# Opposition policy costing – Insourcing – Labour Party

## Description of policy

Labour would oversee the ‘biggest wave of insourcing of public services in a generation’. ‘Labour will learn the lessons from the collapse of Carillion and bring about the biggest wave of insourcing of public services in a generation’ (National Policy Forum, Final Policy Documents, 15 September 2023, p.33, archived).

Angela Rayner said Labour would see the ‘biggest wave of insourcing back into our public services for a generation’. Angela Rayner: ‘When Labour gets into power, our procurement policy will see the biggest wave of insourcing back into our public services for a generation’ (Angela Rayner, STUC Speech, 18 April 2023, archived).

## Additional policy assumptions

**Assumptions from Special Advisers:**

1. **Contract length:** 8.8% of outsourced services are due for renewal per annum.
2. **Insourcing rates:** Model scenarios involving insourcing 1%, 2%, 5%, 10% and 50% of the contracts up for renewal per annum.
3. **Efficiency** – Assume that services are 7.5% less efficient if they are insourced.

## Additional technical modelling assumptions or judgements required

The cost or benefit of insourcing depends on the type of service. To estimate the total cost or benefit of insourcing policy we have been instructed to assume:

- The public spend on outsourced services.
- All contracts coming up to be insourced.
- A change in cost when insourced.

Given the assumptions by Special Advisors, we have therefore developed a top-down approach to the question. This approach is based on the following assumptions, but there is significant uncertainty around all of them:

- Whole of Government Accounts (WGA) provides outturns on government spending on the purchase of goods and services.
- We assume the policy would apply to the whole of government: WGA includes the whole public sector, all bodies classified as central government, local government, or public corporations, within National Accounts.
- WGA outturns are publicly available up to 2020-21. To estimate WGA for the lifetime of the policy, we applied the GDP deflator series to the WGA figures.
- We applied an estimate from NAO analysis, that 50% of government spend with the private sector is on outsourced services.
- Special advisers have asked us to assume that 8.8% of outsourced services are due for renewal per annum.
- That outsourcing currently delivers average savings of 7.5% (as set out in the IFGs report on Government Outsourcing) and that it is an appropriate proxy for the cost of insourcing a service. The 7.5% assumption has been used as directed by Special advisers, but we have low confidence in this...
because the difference between the cost of outsourcing and in-house delivery is highly circumstance specific. This assumption is based on the IFG’s analysis of a small number of recent projects (which are not specified or outlined in the report).

- That insourcing costs are scored as RDEL expenditure, since they are classified as business-as-usual running costs.
- That this policy would remain in place for a 4-year period.
- The cost of insourcing would compound over that period.

These figures do not include assumptions for:
- Any monetisable benefits from insourcing.
- Any legal challenge costs.
- Any costs for implementation of the policy.

**Cost to the Exchequer:**

### 7.5% Cost increase at different rates of insourcing, compounded annually

<table>
<thead>
<tr>
<th>Annual insourcing rate</th>
<th>£millions, RDEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td>24-25</td>
</tr>
<tr>
<td>50%</td>
<td>450</td>
</tr>
<tr>
<td>10%</td>
<td>90</td>
</tr>
<tr>
<td>5%</td>
<td>45</td>
</tr>
<tr>
<td>2%</td>
<td>18</td>
</tr>
<tr>
<td>1%</td>
<td>9</td>
</tr>
</tbody>
</table>

**Comparison with current system (if applicable):**

This costing is driven by the assumption (given by Special Advisers) that services are 7.5% less efficient in comparison with the current system.

**Other comments (including other Departments consulted):**

This costing was completed by the Cabinet Office.

**To be completed by Permanent Secretary’s Office**

Date costing signed off: 20/03/2024

[If applicable] Date revised costing signed off: