

Opposition policy costing – Insourcing – Labour Party

Description of policy
<p>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).</p> <p>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).</p>
Additional policy assumptions
<p>Assumptions from Special Advisers:</p> <ol style="list-style-type: none">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
<p>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:</p> <ul style="list-style-type: none">● The public spend on outsourced services.● All contracts coming up to be insourced.● A change in cost when insourced. <p>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:</p> <ul style="list-style-type: none">● 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

Annual insourcing rate	£millions, RDEL					
	24-25	25-26	26-27	27-28	28-29	Total cost
50%	450	908	1,373	1,847	2,329	6,909
10%	90	182	275	369	466	1,381
5%	45	91	137	185	233	691
2%	18	36	55	74	93	276
1%	9	18	27	37	47	138

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:

