before then selling it on. These strategies have been common place in residential care, a notorious example being that of equity group Blackstones' investment in Southern Cross.
94 Ibid
95 Plimmer, G., "Arms race over £5bn in NHS work", *Financial Times*, 29 July 2013 http://on.ft.com/15tonwG

Performance and impacts

The combination of the current government reforms means the NHS will function differently to the way it has in the past. The government's stated motivation for these changes was to reduce top-down targets, ensuring that healthcare is commissioned and delivered based on the needs and wants of patients and health professionals, rather than politicians and bureaucrats. In the Department of Health's 2010 White Paper Liberating the NHS, which laid out these plans the stated aims were for "Healthcare [to] be run from the bottom up, with ownership and decision-making in the hands of professionals and patients."[96] Similarly the emphasis on promoting competition has the goal of encouraging innovation and improvements in both cost and quality.

While the full impact of the reforms initiated through the 2012 Act have yet to be seen, is it is very likely that outsourcing of healthcare - the provision of publically funded healthcare by independent organisations, will increase.

There are a number of concerns and questions which have been raised about how the new system will operate, many of which are directly related to outsourcing. These include:

Encouraging NHS Trusts to become Foundation Trusts too quickly and putting too much weight on financial targets rather than health targets.

When asked how patient care had been affected by recent financial pressures, 42 per cent of NHS leaders said that the patient experience of care had worsened, with only 34 per cent saying that it had not been affected. Analysis of the 17 foundation trusts with the highest financial risk ratings showed that 41 per cent had at least one Care Quality Commission (CQC) standard breach outstanding, compared to just 26 per cent of the 50 foundation trusts with the lowest financial risk ratings.[97]

Fragmentation of the system could increase overall costs of health care rather than reduce them.

Through the tendering of services and AQP new organisations from the private and voluntary sectors are being encouraged to enter the provider market. The increase in competition will in theory induce greater cost and quality improvements. However, for contracts to be attractive to bidders the risks and rewards on offer would need to be clearly defined beforehand. This is likely to

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96 DH (2010) *Equity and Excellence: Liberating the NHS* (London: The Stationary Office), http://bit.ly/1ulPmAy

97 Analysis of the following reports: Monitor (2012) *FT Directory* (London: Monitor); Care Quality Commission (2012) CQC Checks (London, CQC). Cited in NHS Confederation (2013) *Tough Times, Tough Choices: Being open and honest about NHS finance* (London: NHS Confederation), http://bit.ly/1yY5AXR

mean the majority of contracts will be for the more routine treatments, as economies of scale and specialisation would make such treatments lucrative if packaged in bulk via commissioning contracts.

However, this raises questions over how the more complicated treatments will be dealt with and whether the specialisation mentioned could in fact result in more complex patients being bypassed or their patient records not being shared efficiently between different organisations with the costs of their treatments rising as a result.

The private sector has already demonstrated what can occur when it enters into more complicated and ultimately more uncertain contracts, Serco's recent mismanagement of their out-of hours GP service in Cornwall a case in point.

There are also likely to be significant transaction costs associated with managing the market and the procurement process. The lack of transparency makes it hard to quantify this and it is unlikely that any one organisation will be in a position to ascertain the full tendering, contract management, legal and administration costs collectively attributed to all those involved in the tendering process, both commissioners and bidders.

The Centre for Health and for Public Interest have made a conservative estimate of the full cost of the tendering process to be £4.5bn a year, while a recent estimate by Liberal Democrat MPs put the figure to be as high as £30bn a year. Doctors and campaigners involved in the National Health Action Party have estimated the cost of tendering to be £10bn a year.[98] In 2010 the Health Select Committee found that running the NHS as a 'market' cost the NHS 14 per cent of its budget each year, yet Professor Colin Leys noted that these figures do not take into account market reforms in recent years, which, if included, would raise the figure higher still.[99]

AQP also represents a significant risk of inefficiency and over-capacity as some services may lay idle while waiting for services to be allocated their way. This poses particular problems for workforce and service planning and also investment decisions. Organisations without access to capital markets and cash flow may find it particularly difficult to remain in the market and service providers, including NHS providers, could face unsustainable financial positions and closure as a result.

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98 The £30bn figure was contained in a report by the Liberal Democrats' public services working group, cited in Molloy, C. (2014) "The Billions of Wasted NHS Cash No-One Wants to Mention", Open Democracy, 10 October, http://bit.ly/1srbBse; For the £10bn figure, see Davis, J. (2014) "There's no financial, ethical or clinical justification for NHS charges", *The Guardian*, 4 April. For the £4.5bn figure, see Paton, C. (2014) *At What Cost? Paying the price for the market in the English NHS* (London, Centre for Health and for Public Interest), p. 3, http://bit.ly/1D90Goq
99 Professor Colin Leys, cited in Molloy, C. (2014) "The Billions of Wasted NHS Cash No-One Wants to Mention", Open Democracy.

Will the independent monitoring provided by the economic regulator Monitor be appropriate?

Monitor will regulate the market and ensure no uncompetitive behaviour works to the detriment of patients. However, if the same firms begin winning healthcare contracts across the country, utilising economies of scale, how much relative power will this regulator hold? Will firms be able to yield greater power in contract negotiations to the detriment of costs or quality or both?

Furthermore, Monitor will ensure the continuity of services when a provider fails. Combining this mandate with an anticompetitive market regulator function throws up all sorts of problems and a potential conflict of interest.

There are also questions to be asked about how Monitor will balance its duty to support integration of services and to ensure that competition and choice work in the best interests of patients, while preventing anti-competitive practices. It is envisaged that Monitor will come under increasing pressure to support marketisation and competition, as it was set up to do, and to balance the interests of patients that may best be delivered through greater integration and collaboration between providers.

Will CCGs not only have the funding but also the capacity and skills to conduct effective commissioning?

Few GPs signed up to voluntary commissioning when it was available in the past, as often presenting the business-case for using a particular provider to PCTs was burdensome on their time. Management levels existed at the PCT and Strategic Health Authority (SHA) levels in order that clinically trained doctors could spend their time with patients rather than drawing up contracts.

Each CCG has been given an allowance of £25 per head to spend on management. They can spend this themselves or can use it to outsource parts or all of their commissioning work to Commissioning Support Units (CSUs). CSUs are regional bodies currently subsidised by the NHS although they are expected to become self-sufficient profit-making businesses or form joint ventures with the public or private sectors by 2016.

Quoted in the Financial Times, Bob Ricketts, director of commissioning support strategy at NHS England, said there was a “lot of interest from commercial providers” in CSUs. It seems that the commissioning expected of CCGs may be outsourced to CSUs. It is not unreasonable to assume that the more links in the outsourcing chain the more money escapes on its route towards patients and frontline healthcare.

Furthermore, the performance of commissioning in terms of stringencies attached to contracts to private providers could then lie with independent profit-making CSUs. It is therefore possible to imagine large amounts of NHS funding being spent without much NHS oversight at all. Commenting on total

outsourcing to a CSU one member of a CCG admitted, "I hope our confidence is not misplaced. But there's a huge risk around this."[100]

There also remain questions about what might happen to CSUs beyond 2016 when CCGs are no longer required to use them and are able to seek alternative commissioning support from elsewhere, including alternative private providers.

Will sufficient resources exist for managing, monitoring and designing contracts?

One aim for the NHS reorganisation was to reduce the overall management costs, thought to be in the region of 14 per cent of the NHS budget, in order that a greater part of the budget can be spent on frontline delivery.[101] It is thought this aim will be realised through abolishing the SHAs and PCTs and ensuring funding goes straight to those who know most about local needs, the CCGs.

However, the dispersion of funds over ever greater number of individual contracts raises the question of whether the money that previously went to ensuring oversight of large regions and large commissioning, predominantly to NHS Trust contracts, will be available for the monitoring of all the new individual contracts commissioned by the CCGs. New Health and Wellbeing boards will be able to challenge commissioning decisions in so far as they impact on public health needs set out in the Joint Strategic Needs Assessment but their relationship with, and the information on contracts shared, between them and CCGs remains unclear.

Who will monitor the monitor?

A significant change to the Health and Social Care Act 2012 is to remove the DH from direct oversight of the NHS. This will instead be done by NHS England, a new independent body from the government. This is thought to remove any interference from government in the market, however it raises questions over who is therefore accountable to providing universal healthcare.

The Duty to Care set out in the 1946 Health and Social Care Act which found the NHS has been heavily watered down by the 2012 Act. Although political imperatives such as a growing A&E crisis may well lead to the Secretary of State maintaining a hands-on role with many hospital trusts, as is the case currently.

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100 Naylor, C. et. al, (2013) *Clinical Commissioning: Supporting improvement in general practice* (London: King's Fund and Nuffield Trust), p. 18, http://bit.ly/158L34Y
101 Health Committee (2010) *Commissioning 1948–2010* (London: House of Commons), http://bit.ly/1sXTICu

Will information on the quality of care be sufficient and will information sharing between different, perhaps even competing, providers exist?

With a multitude of different, and perhaps directly competing, providers questions could be raised over how the sharing of information and accountability involved in treating patients will occur. Complex conditions require coordination between providers rather than competition. Similarly with patients visiting different providers for different aspects of their care, the accountability of their care becomes split between organisations, which could result in a downward pressure on quality and patient experience.

The introduction of HealthWatch to promote information on quality and act as an 'independent consumer champion for health and social care', is in theory supposed to prevent the problems outlined above, but it is as yet unclear how they will operate in practice.

Healthcare – conclusions

Outsourcing to private providers within the NHS has increased dramatically in recent years, with private companies by far the main recipients of contracts. The increase has led to serious concerns about fragmentation, transparency and accountability as well as service quality.

Although the inclusion of non-public providers within the NHS began with the Conservative government's reforms in the 1990s, the proportion of spending by the NHS on private sector providers has increased dramatically over recent years, while spending on voluntary and local authority providers has increased by far less.

While publicly funded healthcare is still dominated by public sector providers, several factors stemming from reforms by the current government largely under the Health and Social Care Act 2010 are very likely to further increase the role of private providers. These factors are:

- the end of real term funding increases to the NHS
- an ambition to achieve two to three per cent efficiency gains per year over the next decade[102]
- an emphasis on increased competition in the commissioning process.

There is a large-scale and worryingly rapid pace of change in the NHS, with evidence illustrating the rising number of mergers and acquisitions among private providers, the growing role of private equity firms adopting 'buy and build' strategies, and the so-called 'arms race' among providers to become 'future leaders' in healthcare.

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102 NHS England (2014) *Five Year Forward View* (London, NHS England), p. 36

There are a number of key concerns about the extent and nature of outsourcing, even that the commissioning of healthcare itself is very likely to be outsourced. The concerns point to the increasing fragmentation of healthcare services and the likely increase in costs, with initial evidence pointing to the detrimental impact of financial pressures on service quality.

There are also serious concerns over the growing lack of accountability and transparency as outsourcing increases. There is insufficient information available from NHS England on providers of healthcare, the DH is no longer to provide direct oversight of the NHS and the ability of HealthWatch to call providers to account is unclear.

Local government

Development of the market

Outsourcing of public services has its origins within local government, where beginning with Compulsory Competitive Tendering, local authorities have been encouraged to commission private and voluntary sector organisations to provide services on their behalf in an ever-expanding range of areas.

Given the diverse range of services in question it is difficult to describe outsourcing by local government as occurring within a single market. The NAO reports that in 2012 local government spent £84bn on goods and services, accounting for just under half of all government expenditure of £187bn on goods and services[103]. Of this, our estimates indicate that local authorities in England spent around £28bn on services provided by external contractors[104].

Looking across different public services over the last five years, outsourcing has appeared to increase most dramatically in central services ('back office' functions), while social care remains the sector in which outsourcing has consistently been most utilised, both in terms of the amount of public expenditure and as a percentage of total spending within a distinct service area.

The models of outsourcing pursued by local authorities have evolved overtime from service agreements for specific services to longer-term Strategic Service Partnerships (SSPs), whereby private sector providers and local authorities form joint venture companies to provide a range of services, typically back office administrative functions but also, more recently, frontline services as well. Increasingly multiple services are bundled into single SSPs.

Another evolution has seen councils sharing services which provide opportunities for independent providers across local authority boundaries.

Providers have also found opportunities to develop outsourcing from horizontal provision, whereby a provider may provide a service across different local authorities, to vertical provision, whereby providers are able to offer multiple services within a local authority.

Analysis of the Local Government Financial Statistics England in 2012–13, shows that that spending by all English local authorities on external contractors has increased by 18 per cent in the last five years. Although decreasing slightly in 2010–11 there has been a steady increase in the

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103 NAO (2013) *The Role of Major Contractors in the Delivery of Public Services*
104 Subjective Analysis Return data from DCLG (2012) *Local Government Financial Statistics England No.22 2012* (London, Stationary Office), http://bit.ly/1EBl4jw

proportion of procured services purchased from external contractors, increasing from around 43 per cent in 2007–08 to 48 per cent in 2011–12.

Within each sector the extent of outsourcing, or at least payments to private contractors and other agencies[105], varies considerably. The sector which relies most heavily on payments to external parties is social care[106] at 64 per cent, which is unsurprising given the extent to which home and residential care are provided by private sector firms. Environmental and regulatory services is the sector with the second biggest proportion of expenditure paid to external contractors, at 44 per cent; the outsourcing of refuse collection and street maintenance services are likely to be areas where outsourcing is high, within environmental and regulatory services.[107]

Outsourcing is likely to have grown in nearly every sector but most prominently in central services, which includes ‘back office’ functions, such as tax and benefit collection and processing, ICT and payroll functions and other administrative tasks, such as, registration of births deaths and marriages, elections, emergency planning, local land charges, democratic representation and corporate management.

The outsourcing models pursued by local government authorities have developed in both size and scope over time. The initial, and still most common, model of outsourcing is that of a service agreement. Service agreements exist when a local authority signs a contract with a private or voluntary sector provider to deliver a specific service on the authority’s behalf, refuse collection or the provision of residential care are examples of this type.

In the mid-2000s a more sophisticated model of outsourcing developed whereby a local council and a private sector firm would establish a Joint Venture Company (JVC). One example of a JVC is Service Birmingham, a company two-thirds owned by Capita and one third by Birmingham council, established in 2006. Such new legal entities run specific council processes, often ICT functions and contact centres for enquiries, and share in the efficiency savings which result. The specific shares of the revenues which result, or liabilities should efficiencies fail to materialise, from such agreements are unknown due to ‘commercial confidentiality’.

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105 Outsourcing here has been estimated by amalgamating the three categories ‘Private Contractors and Other Agencies - Professional Services’, ‘Private Contractors and Other Agencies - Agency Staff’ and ‘Private Contractors and Other Agencies - Other’, which are lines 58-58 in the SARs.

106 The broad sector definition of social care includes children’s and families’ services, youth justice, services for older people, services for people with a physical or mental disability, asylum seekers and supported employment, followed by environmental and regulatory services.

107 The broad sector definition of environmental and regulatory services includes cemetery and mortuary services, community safety, environmental health, agricultural and fisheries services, waste collection and disposal and street cleaning.

A third type of outsourcing model is that known as a shared service. This is when a local authority looks to outsource, typically ‘back office’ functions, to companies that already provide these services on a large scale across business and councils. These arrangements often see ‘back office’ processes such as payroll, contact centres and ICT functions, operate out of business centres and, generally speaking, operate at lower costs due to economies of scale. Here a call centre, for example, whether based within a local council or not, may provide services for both a local council as well as other businesses from the same location.

The pooling of services between councils has also led to instances of large-scale ‘collaborative outsourcing’.[108] The most prominent example is the proposed merger between Hammersmith and Fulham, Westminster, Kensington and Chelsea councils. Here not only ‘back office’ functions are shared but also large-scale outsourcing deals for environmental services, family services and corporate services are being considered.[109] Both shared service contracts, when outsourced, and JVC agreements are often more broadly termed Strategic Service Partnerships (SSPs).

Recently Barnet Council and Capita have arguably created a further model of outsourcing on an unprecedented scale through the establishment of the joint venture, One Barnet. In 2012 Barnet signed two 10-year contracts with Capita together worth roughly £1bn over the period. The first contract is effectively a shared service contract whereby capita will provide "customer and support services" to Barnet, essentially back office functions such as payroll, human resources, estate management, IT services and revenue and benefits administration.[110] The second contract is more along the lines of a JVC and will involve more visual frontline services including environmental health, trading standards, licensing and strategic planning. This arrangement represents a possible step-change in the size and scope of local government outsourcing.

The 2010 budget saw the current government introduce significant cuts to the public sector in the wake of the financial crisis. The burden of these austerity policies fell disproportionately on local authorities, who have seen their budgets dramatically scaled back, with a 37 per cent planned decrease between 2010–11 and 2015–16.[111]

These latest cuts to their budgets, although on a different scale than to what has come before, are a continuation of a focus on cost cutting within local

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108 Sandford, M. (2014) *Local Government: Shared services, outsourcing, unitary authorities* (London: House of Commons Library), http://bit.ly/1ulPjEO
109 “Pickles backs plan to merge Tory councils”, 22 October 2010, *BBC News*, http://bbc.in/182LY9b
110 See Fearn, H. (2013) “The One Barnet Campaign Shows Local Democracy is Alive and Well”, 9 August, *The Guardian*, http://bit.ly/1cgg9d4
111 NAO (2014) *The financial sustainability of local authorities* (London, NAO)

government that has been evident throughout the 2000s. This has occurred alongside increases in demand for local public services, most notably social care, as the baby boomer generation reaches old age.

Such pressure to deliver services with less money does not necessarily lead to increases in instances as well as the likeliness of outsourcing by local councils. However, it is the cost savings offered by private sector firms which have frequently been cited by local authorities as the rationale to outsource parts of their back office and frontline service delivery.

A Business Services Association briefing note (2013) claims that the majority of local authorities, (82 per cent), see outsourcing as crucial to meeting their coming savings challenges.[112] While in a report from Interserve, 70 per cent of respondents to their survey, who currently use outsourcing providers, report outsourcing as having an important role to play in meeting budgetary challenges and maintaining service levels, with 63 per cent of councils perceiving outsourcing to be critical in this respect.[113]

However, counterfactual evidence can also be given to show that trends towards outsourcing due to budget cuts, although certainly evident, may be overstated. The Association for Public Service Excellence (APSE) report that cost pressures may not only not lead to greater outsourcing but may, in fact, have the opposite effect. APSE's report (2011) emphasises that many local government authorities have responded to a squeeze on their resources through bringing outsourced services back in-house. They survey a number of local authorities and find that out of 140 respondents, 57 per cent had either brought a service back in-house, were in the process of insourcing or were considering doing so. Improving efficiency and reducing service costs were the most frequently cited reasons for insourcing with almost 60 per cent of respondents reporting that this was the key reason, followed by a need to improve service quality (44 per cent).[114]

A 2012 poll of 73 council chief executives conducted by Localis and Capita Symonds shows that in response to the question "Are there any local authority services that you think would have to remain in-house under any circumstance?" only 38 per cent responded that none have to be, while 44 per cent thought planning, 33 per cent thought children's services and 32 per cent thought licensing, could not be outsourced under any circumstances.[115]

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112 The Business Association (2013) "When Life Hands You a Lemon, Make a Lemonade": Turning austerity into opportunity in local government", March, *Briefing Note No. VI*, http://bit.ly/1yHuFou

113 Interserve, *Public Services and the Future of Outsourcing*, http://bit.ly/1CAfsUY

114 APSE for UNISON (2011*) Insourcing Ipdate: The value of returning local authority services in-house in an era of budget constraints* (London, UNISON), http://bit.ly/158KFDB

115 Crowe, D. (2012) *Catalyst Councils: A new future for local public service delivery* (Localis & Capita Symonds)

Such disparities between the approach to outsourcing taken by different local authorities shows that, although instances of outsourcing within local government have increased over the last 20 years or so, no overall tendency to outsource exists across the board. Outsourcing within local government continues to occur on a case-by-case basis. This may be because there is little evidence on which to accurately judge whether outsourcing is an appropriate strategy for a local authority to take.

Market composition

Market concentration within local government outsourcing is difficult to assess, precisely because of the difficulties in describing all the various services which local government provide, and could potentially outsource, as existing within a single market.

For example, the market for refuse collection is very different to that of 'back office' functions and where market concentration may exist in one it may not exist in the other. Similarly the associated problems with high levels of market concentration, such as monopoly power, more often than not do not translate across service "markets".

The types of providers which exist within local government are diverse and differ across the various services provided. Within social care (the largest 'market' of local government outsourcing), a plethora of providers exists, spanning both private and voluntary sector providers. Within the 'market' for ICT and 'back office' functions, on the other hand, the vast majority of providers are private sector firms, the only exceptions being JVC where councils and private firms form joint entities.

It is difficult to pool all the information related to local government contracts into one place, given the scale and diversity of outsourcing agreements originating from a considerable number of the 326 English local authorities which exist. However, The European Services Strategy Unit compiles a database of SSPs in England.

The 2012–13 database recorded 65 SSPs signed between 1998 and 2013 with a total contract value of £14.4bn. Of these, 47 were for 'ICT and corporate services', seven were for 'planning services', five were for 'education support services', three were for 'police support services', two were for 'fire & rescue support services' and one was for 'property services'.[116]

A look at market share according to the percentage value of contracts out of the total value and the percentage share of staff employed within all of the contracts reveals that market concentration, within SSPs at least, is

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116 Whitfield, D. (2014) *UK Outsourcing Expands Despite High Failure Rates – PPP Database: Strategic Partnerships 2012-2013* (European Services Strategy Unit), http://bit.ly/158KAzU

considerable. Three companies – Capita, BT and Mouchel dominate, with a 58.9 per cent market share by contract value (of contracts awarded since 1998). The same three companies have a 63 per cent share of staff employed under SSP contracts. Comparing the market share of these firms to their position in 2007, however, reveals that their market share has declined somewhat in the last six years.

The increase of mergers and acquisitions within the 'market' of local government service provision has changed the provider of services in several areas as well as having effected the services themselves. For example, in 2003 Amey plc was acquired by Ferrovial, the Spanish infrastructure services company, while in August 2007 HBS Business Services was acquired by Mouchel plc and in 2012 Serco acquired Vertex Public Sector. These takeovers meant that a number of local authorities appointed one contractor only for the contract to be taken over by another company[117]

Ultimately, there is a significant amount of diversity which exists within local government outsourcing 'markets', while it may be true that a few large private sector firms dominate in large-scale SSPs, around 60 per cent of council services across the UK are delivered by SMEs.[118]

The outsourcing deal between Barnet Council and Capita, described as 'game-changing', is symbolic in the development of the outsourcing market. The fact that Barnet successfully defended a judicial review of its procurement in the Court of Appeal, sets a precedent for future outsourcing deals. The contract was contested by residents who claimed that the decision to outsource had been made without proper consultation. However, as noted by the judge's decision "challenges may be motivated by residents who doubt the public sector ethos of private sector organisations or fear the outcome of outsourcing – but this is not a basis of legal challenge."[119] Not only does the Capita deal include services which have never before been outsourced but it also changes the nature of commissioning. Through the contract Capita will be commissioning some services, for example, the management of major regeneration agreements with property developers, directly on behalf of the Council.[120] In effect Barnet Council has to some extent outsourced its outsourcing.

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117 Ibid

118 Gash, T., and Roos, T. (2012) *Choice and Competition in Public Services: learning from history* (London: Institute for Government)

119 Towers & Hamlins (2013) *Public Sector – The Commissioning Council: One Barnet outsourcings to proceed* (London: Trowers & Hamlins), http://bit.ly/1CODsEj

120 "One Barnet: the inside story of a game-changing and controversial public sector outsourcing", 20 September 2013, *Outsource Magazine*, http://bit.ly/1C9Nj9p

Performance and impacts

Critics have pointed out that outsourcing in local government has led to a growing accountability deficit as services become increasingly disconnected from the elected mandates of the local authorities.

While and extreme case in point, the public outcry and resistance from Barnet residents shows that a political backlash against outsourcing, despite not succeeding here, could make further outsourcing, at least on this scale, within local government more difficult. Much of the local resistance to the outsourcing was on the basis that the contracts represent a challenge to local democracy as the council is to be locked into 10 year deals regardless of who is voted for in council elections. Contracts are by their nature complex and legally binding and often carry premium 'penalties' should a client wish to change the way in which a service is delivered. Furthermore contracts often carry minimum pricing arrangements which bind the local authority client into either set minimal financial arrangements or expensive contract variation clauses.[121] This means future Barnet councillors are significantly restricted in how they can alter the services under contract.

A further concern is how quality and accountability may be affected by cuts to the workforce and the relocation of jobs and corporate headquarters outside of the borough, in effect, centralising rather than localising services.

Again, in the case of Barnet, of the 514 jobs transferring to Capita, just 468 will be left at the end of year one, and by 2023 there will only be 339 posts under the contract. The firm is also reported to be planning to move 200 roles to some of its specialist centres across the country. For example, of 83 customer services staff, 61 will be moved to Darwen, in Lancashire, while 109 of 126 employees in the Revenues and Benefits department will be shifted to Bromley or Blackburn. A total of 26 out of 75 roles in Human Resources will be moved to Banstead, Belfast or Carlisle and six IT staff will be moved to Chippenham or Chertsey.[122]

In terms of value for money and efficiency, there is little evidence to reach a valid conclusion. Some might find this astonishing, given the long history of outsourcing, particularly in local government.

In 2008 the NAO analysed 14 SSPs in detail, worth in total more than £2.6bn. They concluded that although councils *expected* cost savings of between one and 15 per cent from their SSP deals, whether they got value for money "is hard to assess objectively". Even when deals went sour, terminated early or

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121 APSE for UNISON (2011*) Insourcing update: The value of returning local authority services in-house in an era of budget constraints* (London: UNISON)

122 Hewett, C. (2012) "Job losses certain as Capita awarded £320million One Barnet contract by Barnet Council", 22 November, *Times Series*, http://bit.ly/1J7l8tK

were scaled down, resulting in significant unanticipated costs, the NAO admit "there are no data available on the scale of these costs".[123]

The Institute for Government point out that although proponents of the benefits of outsourcing can point to specific indicative evidence, directly testing the benefits of contractual approaches versus in-house provision is rarely carried out prior to a decision being made. This is "partly due to the fact that reform (and refusal to reform) has often been driven by political concerns and ideology but it is also, no doubt, due to the technical difficulty, time and cost of such exercises."[124]

Local government – conclusions

Beginning with CCT, introduced by the Conservative government in the 1990s, outsourcing of local government services has steadily increased and evolved in nature.

Recent years have seen a change in the nature of outsourcing from agreements with external contractors focused on delivering specific services, to SSPs involving joint venture companies delivering a range of services (both back office and frontline services), often with local authorities merging services across regions.

While outsourcing of local government services more generally involves a range of SMEs and voluntary sector organisations, the SSP market is highly concentrated, with a few private sector companies contracted to deliver services.

Some sectors are more heavily outsourced than others – social care being the most prominent area of outsourcing. Outsourcing policy in regard to local government has undergone a series of changes, beginning with an initial period of marketisation under CCT, to the 'Best Value' approach in the 2000s, to a range of other policies. In recent years, the reduction in local authority funding and the requirement to find efficiency savings has possibly fuelled a steady increase in outsourcing by local authorities.

Despite the more general increase in outsourcing, many local authorities have decided to 'in-source' their services, in order to reduce costs and make efficiency savings, thus making future trends difficult to predict. Evidence also indicates that most authorities do not apply a public interest or other efficacy test prior to contracting out a local authority service, rather ideology is key.

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123 Audit Commission (2008) *For Better, For Worse: Value for money in strategic service-delivery partnerships* (London: Audit Commission), http://bit.ly/182LMXA
124 Gash, T., and Roos, T. (2012) *Choice and Competition in Public Services: Learning from history* (London: Institute for Government), http://bit.ly/1C9KipC

The increase in mergers and acquisitions among private providers of local authority services has also had an effect on the nature of the provider and the services provided. Further, while many councils aim to outsource all of their services, our report has illustrated what may be the beginning of a worrying trend whereby, despite much popular opposition by residents, councils begin to outsource the process of outsourcing itself.

There are clear concerns that have been raised by trades unions as well as residents and service users in regard to outsourcing local government services. While a move away from service quality to focus on cost is one concern together with the impact on the respective workforce, the clear democratic deficit that stems from outsourcing is another – as decisions are further removed from elected decision-makers and services are made less accountable to the needs of constituents.

Social care

Development of the market

The majority of social care services are now outsourced to external providers. Since 1990 local authorities have increasingly moved away from offering social care services directly and instead increased capacity has come from private and voluntary providers offering their services to local authorities to meet the care needs of their populations.

The market for social care was greatly expanded through the National Health Service and Community Care Act which put funding, as well as allocation, in the hands of local authorities, encouraging local authorities to increase the commissioning of services from independent providers.

The next two decades saw a market for social care firmly established as private sector providers entered both domiciliary and residential care, while direct public provision receded significantly.

Private and voluntary sector providers have been providing state-funded social care since the 1970s, however, with withdrawals of central funding for local authorities, and with local authorities encouraged to become purchasers rather than providers, voluntary and private sector providers have stepped in to replace local authority provision steadily since 1990.

Between 1992 and 2010, local authority direct provision of care home places fell by over 70 per cent from 105,000 places to around 30,000 places, while, over the same period, private care home places increased by over 17 per cent to 191,000 places. Private providers now supply over 80 per cent of both care home beds and domiciliary care nationally.[125]

Alongside these trends in the outsourcing of adult social care services there has been a shift towards personalisation through direct payments and personal budgets. Here rather than local authorities receiving public funding to meet the needs of their constituents, the users themselves manage their own budget allocations and can purchase services directly from those available in their community.

Such payments are often spent on employing carers directly. The growth of recipients of direct payments has tripled over the last five years. The movements towards personalised budgets and direct payments have been motivated primarily by the desire to give users greater say and control over their care. However, these moves have also increased the focus on market-led provision, empowering people through their ability to act as consumers of care

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125 See NAO (2012) *Department of Health, and Local Authority Adult Social Services: Oversight of user choice and provider competition in care markets* (London: NAO), p. 14, http://bit.ly/1Gu6qz2

services, although the extent to which service users and their families have been able to make effective choice and to fully fund their care needs through this approach remains a contested issue.

The development of the social care market must be seen within the context of a growing funding crisis. The last five years have also been characterised by significant cuts to local authority budgets. With no ring-fencing of social care budgets these cuts have reduced the amount of public expenditure on social care, with a significant impact on provision and the functioning of the outsourcing market within social care services.

The total budget put aside for means-tested social care by English councils in 2014–15 stands at £13.68bn – a real terms cut of 12 per cent since 2010, while demand has risen 14 per cent in the same period.[126]

These cuts to public funding need to be seen in a demographic context. The number of people aged over 85, those most likely to use care, has increased by a quarter of a million since 2004–05 to 1.4m people in 2012. This means that extra money was necessary just to keep pace with need. The demand pressures are set to intensify further with the number of over-85s expected to double again over the next 20 years and the number of older people with moderate or severe disabilities projected to increase by 32 per cent over the next decade.[127] Real terms cuts to funding while demand has continued to grow has meant that local authorities have had to spread their adult social care budgets more thinly.

In 2005–06, 40 per cent of councils provided care to those with 'moderate' needs, by 2011 the figure had fallen to 18 per cent.[128] Now the vast majority of councils only support those people with 'substantial' or 'critical' needs. It is widely recognised that the fees councils pay independent providers are simply not enough to cover their costs.

Market composition

The market in social care provision is diverse. There are many different organisations providing social care across the country including large corporate providers backed by larger investment groups, as well as small and medium enterprises, charitable organisations, social enterprises and mutuals.

The vast majority of care is provided by private and voluntary sector organisations with direct state provision from local councils making up a small proportion, having fallen greatly in the last two decades. Direct council

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126 CLES (2015) *Austerity Uncovered* (Manchester, CLES), p. 34, http://bit.ly/1yCXt0T
127 Wittenburg, R., Hu, B., Comas-Herrera, A., Fernandez, JL., (2012) *Care for Older People*, p. 3, Nuffield Trust in partnership with PSSRU, http://bit.ly/1BE7r4A
128 Age UK, Social Care Eligibility Thresholds Briefing, p. 1, http://bit.ly/1BE7qh4

provision now makes up less than 10 per cent of residential care places and around 16 per cent of domiciliary care provision.

The market is heavily dominated by the private sector. The estimated annual value of the market is £15.2bn. This breaks down as a for-profit sector of £11.1bn, a voluntary sector of £2.2bn and a public sector value of £1.9bn.[129]

Residential care

Not all those in private and voluntary care homes can be considered as recipients of an outsourced service. Around 40 per cent of funding for care homes comes from private individuals, with 52 per cent funded by local authorities and 8 per cent from the NHS.[130]

In terms of number of places available in residential and nursing homes, 78 per cent are operated by private sector providers, 14 per cent voluntary sector and 8 per cent public sector (with five per cent local authority and three per cent NHS).[131]

The majority of providers are small businesses, with around 43 per cent of care home places currently provided by operators with fewer than three homes. However, there also exist some large providers which make up a significant proportion of the market.

The five largest providers in residential care account for around 17 per cent of the market, by places, and the largest twenty account for 28 per cent of the market by the same measure. In 2011–12 Four Seasons and Bupa each had a five per cent market share, each having over 20,000 beds. Barchester and HC-One each had around a three per cent market share with around 12,000 beds, while Care UK has a one per cent market share with around 5,000 beds.

Although these larger providers do not necessarily have dominant market share when looking at the market nationally, local markets are more concentrated. This is significant because when someone chooses a provider they are rarely willing to travel a great distance, with geographical considerations often taking precedence over considerations based solely on the quality or cost of any given service. For example, in the residential care market Bupa Care Homes has a market share of 25 per cent or over in 21 of the UK's 209 councils with social care responsibilities.

This presents significant concerns in the event of provider failure. The NAO reported that, although having only a nine per cent market share nationally,

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129 See "Councils Rely on a 'Hidden Tax' on Older Care Home Residents", *LaingBuisson Press Release,* 15 January 2013: http://bit.ly/1urKCz1
130 Clearwater Healthcare Team (2012) *UK Health and Social Care* Report 2012 (Clearwater)
131 Laing & Buisson (2013) quoted in Humphries, R. The King's Fund (2013) *Paying for Social Care: Beyond Dilnot* (London, King's Fund), p. 6, http://bit.ly/1mlqwzk

prior to its high profile collapse, Southern Cross had much greater regional market shares, at around 30 per cent in the North East, for example.[132]

Domiciliary care

In the market for domiciliary care, the proportion of private funded care is around 7.8 pent cent of market value, with around 21 per cent of the total care hours purchased.[133] The market is worth an estimated £8.5bn in total, so it can be reasonably approximated that outsourcing of domiciliary care services accounts for around £7.8bn.

Since 2006–07, the number of contact hours provided directly by local authorities has fallen by 57 per cent while the number of contact hours provided by the independent sector (private and voluntary sectors) has increased by 25 per cent over the same period. These recent trends towards outsourcing in domiciliary care services reflect a much more pronounced long-term trend, with 87 per cent of publicly-funded domiciliary care now provided by the independent sector compared to just five per cent in 1993.[134]

The domiciliary care market is characterised by a wide range of providers and business models. This varies from very small local companies based out of a single office to large corporate organisations in the public, private and voluntary sectors. The breakdown of providers in domiciliary care by one estimate is 74 per cent private, 14 per cent voluntary and 12 per cent public sector.[135]

The majority of providers are small, with 60 per cent of the 7,145 registered domiciliary care agencies being single agency businesses.[136] There are also a number of providers that operate a franchise structure, with companies such as Home Instead, Bluebird Care and Caremark, for example, each reporting that they have over 50 branches.

A number of larger not-for-profit providers exist which have developed from externalised local authority care providers and expanded through developing other care services, or through expanding beyond their former geographical catchment area. Examples include the Anchor Trust, Leonard Cheshire and United Response.

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132 NAO (2012) *Department of Health, and Local Authority Adult Social Services: Oversight of user choice and provider competition in care markets* (London: NAO), p. 27
133 Ibid and DH (2013) *Market Oversight in Adult Social Care* (London: DH), http://bit.ly/1yqf2kH
134 Clearwater Healthcare Team (2012) *UK Health and Social Care Report 2012* (London: Clearwater)
135 IPC and Oxford Brookes University (2012) *Where the Heart is...A Review of the older people's domiciliary care market in England* (OBU, Oxford), p. 12: http://bit.ly/1ulOVWS
136 DH (2013) *Market Oversight in Adult Social Care* (London: DH), p.10

There has been a small but noticeable development of new worker co-operatives and social enterprises. Such organisations operate by securing lump sum fees from councils in advance once proving their track record for delivering care in the sector. Examples of smaller domiciliary care social enterprises include Homecare Rutland, Social Care in Action in Southampton and Care and Share Associates (CASA) in Knowsley.[137]

There are also a number of large providers, often backed by large investment groups. SAGA is the biggest provider in the market with a market share of around 4.7 per cent, after its 2011 acquisitions of Allied and Nestor Healthcare. However, large providers currently have a comparatively small market share with the ten largest domiciliary care providers having in May 2012 only just over 16 per cent of the market.[138]

Larger providers are increasingly controlled by private equity houses who have invested significantly in the domiciliary care market in recent years. They generally operate expansion models which look to invest for relatively short periods of time, increasing market share through mergers and acquisitions then selling the newly created larger companies on for a profit. One example, is the recent sale of August Equity's Lifeways Community Health to OMERS Private Equity, thought to be worth around £210m. August Equity bought Lifeways for around £46m in 2007. Since then the company has grown from supporting 900 service users to now over 3,700, having completed 11 acquisitions over the period.[139] Such business models are commonplace in the home care market with six of the largest 10 providers either solely owned or under a controlling majority share by a private equity firm.

Performance and impacts

The social care market has been characterised by high levels of market entry and exit over the years. Theory suggests that this should achieve optimal market outcomes, low barriers to entrants put pressure on incumbent providers to improve their services in the face of competition, while those unable to provide services of sufficient quality and cost are forced to exit. However, when providers are large and their homes cannot be easily taken over by other local providers the risks to care recipients become significant. The most notorious case is that of Southern Cross, the UK's largest independent provider of residential care when it became insolvent in 2011.

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137 IPC, Oxford Brookes University (2012) *Where the Heart is...A Review of the older people's home care market in England* (OBU, Oxford)
138 IPC, Oxford Brookes University (2012) *Where the Heart is*, p. 14
139 '"Canada's OMERS Private Equity Acquires Community Care", Health Investor news, 11 June 2012: http://bit.ly/1ulOWKo

By 2011 Southern Cross ran around 750 care homes, provided care for over 31,000 UK residents and had an 8.7 per cent market share nationally. While calamity was largely avoided for residents, with minimal closures, the resolution of the crisis occurred only after the government stepped in and invited other providers and stakeholders to fill the void created in the UK's residential care infrastructure.

In the aftermath, questions were raised over transparency and the need for financial oversight and regulation. The NAO recognise that "in certain sectors of the economy where service providers are dominant, or where service users are particularly vulnerable, national sector regulators have systems in place to minimise the impact of provider failure on the user. There are no equivalent arrangements in the care sector." [140]

The experience of Southern Cross also highlights inherent problems when the, typically short-term, interests of investors do not align well with those of care recipients. Although Southern Cross generated large profits for its owners over the years, its focus on short term profits ultimately led to unsustainable expansion, while the neglect of internal investment resulted in significant deterioration of the care provided. There is evidence that other care providers who followed aggressive expansion before 2008 are in similar difficulties. The number of private providers declaring insolvency rose by 12 per cent between 2011 and 2012, with 67 companies going out of business. The annual rate of failures has more than doubled from 28 in 2008. It is thought that within the care home sector there is a collective debt mountain of around £5bn and many firms are on the brink of financial collapse leaving thousands of people face increasing bills and the threat of forced relocation.[141]

There are a number of additional problems particular to the functioning of the social care market which means the optimality of market-led provision is less certain. At least five issues are of particular concern.

First, the value of care services, such as the increased well-being and quality of life for a recipient, is inherently difficult to measure. It is difficult for a service user to compare the different services on offer by providers without actually experiencing the service themselves. Subjective evaluations could be of value, but the sector as a whole, even on local levels, has struggled to aggregate subjective responses to services in a sufficiently large and meaningful way.[142]

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140 NAO (2012) *Oversight of User Choice and Provider Competition in Care Markets* (London: NAO), p. 9

141 See Dugan, E., and Milmo, C. (2013) "The £5bn care home crisis that is seeing record numbers of providers close their doors", *The Independent*, 28 April, http://ind.pn/1woC2v8

142 The Institute for Government conducted a study into the proliferation of user-review websites and found that few achieve the necessary number of responses to be meaningful, while the number of different sources makes comparison harder and more confusing for users. See Gash, T., Panchamia, N., Sims, S., & Hotson, L. (Institute for Government) (2013) *Making Public Service*

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Second, this lack of information is relevant not only for service users choosing which service they would prefer, but also to local authority commissioners purchasing care on users' behalf. In the absence of comparable information on quality local authority commissioners are incentivised to overly focus on price when assessing bids from local providers. It would be difficult to justify paying more for a service when the additional quality you would be paying for is not readily observable. When local authorities commission services in-house they are forced to take a position on a quality vs. price trade-off, however, when services are outsourced and quality is hard to measure, the trade-off is reduced to estimation and more often than not quality considerations are relegated in the process.

Third, related to the previous point, social care providers do not sufficiently compete with each other on quality. When providers know that commissioners focus on price this encourages providers to do the same, often to the detriment of quality. The price vs. quality trade-off is in a sense taken out of their hands and they can effectively deflect responsibility, blaming the decisions made by commissioners if the quality of their services is brought into doubt. This results in the market mechanisms being ineffective at forcing exit when providers offer poor services. In some cases, underperforming and 'coasting' providers have been allowed to retain contracts for extended periods despite the supposedly high levels of competition within the market.[143]

Fourth, is that social care, as paid for by local councils, is badly underfunded. This works to exacerbate both the tendencies for commissioners to focus on price and makes improving on quality even more difficult for providers. Cuts to local government funding, with no ring-fencing of social care, has meant that less and less public money is spent on outsourced care, with increasingly low per-person funding offered by local councils. For example, in 2011–12 the average unit cost of 'in house' local authority homecare had risen to £35.50, while the average unit cost of homecare to authorities from using independent providers was £14.70. Local authorities, still by far the largest purchasers of homecare, are able to exploit their dominant purchasing power to exert downward pressure on the costs of homecare. This means the independent sector is effectively operating at less than half the cost of the statutory sector.[144]

With the majority of provider costs coming from wages and training of their staff this has inevitably had a detrimental effect on the care workforce and the quality of care they are able to offer. UNISON's Time to Care survey showed that over half of care workers are paid between £6 and £8 per hour. The rates of pay for care workers are even worse when factors such as non payment for

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Markets Work (London, Institute for Government): http://bit.ly/1hHYKZV
143 Gash, T., and Roos, T (Institute for Government) (2012) *Choice and Competition in Public Services: Learning from history* (London, Institute for Government), p. 22, http://bit.ly/1C9KipC
144 UK Home Care Association Ltd (UKHCA) (2013) *An Overview of the UK Domiciliary Care Sector: UKHCA Summary Paper*, p. 7, http://bit.ly/158JrrR

travel time between home visits and the prevalence of zero hour contracts are accounted for, with thousands of care workers likely paid below the national minimum wage.[145]

A fifth factor important to the outsourced market of social care is that outcomes depend not only on the services provided within social care but also on housing and more general healthcare provision. The expansion of adult social care provision has historically been encouraged, at least in part, to reduce occupancy rates of hospital beds taken up by elderly patients with basic care needs. The Government's recent 'Care and Support' white paper has set the objective of intervening earlier to help people retain their independence and to avoid more expensive NHS treatments.[146]

However, cuts to council funding has meant increasingly councils are only able to offer care to those assessed as in 'critical need', undermining the preventative agenda. Furthermore, the institutional arrangements, which make a distinction between health and social care, make it difficult for health professionals to effectively coordinate patients' care. Differing incentives across sectors and a lack of standardised information prevent effective integration of health and social care.

The underfunding and outsourcing of care has had a negative impact on service quality. The Care Quality Commission's (CQC) annual report in 2010–11, the last time in which the independent regulator analysed quality delivered by providers distinguished by sector, reported that quality standards were superior in public and voluntary sector providers.

In April 2010, services run directly by councils and those run by voluntary organisations had the same proportion of good and excellent services (91 per cent), while privately run services had a significantly smaller proportion (81 per cent). CQC also note that although the quality of privately run care services is generally lower than those run by councils or voluntary organisations, the costs were often lower as well.[147] Achieving lower costs has been key in allowing councils to substantially increase the capacity of outsourced care provision without dramatic increases to available funding.

In social care, the evidence suggests you get what you pay for, and the increased capacity from the private sector has likely come at the expense of quality. Providers have primarily reduced costs through reductions in wages and staff training, as noted above. This seems to have had a detrimental effect on the quality of care provided.

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145 See Rameesh, R. (2013) "How Private Care Firms Have Got Away with Breaking the Law on pay", *The Guardian*, 13 June, http://bit.ly/1Cg6KNu
146 HM Government (2012) *Caring for Our Future: Reforming care and support white paper* (London, The Stationary Office), http://bit.ly/1zw6D0X
147 Care Quality Commission (2011) *Annual Report and Accounts 2010–11* (London, The Stationary Office), p. 10, http://bit.ly/1yK4Vco

In a survey of 230 social workers conducted by the British Association of Social Workers in 2011, the results on quality of care were alarming. Of all respondents 81 per cent had seen instances of abuse in care homes; more than half had seen 'extreme abuse'; 70 per cent thought that residential care was not fit for purpose and half had come across homes they thought should be closed; more than 65 per cent had reported a care home for failings and more than half said they would not place one of their own relatives in a care home.[148]

Overall, there looks to be sufficient evidence to conclude that thus far, the outsourcing of social care has led to a deterioration of service quality.

Despite the increases in capacity which have occurred through outsourced provision, the system is likely to come under evermore strain in the future. Increases in demand, from an ever increasing elderly population already present a capacity challenge, made even worse by continued funding cuts for social care at the national and local level.

The lack of ring-fencing within social care and decreased local authority budgets will continue to put pressure on the already underfunded market. Unless better incentives are instituted around commissioning, particularly in respect of measuring and paying for quality, outsourced social care is set to continue to be spread thinly and at diminishing levels of quality relative to what could be achieved from increased investment, technological improvements and better training of staff.

The Care Act 2014 proposes reform through instituting a cap on the amount any individual can spend on their own care, increasing the threshold for means-tested support, standardising the setting of eligibility criteria across the country and creating systems to provide information and support to help potential care recipients prepare for their future care needs.[149] If the changes made through the Act succeed, the new institutional arrangements ought to have some impact on the market for social care. The reforms are thought to be able to reduce the uncertainty around people's long-term care costs and make it possible for an insurance market for funding long-term social care to develop.

Questions remain about this latter point, critics have noted that an insurance market may be difficult to encourage. They argue that because the cap is on what councils rather than individuals pay and the fact that an individual's care needs will be determined partly by their access to unpaid care, insurers will

148 "Shocking state of care for vulnerable adults revealed", in *Professional Social Work*, September 2011, p.9, http://bit.ly/1wtX4u7

149 Ibid. The cap is to be set at £72,000 from 2016, with a lower cap (to be decided) for working-age people. The government has agreed to pay any social care fees above this amount. The upper capital threshold for means-tested support will rise to £118,000 from 2016–17 and the lower threshold to £17,000.

find it difficult to accurately price financial products therefore such a market may not automatically develop in response to the reforms.[150]

Equally unclear is how well the government's efforts to better integrate health and social care will prove to be. The establishment of Health and Wellbeing Boards and the likely increased outsourcing in healthcare from CCGs and Any Qualified Provider may affect the market for social care, as providers and commissioners look to develop services across institutional boundaries. The Better Care Fund has drawn funds from both the NHS and local authorities with a view to improving integration of social care provision but, following a difficult inception period, it remains to be seen how effectively the various bids deliver.

Social care – conclusions

The majority of social care provision is outsourced to a wide range of independent providers, largely small private sector and voluntary sector organisations, who coexist with much larger private providers. Private providers make up over two thirds of care provision, with large providers (often backed by private equity firms), taking an increasingly dominant role in regional markets.

The quality of care services is difficult to measure for users, as decisions are often made in distress, with too little information available. Comparisons between providers is very difficult for users to make, particularly if the user has no previous experienced the services.

The quality of services is also difficult to measure for local authority commissioners purchasing care on users' behalf. Information on service quality is insufficiently available, which, when combined with severe funding restrictions, compels commissioners to overly focus on price rather than quality.

As a consequence, providers of social care do not compete sufficiently on quality, and instead on who can provide the lowest cost bid. The market is therefore ineffective in ensuring providers offer high quality services, as badly performing providers can retain contracts despite offering low quality services to users.

Social care suffers from significant underfunding, which exacerbates the incentive for local authorities to focus on price when commissioning services. The savings that providers make in offering low cost bids for contracts are

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150 See Dunning, J. (2011) "Dilnot proposals 'will not deliver insurance market for care", in *Community Care*, 24 October, http://bit.ly/1L01lyf and Burstow, P. (ed.) (Centre Forum) (2013) *Delivering Dilnot* (London, Centre Forum): http://bit.ly/1L01jq1

made in the form of reducing the wages and training of social care workers; their staff. Such reductions include widespread flouting of NMW legislation, as well as zero-hours contracts.

Skills shortages and high staff turnover are now commonplace among the care workforce, as a consequence of savings made by providers, and have been shown to have had a detrimental impact on service quality. Serious underfunding of care services linked with poor commissioning practices has also raised concerns about the risks to the human rights of older people, as the actual costs of care are not covered.

With issues around potential reform and integration unresolved it is difficult to predict exactly how the market for social care will look in the future. It is likely, given the low economies to scale, that the prevalence of small local providers will remain over larger ones. This is all the more likely given the financial difficulties now being felt by many of the larger providers who expanded rapidly in the 2000s.[151] However, again, with the possibilities of integration with health services, large private healthcare providers may move into the market the social care, especially if new opportunities for profit are created through integrated services and capital investments.

The steady increase in direct payments is likely to have some impact on the social care market. Direct payments already make up 10 per cent of the market's funding. In 2011–12 the number of people receiving self-directed support was 527,000, a rise of 40 per cent on the previous year.[152] The government continues to encourage all those eligible to receive personal budgets and direct payments from their locals councils do so in the near future.[153] This will lead to a growth in more personalised care services, with growing complexity around the commissioning of services making market over-sight and regulation more difficult.

The market is likely to continue to be made up of a mixture of large and small, private and voluntary sector providers, where financial failures, takeovers and market "churn" are high. This may be particularly problematic where providers operate across local authorities and provide services for thousands of people, as was the case of Southern Cross.

The interdependencies of such large providers with wider financial markets also create risks, as complex business models may obscure early warnings of failure, misalign incentives of investors, managers and care recipients and leave

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151 See Dugan, E. 'The £5bn care home crisis that is seeing record numbers of providers close their doors', The Independent, 23 September, 2014: http://ind.pn/1woC2v8
152 Care Quality Commission (2012) The State of Health Care and Adult Social Care in England: An overview of key themes in care 2011/12 (London, The Stationary Office), p. 27: http://bit.ly/1L01nGt
153 HM Government (2011) Open Public Services White Paper (London, The Stationary Office), http://bit.ly/1sXT9c0

providers exposed to economic shocks. These issues look set to continue into the future as Laing & Buisson report that the sector is likely to see larger operators over time across residential, domiciliary and extra care services.[154]

154 Laing & Buisson, 'Care of Elderly People UK Market Survey 2011/12', quoted in Department of Health (2012) Market Oversight in Adult Social Care: Consultation (London, Department of Health), p. 17: http://bit.ly/1yqf2kH

Section five

Workforce impacts

The importance of understanding workforce impacts is two-fold. In the first place public services employ many thousands of workers and so have an impact on labour market trends with implications for individuals, the economy and wider society. In the second place, with an absence of direct service quality monitoring data the best proxy is to measure aspects of the treatment and quality of the workforce which is correlated with service quality.[155]

For this study we considered the possibility of analysing the workforce impacts from outsourcing public services sector by sector. We found, however, that this approach yielded limited evidence that risked being somewhat patchy, inconsistent and anecdotal. We therefore chose to take an objective overview approach using Labour Force Survey data following an earlier analysis in 2011 on the impact of outsourcing on working conditions and by proxy on the quality of outsourced services.[156] Ten occupational classifications thought to provide meaningful comparisons in terms of jobs performed across the public, private and voluntary sector and that have experienced significant outsourcing in recent years have been selected.

These include:

- residential care workers
- senior care workers
- nurses
- youth and community workers
- nursery nurses and assistants
- cleaners and domestics
- prison officers
- security guards and related occupations
- kitchen and catering assistants.

Our findings show that in most cases within these occupations:

- Workers in the private sector during 2014 have been less respected, given more insecure working arrangements, and – for health and social care

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155 Reed, H. (2011) *The Shrinking State* (London, Unite)
156 Ibid.

occupations – lower qualified than in the public sector, all while having to make do on less pay.

- **Excessive hours:** The private sector has a larger proportion of full-time employees who regularly work excessive overtime – over 48 hours per week.
- **Shorter job tenure:** Private sector employees have shorter tenures measured by months, which suggests higher turnover, than the public sector.
- **More insecure working arrangements:** The private sector has a larger proportion of employees who would like to work more hours than they currently are getting than in the public sector. The private sector has also a larger proportion of employees who are on short-term contracts, and a larger proportion who are agency workers or self-employed.
- **Worsening insecure working arrangements:** Job insecurity has also been getting worse since 2011, especially in the private sector.
- **Lower qualified:** Private sector employees in health and social care occupations are less likely to have a degree or other higher education qualification and in some cases more likely to have no qualifications at all.
- **Lower pay**: The private sector has lower pay than the public sector measured by median hourly wages.

These findings suggest that workers who are employed to deliver public services by private sector contractors deliver under fewer protections and poorer working conditions than their public sector equivalents. This issue was recently explored by the New Economics Foundation in a report for UNISON.[157]

Other workforce impacts which are not captured in the LFS data but which have been described elsewhere include fragmentation whereby a previously single workforce employed by the public sector becomes disaggregated across a number of different employers, particularly the case for local government workers. This has been linked with deterioration in the consistency of service provision.[158]

TUPE provisions are intended to protect workers who are transferred from public sector to private sector employment on outsourcing of a service. But this did not prevent newly hired employees working under contracts with substantially worse pay and conditions. To tackle the problem of a two-tier workforce a 'Code of Practice on Workforce Matters in Local Authority Service Contracts' was adopted in 2003 to ensure that workers in the same service were similarly contracted. Subsequently, however, this was retracted in 2010 by the Coalition Government, leaving public service workers at risk once again from benchmarking of pay and conditions to much lower standards.

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157 NEF and UNISON (2013) *Raising the Benchmark: The role of public services in tackling the squeeze on pay*, http://bit.ly/1xxu5oW
158 Jeffreys, S (2012)

TUC

The remainder of this section of the report describes in more detail our findings from analysing LFS data.

Overview of methodology using LFS data

With reference to fifteen consecutive waves of the Quarterly Labour Force Survey[159] (QLFS) from spring 2011 to autumn 2014, the 4-digit occupational classification codes (SOC2010) allowed us to identify public and private employees in 10 relevant occupations. Occupations were chosen on the basis that there was a reasonable sample of people who identified themselves as working in the public sector in the LFS data and also a reasonable sample of people who identified themselves as working in the private sector, allowing a statistically reliable comparison to be conducted. The public and private workforces within these occupations could also be expected to be serving reasonably similar purposes and are mostly occupations that have experienced significant outsourcing in recent years. Voluntary sector estimates were also included for 8 of the 10 sectors, due to sample sizes that were too small for reliability in the prison officers and security guards and related occupations categories. The first table of Annex A of this report lists the occupations chosen and the sample size by sector (public, private and voluntary).

Unless otherwise stated, within-occupation across sector comparisons are made with reference to 2014 LFS data that has been pooled from Q1 to Q3.

Having identified the relevant occupations we compared the data across sectors in terms of:

- proportion of employees working long hours
- proportion of employees working unpaid overtime
- median job tenure by months
- proportion of employees seeking more hours in their current jobs
- proportion of employees seeking another job with more hours
- proportion of employees working on short-term contracts
- proportion of employees working as agency workers
- proportion of self-employed workers

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159 As the Labour Force Survey is collected through employee self-reporting (and is sometimes answered by proxy when someone other than the employee answers the phone) it does not generate as reliable absolute employee counts—as the Workforce Jobs series, which is collected from employers. However, LFS has the advantage of allowing for a much more detailed breakdown of jobs by occupation, which is why it has been used in this analysis. However, absolute employee counts in public sector occupations especially should therefore be interpreted with care.

- proportion of employees with degrees
- proportion of employees with non-degree higher education qualifications
- proportion of employees with no qualifications
- median hourly wage levels.

The estimate breakdowns by occupation and sector of these variables are also available in Annex A of this report.

Key findings

Excessive hours

The private sector had a larger proportion of full-time employees regularly expected to work excessive overtime than the public sector. This was measured by those reporting regularly working more than 48 hours per week.

Long hours: A comparison by sector and occupation of full-time employees shows that for nine out of the 10 occupations there are a greater proportion of private sector employees working long hours. In the 10th occupation—youth and community workers, public and private are even on this measure because 0 per cent of workers reported regular overtime.

Occupations that particularly stand out are security guards and related occupations, where 18.2 per cent of those working in the private sector record working long hours, compared with just 1.5 per cent in the public sector. For senior care workers, the comparative rates are 4.3 per cent and 0 per cent; and for prison officers, the comparative rates are 4.8 per cent and just 1.8 per cent. No regular long hours are reported in the voluntary sector for these occupations.

Proportion of workers reporting regularly working long hours			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	1.9%	3.2%	0.0%
Senior care workers	0.0%	4.3%	0.0%
Nurses	0.4%	2.5%	0.0%
Youth and community workers	0.0%	0.0%	0.0%
Nursery nurses and assistants	0.0%	1.2%	0.0%
Nursing auxiliaries and assistants	0.9%	4.7%	0.0%
Cleaners and domestics	0.6%	1.0%	0.0%
Prison officers	1.8%	4.8%	*
Security guards and related occupations	1.5%	18.2%	*
Kitchen and catering assistants	0.0%	1.3%	0.0%
Key: Shaded text represents the worst off sector of employees within occupation			
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Unpaid overtime: However, public sector budgets have come under increasing strain, leaving many public sector employees overstretched as well. This is best demonstrated by unpaid overtime, which TUC analysis has previously shown to be a much larger problem in the public sector than the private sector.[160] A higher proportion of public sector employees reported actual or usual unpaid overtime in seven of these 10 occupations. An especially stark case is senior care workers, where the proportion of those reporting unpaid overtime in the public sector is more than three times higher than in the private sector — 34.5 per cent to 10.5 per cent.

160 TUC (2014) *Women workers in public sector drive increase in unpaid overtime*, http://bit.ly/1JdFcsA

Unpaid overtime emerged as a particular problem within the voluntary sector as well. When comparing across all three sectors, the largest proportion of employees reporting unpaid overtime is in the voluntary sector in five of the 10 occupations. This is even more striking considering that the voluntary sector only had reportable data for eight of the occupations. A notable example is amongst nursery nurses and assistants, where the proportion of voluntary sector employees reporting unpaid overtime is nearly double to that in the public sector and almost 3.5 times that in the private sector. These findings cast doubt on the government's frequent assertions that public service shortfalls can be satisfactorily met by the voluntary sector. Overstretching workers is not a sustainable route to quality service provision.

Shorter job tenure

Job tenure: Median job tenures by month are shorter in the private sector than the public sector across all 10 of the occupations. For example, the median tenure for private youth and community workers is just 11 months—less than a year—while in the public sector it is nearly eight times longer at 87 months. Additionally, the median tenure for private sector residential care workers is 29 months, while in the public sector it is more than three times longer at 96 months.

While mostly longer than the private sector, tenures for the voluntary sector are also shorter than in the public sector in all but one of the reportable occupations; for senior care workers, the tenure in the public and voluntary sectors is 132 months. Strikingly, the tenure for voluntary sector nurses is just 26 months, while in the public sector it is more than 4.5 times longer at 120 months.

Short tenures are especially problematic for most of the occupations analysed, where the quality of the service provision is heavily dependent on human interaction and building relationships between the provider and the client. For example, frequent turnover of care workers, health care providers, and youth and community workers can all cause distress, among other problems, for those who are meant to be being helped by the service.

Median Job tenure in months			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	96	29	46
Senior care workers	132	60	132
Nurses	120	51	26
Youth and community workers	87	11	33
Nursery nurses and assistants	96	35	74
Nursing auxiliaries and assistants	81	43	45
Cleaners and domestics	80	38	70
Prison officers	132	120	*
Security guards and related occupations	108	48	*
Kitchen and catering assistants	75	19	16
Key: Shaded text represents the worst off sector of employees within occupation			
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

More insecure working arrangements

The private sector provides much less secure working arrangements than the public sector. This is measured by things like underemployment and the proportion of workers who are on short-term contracts, working through an agency or self-employed.

Underemployment: Underemployment can be measured by the proportion of employees who would like more hours in their current job. This proportion is higher in the private than the public sector in 5 of the 10 occupations. In a 6th—security guards and related occupations—the proportion was higher in the private sector from 2011 through 2013. In 2014, the proportion has been even between the sectors.

Across all three sectors, the proportion of employees seeking more hours in their current job is highest in the voluntary sector in only two of the 10 occupations—nursery nurses and assistants and kitchen and catering assistants.

Proportion of employees who would like more hours in current			
Occupation	**Sector**		
	Public	**Privat**	**Voluntar**
Residential care workers	15.1%	13.3%	14.4%
Senior care workers	4.9%	8.2%	7.1%
Nurses	5.2%	8.5%	5.3%
Youth and community workers	13.8%	14.5%	14.4%
Nursery nurses and assistants	13.0%	9.6%	24.0%
Nursing auxiliaries and assistants	10.5%	8.4%	9.9%
Cleaners and domestics	20.4%	22.1%	13.5%
Prison officers	0.0%	6.0%	*
Security guards and related occupations	8.5%	8.5%	*
Kitchen and catering assistants	31.3%	21.1%	34.7%
Key: Shaded text represents the worst off sector of employees within occupation			
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-

Underemployment can also be measured by the proportion of employees who would like a different job with more hours. This proportion is higher in the private sector for 7 out of the 10 occupations.

Across all three sectors, the proportion of employees seeking more hours in their current job is highest in the voluntary sector in only 3 of the 10 occupations.

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Proportion of employees who would like more hours in a new job			
Occupation	Sector		
	Public	Private	Voluntary
Residential care workers	0.6%	1.0%	1.2%
Senior care workers	0.0%	0.0%	0.0%
Nurses	0.2%	0.4%	0.0%
Youth and community workers	1.5%	5.7%	0.0%
Nursery nurses and assistants	0.0%	1.1%	1.5%
Nursing auxiliaries and assistants	0.8%	0.8%	3.4%
Cleaners and domestics	2.3%	4.0%	0.0%
Prison officers	0.0%	0.0%	*
Security guards and related occupations	0.0%	2.0%	*
Kitchen and catering assistants	2.0%	3.6%	0.0%
Key: Shaded text represents the worst off sector of employees within occupation			
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Short-term contracts: The proportion of employees by sector in each occupation who are on short-term contracts is defined as those on a contract that is not permanent in some way, whether it be an agency job, casual or seasonal job, fixed term contract or something else. In seven out of the 10 occupations studied, the proportion of employees on short-term contracts is higher in the private sector than in the public sector.

In some cases the differences are quite large. For example, among youth and community workers in the private sector, 17.9 per cent are working on short-term contracts compared with just 8.5 per cent in the public sector. Similarly, for kitchen and catering assistants the rates are 12.3 per cent and 7.9 per cent.

Across all three sectors, employees in the voluntary sector experience the highest proportion of short-term contracts in five of the 10 occupations. For

voluntary sector youth and community workers and kitchen and catering staff, more than one in four employees are on short term contracts.

Agency workers: The proportion of employees in the private sector who reported being employed by an agency is higher than for the public sector in eight of 10 occupations.

Agency work appears to be very rare in the voluntary sector, with none reported at all in five of the 10 occupations.

Self-Employment: The proportion of employees in the private sector who reported being self-employed is also higher than for the public sector in eight of 10 occupations.

In the 9th occupation, senior care workers, no self-employment had been reported in the public sector from 2011-2013, but the apparent "spike" in 2014 to 4.1 per cent should be interpreted with caution as it is based on a sample size of just two, and because of the previously identified difficulty of the LFS at calculating absolute employee counts in the public sector. Recent research by UNISON specifically highlighted the specific risks to service quality posed by poor working terms and conditions for carers.[161]

In the 10th occupation, prison officers and related occupations, there is understandably no self-employment reported in any sector.

Exceptionally high levels of self-employment—more than 1 in 5 cleaners and domestics in the private sector reported being self-employed—suggests an additional insecurity risk of possible false self-employment.

Self-employment also appears very rare in the voluntary sector, with none reported at all in six of the 10 occupations.

Worsening insecure working arrangements

A quick look over the course of the past four years indicates that job insecurity is getting worse, a bit for the voluntary sector, considerably more for the public sector, and the most for the private sector.

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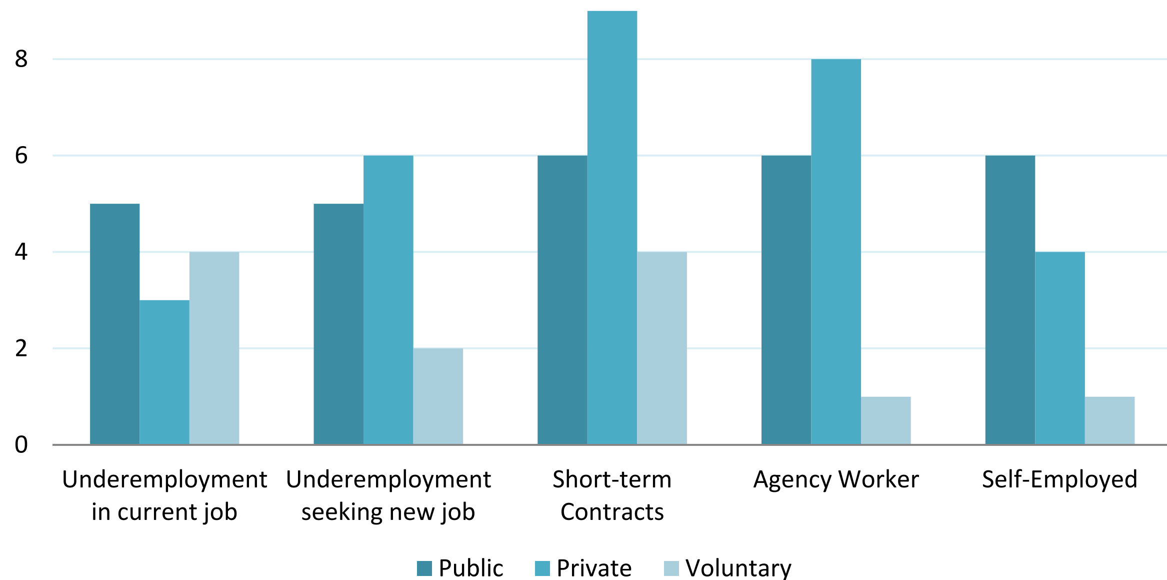
161 UNISON (2012) Time to care: A UNISON report into homecare (London, UNISON), http://bit.ly/1ErqNIs



Source: TUC analysis of LFS 2011-2014

Increasing insecurity: For the occupations we analysed, the public sector fared the worst across all three sectors for underemployment in current job (those who desire more work in their current job), showing an increased proportion of employees from 2011 to 2014 who wanted more hours in 5 of the 10 occupations. In the context of tightening public sector budgets, this measure of underemployment is likely at least a partial result of frozen pay and hours cutbacks.

The public sector also technically fared worst for self-employment, experiencing an increase in the proportion of workers who are self employed in 6 of the 10 occupations. However, this should not be interpreted as indicator that the public sector is characterised by a self-employment problem due to both very small self-employed sample sizes in the public sector and the previously mentioned limitations of the LFS with absolute employment counts.

The private sector fared the worst outright across all three sectors for the other three measures of job insecurity. The proportion of those who feel underemployed and are seeking more hours in a new job grew for the private sector in 6 of the 10 occupations. The proportion of those under short-term contracts in the private sector grew in 9 of the 10 occupations. Finally, the proportion of employees under agency employment grew in 8 of the 10 occupations.

Lower qualified

In the jobs where training surely counts and has a logically direct impact on quality of care provided, health and social care, private sector employees are noticeably less qualified than in the public sector. Qualifications were measured by the proportion of employees with degrees, with higher education qualifications and without any qualifications.

Qualifications: For the health and social care related occupations analysed, including residential care workers, senior care workers, nurses, nursery nurses and assistants, and nursing auxiliary and assistants, employees in the private sector are less likely to have a degree. So for example, only 8.9 per cent of senior care workers in the private sector have degrees compared with 38.9 per cent in the public sector. For nursery nurses and assistants, just 9.2 per cent in the private sector hold degrees compared with 16.8 per cent in the public sector. Comparable rates for nurses are 41.5 per cent and 51.9 per cent.

All but private sector nurses are also less likely to have a non-degree higher education qualification than in the public sector as well. In fact, private sector employees in seven of the 10 occupations are less likely to have another higher education qualification than in the public sector. For example, only 11 per cent of nursery nurses and assistants hold other higher education qualifications, compared with 33.2 per cent in the public sector. Comparable rates for senior care workers are 17.5 per cent and 35.2 per cent.

For senior care workers, nurses, and nursery nurses and assistants, private employees are also more likely to have no qualifications at all than in the public sector.

An interesting related finding is that for some jobs which are more elementary, such as security guards and other related occupations, cleaners and domestics, and kitchen and catering assistants, the private sector employs a greater proportion of more highly qualified workers than the public sector does. This may be a reflection of wider labour market trends in which the hollowing out of mid-level jobs means graduates and equivalent are taking jobs requiring fewer of their skills in order to gain work.

Across all three sectors, the voluntary sector only had the lowest proportion of employees with degrees in two occupations—nurses and cleaners and domestics. The voluntary sector only fared worst of the three sectors for non-degree higher education qualifications in two occupations as well—senior care workers and youth and community workers. The voluntary sector also only had the greatest proportion of employees with no qualifications among youth and community workers.

Lower pay

Despite already being more poorly treated in the private sector compared to public sector, private sector employees also receive less pay for their efforts when measured by median hourly earnings.

Median hourly wage levels: Private employees took home lower median hourly wages across all 10 of the occupations.

Higher public sector wages in the health and social care occupations make good sense because, as explained in the previous section, employees in these occupations tend to be better qualified. However, that makes the case for less, not more, privatisation if the government is genuinely concerned about improving service provision.

Furthermore, many of the occupations analysed here are fairly low paid to start with in comparison to most people in the UK, regardless of sector. The median hourly wage for all employees in the UK has been £11.11 over the first three quarters of 2014.[162] Even in the public sector, the median hourly wage in five of the 10 occupations is lower than this. In the private and voluntary sectors, all the occupations analysed except nurses are below the national hourly median.

162 The national median hourly wage was calculated using the same Q1-Q3 2014 pooled data used to calculate occupational mean hourly wages, but without disaggregating by occupation or sector.

Median hourly wages by occupation across sectors			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	£9.45	£7.23	£8.50
Senior care workers	£14.19	£7.30	£10.57
Nurses	£15.18	£13.74	£14.11
Youth and community workers	£12.49	£11.00	£10.50
Nursery nurses and assistants	£10.13	£6.25	£6.90
Nursing auxiliaries and assistants	£9.71	£7.91	£9.11
Cleaners and domestics	£7.20	£6.45	£7.25
Prison officers	£14.18	£9.98	*
Security guards and related occupations	£12.02	£8.65	*
Kitchen and catering assistants	£6.67	£6.25	£6.86
Key: Shaded text represents the worst off sector of employees within occupation			
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

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Section six

Conclusion and recommendations

Conclusion

Our overall conclusion from this work is that a robust framework for assessing quality and social value in public service design and delivery must be a priority. This becomes even more important where new models of outsourcing grow and change public services in fundamental ways. The social value implications are vital for making an objective assessment of changes in quality and cost.

It should start from a definition of what social value means in the context of public service provision and go on to propose a broad set of qualitative and quantitative indicators that can be applied and that can push thinking and accountability structures further than a narrow focus on cost savings and perceived efficiencies.

At the very least such a framework would need to include measures to capture full costs, and indicators capable of shedding light on service quality experience, not just performance against pre-determined targets.

We contend that commissioning and contracting arrangements with providers could embed such a monitoring and evaluation system in order to build a clear evidence base to inform debate and decision-making in the future.

Only then can theories around competitiveness, innovative potential and incentives really be opened up to examination.

Recommendations

Based on this research, the TUC has identified a set of policy recommendations to address specific issues related to the outsourcing of public services, with recommendations applicable to both national policy makers but also commissioning and procurement practitioners across the public sector.

Decision-making

- Public services provide benefits to both individual service users and wider society. Universal access, delivery according to need, services free at the point of use and delivered for the public good rather than for profit should be at the heart of any model of service delivery. The public sector is best placed to provide public services that meet these criteria and should be the default model of delivery.
- Before a public service, be it national or local, can be put out to tender a thorough public interest case needs to be put forward incorporating both quality and value for money considerations.
- There should be full consultation with relevant stakeholders, staff, service users and the public on the case for outsourcing prior to the decision to undertake an outsourcing process for any public service.
- If the merits of competitive tendering a public service have been shown to be in the public interest, private and third sector providers should be assessed against a realistic and thorough in-house bid from the public sector.
- Consideration should be given to the appropriate model of provider and commissioner relationships and arrangements to deliver high quality public services in each sector. In particular, this should recognise that the design of the delivery model and tendering processes, including assessment criteria, size of providers, monitoring systems and quality assurance can have a significant impact on the services delivered both now and in the future.

Standards of transparency

- The Freedom of Information Act should be applied to all providers of public services and all public sector commissioning, procurement and contract management.
- The same transparency requirements should be applied to all providers of public services, within the public, voluntary and private sector, including details on supply chains, company ownership and governance structures, employment, remuneration and tax policies and practices.
- The public sector equality duty should apply to all providers of public services, both within the public, voluntary and private sector.
- Public sector authorities commissioning services should not be able to stop

the publication of contracts or joint venture details except in cases of national security.

- The ownership of all companies, including those with offshore or trust ownership, which provide services under contract to the public sector should be available on public record.
- Public sector authorities should disclose details of relationships between providers and decision makers/influencers in public bodies commissioning and procuring services or with influence over the commissioning and procurement process.

Standards of accountability

- The public should have the 'right to recall' contracted out services due to poor quality or performance that is not in the public interest.
- Previous poor performance of bidders, including breaches of UK employment law, health and safety, environmental and tax obligations, should be taken into account during any tendering process.

Accounting practices and cost appraisal

- Where services are outsourced, standardised accounting procedures and practices for 'open book' accounting should be enforced including an annual independent audit on all public service contracts. There should also be a requirement to publish audited and verified statements on contractors' operational and financial performance, with access to relevant information, systems and personnel for the NAO, internal public sector auditors and their external auditors.
- Regular reports on the full costs of procurement should be published, including contingency costs required to cover unforeseen circumstances, the use of external advisors, and the contract management and monitoring costs for individual contracts.
- A robust and consistent framework must be developed which is capable of measuring service quality from the experience of users, not simply performance measure against targets.

Employment terms and protection for staff delivering public services

- Mechanisms for the protection of employment standards and collective bargaining should be promoted through the strengthening of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), the creation of a new two-tier code of practice and the adoption of mechanisms to ensure that existing sectoral collective agreements are extended to all providers of public services.

- Procurement and commissioning should be used as far as possible to promote social, environmental and economic objectives, such as the living wage, investment in training, skills and apprenticeships, union recognition and an end to zero hours contracts and other forms of vulnerable employment, through the full use of the revised EC Directive and UK legislation including the Public Services (Social Value) Act.

Section seven

Appendix

Annex A: Occupations and sample sizes by sector and variable analysis

SOC2010	Description		Public sector				Private sector				Voluntary sector			
			2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
6145	Residential care workers	Number of employees in group	1002	901	971	696	2869	2904	2979	2512	461	498	453	363
		Number self-employed	15	11	13	12	104	122	111	105	1	1	5	2
		Number of employees with wage info	267	245	268	184	759	767	782	640	136	141	129	103
6146	Senior care workers	Number of employees in group	113	124	105	49	338	382	352	261	83	76	46	47
		Number self-employed	0	0	0	2	4	2	6	1	0	0	0	0
		Number of employees with wage info	34	40	37	16	105	106	90	75	25	18	17	10
2231	Nurses	Number of employees in group	3251	3332	3213	2439	553	469	524	395	105	113	115	60
		Number self-employed	3	8	6	1	23	12	16	11	0	2	1	0
		Number of employees with wage info	981	966	977	698	160	135	152	123	25	34	29	17
3231	Youth and community workers	Number of employees in group	292	234	253	205	44	52	54	39	130	114	126	111
		Number self-employed	0	0	0	0	13	7	10	4	5	3	0	2
		Number of employees with wage info	93	78	68	61	13	14	10	9	34	37	43	37
6121	Nursery nurses and assistants	Number of employees in group	305	274	296	201	697	769	685	504	86	86	87	71
		Number self-employed	0	0	3	0	12	8	17	9	0	2	0	0
		Number of employees with wage info	83	82	83	63	174	216	195	147	28	19	33	20
6141	Nursing auxiliaries and assistants	Number of employees in group	1412	1329	1441	1009	400	401	397	352	124	101	119	107
		Number self-employed	0	0	1	3	18	21	7	5	0	0	0	0
		Number of employees with wage info	397	363	398	277	119	103	112	91	34	35	33	28
9233	Cleaners and domestics	Number of employees in group	1032	922	805	625	2125	2273	2152	1686	91	71	62	40
		Number self-employed	8	6	8	7	491	550	558	416	1	0	2	0
		Number of employees with wage info	287	279	222	174	591	614	601	470	29	20	25	11
3314	Prison officers	Number of employees in group	220	237	214	149	68	54	64	30	**Not enough voluntary sector workers in this occupation to do analysis**			
		Number self-employed	0	0	0	0	0	0	0	0				
		Number of employees with wage info	76	75	53	37	23	12	19	13				
9241	Security guards and related occupations	Number of employees in group	146	172	153	85	874	799	853	632	**Not enough voluntary sector workers in this occupation to do analysis**			
		Number self-employed	0	0	5	1	35	46	54	31				
		Number of employees with wage info	38	51	33	28	235	207	243	171				
9272	Kitchen and catering assistants	Number of employees in group	689	552	543	441	1918	2026	2023	1529	47	44	50	39
		Number self-employed	2	1	0	0	24	36	18	18	0	0	0	0
		Number of employees with wage info	173	165	147	124	514	484	493	386	12	12	14	12

Proportion of workers reporting regularly working long hours			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	1.9%	3.2%	0.0%
Senior care workers	0.0%	4.3%	0.0%
Nurses	0.4%	2.5%	0.0%
Youth and community workers	0.0%	0.0%	0.0%
Nursery nurses and assistants	0.0%	1.2%	0.0%
Nursing auxiliaries and assistants	0.9%	4.7%	0.0%
Cleaners and domestics	0.6%	1.0%	0.0%
Prison officers	1.8%	4.8%	*
Security guards and related occupations	1.5%	18.2%	*
Kitchen and catering assistants	0.0%	1.3%	0.0%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees reporting actual or usual unpaid overtime			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	7.0%	3.5%	7.3%
Senior care workers	34.5%	10.5%	3.0%
Nurses	26.1%	12.4%	28.8%
Youth and community workers	21.2%	21.9%	23.4%
Nursery nurses and assistants	14.6%	8.3%	28.9%

Nursing auxiliaries and assistants	5.5%	7.7%	5.3%
Cleaners and domestics	0.5%	1.1%	2.9%
Prison officers	7.2%	5.6%	*
Security guards and related occupations	7.0%	1.6%	*
Kitchen and catering assistants	5.5%	2.0%	2.4%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees reporting actual or usual unpaid overtime			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	7.0%	3.5%	7.3%
Senior care workers	34.5%	10.5%	3.0%
Nurses	26.1%	12.4%	28.8%
Youth and community workers	21.2%	21.9%	23.4%
Nursery nurses and assistants	14.6%	8.3%	28.9%
Nursing auxiliaries and assistants	5.5%	7.7%	5.3%
Cleaners and domestics	0.5%	1.1%	2.9%
Prison officers	7.2%	5.6%	*
Security guards and related occupations	7.0%	1.6%	*
Kitchen and catering assistants	5.5%	2.0%	2.4%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Median Job tenure in months			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	96	29	46
Senior care workers	132	60	132
Nurses	120	51	26
Youth and community workers	87	11	33
Nursery nurses and assistants	96	35	74
Nursing auxiliaries and assistants	81	43	45
Cleaners and domestics	80	38	70
Prison officers	132	120	*
Security guards and related occupations	108	48	*
Kitchen and catering assistants	75	19	16
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who would like more hours in current job			
Occupation	Sector		
	Public	Private	Voluntary
Residential care workers	15.1%	13.3%	14.4%
Senior care workers	4.9%	8.2%	7.1%
Nurses	5.2%	8.5%	5.3%
Youth and community workers	13.8%	14.5%	14.4%
Nursery nurses and assistants	13.0%	9.6%	24.0%
Nursing auxiliaries and assistants	10.5%	8.4%	9.9%
Cleaners and domestics	20.4%	22.1%	13.5%
Prison officers	0.0%	6.0%	*
Security guards and related occupations	8.5%	8.5%	*
Kitchen and catering assistants	31.3%	21.1%	34.7%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who would like more hours in a new job			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	0.6%	1.0%	1.2%
Senior care workers	0.0%	0.0%	0.0%
Nurses	0.2%	0.4%	0.0%
Youth and community workers	1.5%	5.7%	0.0%
Nursery nurses and assistants	0.0%	1.1%	1.5%
Nursing auxiliaries and assistants	0.8%	0.8%	3.4%
Cleaners and domestics	2.3%	4.0%	0.0%
Prison officers	0.0%	0.0%	*
Security guards and related occupations	0.0%	2.0%	*
Kitchen and catering assistants	2.0%	3.6%	0.0%
*insufficient sample size for reliable estimate			

Proportion of employees on short-term contracts			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	5.6%	6.2%	10.8%
Senior care workers	5.1%	1.2%	12.2%
Nurses	3.4%	9.2%	8.1%
Youth and community workers	8.5%	17.9%	26.0%
Nursery nurses and assistants	8.8%	7.1%	2.5%

Nursing auxiliaries and assistants	7.6%	6.6%	10.7%
Cleaners and domestics	2.7%	7.1%	5.3%
Prison officers	3.2%	4.5%	*
Security guards and related occupations	3.8%	6.6%	*
Kitchen and catering assistants	7.9%	12.3%	27.2%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who are agency workers			
	Sector		
Occupation	**Public**	**Private**	**Voluntary**
Residential care workers	1.2%	5.2%	1.1%
Senior care workers	0.0%	2.9%	0.0%
Nurses	1.5%	3.3%	0.0%
Youth and community workers	0.5%	3.2%	0.0%
Nursery nurses and assistants	0.0%	1.8%	0.0%
Nursing auxiliaries and assistants	1.3%	4.3%	0.8%
Cleaners and domestics	3.1%	4.3%	3.8%
Prison officers	0.9%	0.0%	*
Security guards and related occupations	0.0%	3.9%	*
Kitchen and catering assistants	1.2%	1.0%	0.0%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who are self-employed			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	1.7%	3.6%	0.5%
Senior care workers	4.1%	0.4%	0.0%
Nurses	0.0%	2.9%	0.0%
Youth and community workers	0.0%	10.0%	1.6%
Nursery nurses and assistants	0.0%	1.6%	0.0%
Nursing auxiliaries and assistants	0.3%	1.4%	0.0%
Cleaners and domestics	1.3%	20.7%	0.0%
Prison officers	0.0%	0.0%	*
Security guards and related occupations	0.8%	4.5%	*
Kitchen and catering assistants	0.0%	1.1%	0.0%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who have a degree			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	11.8%	9.5%	18.9%
Senior care workers	38.9%	8.9%	15.2%
Nurses	51.9%	41.5%	40.2%
Youth and community workers	42.9%	46.0%	48.6%
Nursery nurses and assistants	16.8%	9.2%	26.0%

Nursing auxiliaries and assistants	15.0%	13.7%	25.4%
Cleaners and domestics	4.0%	5.1%	0.0%
Prison officers	13.1%	14.3%	*
Security guards and related occupations	7.3%	12.9%	*
Kitchen and catering assistants	3.2%	9.2%	3.5%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who have a non-degree higher education qualification			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	13.1%	8.0%	17.6%
Senior care workers	35.2%	17.5%	15.7%
Nurses	43.3%	48.7%	52.4%
Youth and community workers	24.0%	17.8%	16.9%
Nursery nurses and assistants	33.2%	11.0%	12.5%
Nursing auxiliaries and assistants	17.1%	15.3%	24.5%
Cleaners and domestics	3.4%	5.1%	11.2%
Prison officers	12.2%	9.4%	*
Security guards and related occupations	13.4%	8.1%	*
Kitchen and catering assistants	4.4%	6.2%	6.7%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Proportion of employees who have no qualifications			
	Sector		
Occupation	Public	Private	Voluntary
Residential care workers	6.7%	6.1%	2.5%
Senior care workers	0.0%	1.4%	0.0%
Nurses	0.1%	0.9%	0.0%
Youth and community workers	0.8%	0.0%	2.4%
Nursery nurses and assistants	0.5%	0.7%	0.0%
Nursing auxiliaries and assistants	3.6%	3.3%	0.9%
Cleaners and domestics	34.0%	29.2%	30.1%
Prison officers	5.4%	0.0%	*
Security guards and related occupations	8.8%	7.3%	*
Kitchen and catering assistants	11.9%	8.8%	7.6%
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

Median hourly wages by occupation across sectors			
	Sector		
Occupation	**Public**	**Private**	**Voluntary**
Residential care workers	£9.45	£7.23	£8.50
Senior care workers	£14.19	£7.30	£10.57
Nurses	£15.18	£13.74	£14.11
Youth and community workers	£12.49	£11.00	£10.50
Nursery nurses and assistants	£10.13	£6.25	£6.90
Nursing auxiliaries and assistants	£9.71	£7.91	£9.11
Cleaners and domestics	£7.20	£6.45	£7.25
Prison officers	£14.18	£9.98	*
Security guards and related occupations	£12.02	£8.65	*
Kitchen and catering assistants	£6.67	£6.25	£6.86
*insufficient sample size for reliable estimate			

Source: TUC analysis of LFS 2014 (Q1-Q3)

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