



New Values

PUBLIC CONTRACTS FOR SOCIAL PROSPERITY



About Localis

Who we are

We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
- **Empowering local leadership.** Elevating the role and responsibilities of local leaders in shaping and directing their place.
- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. We also run a membership network of local authorities and corporate fellows.

Contents

Acknowledgements	2
Research interviews	3
Executive summary	4
1 Introduction	11
1.1 Previous Localis report, True Value	12
1.2 This report	13
1.3 Towards social prosperity	16
2 Legislative and policy framework	18
2.1 Commercial rights and LATCos	19
2.2 Legislating public procurement by local authorities	22
2.3 Relevant Labour proposals	27
3 Value-for-money beyond economic measures	30
3.1 Social and environmental value	31
3.2 Administrative, control and managerial value	32
4 Outsourcing-insourcing dynamics	34
4.1 Historical failings	35
4.2 Moves towards insourcing	36
4.3 LATCos and ALMOs	38
4.4 Hybrid insourcing	39
5 Challenges and risk management	43
5.1 Strategic capacity inequality	44
5.2 Other challenges and risks	45
6 Public contracts for social prosperity	49
6.1 Making the most of increased flexibility	50
6.2 Hybrid partnerships and scalability	51
7 Recommendations	54

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Executive summary

In 2021, Localis published *True Value*, an analysis focused on the strategic potential of public procurement in light of the UK's departure from EU procurement rules and adoption of the World Trade Organisation's agreement on government procurement. This shift offered greater flexibility in procurement, allowing for more strategic, socially focused practices rather than just lowest bidder selection. The report highlighted a move towards considering broader value-for-money, including social value, spurred by the Public Services (Social Value) Act and ongoing reforms, at the time represented by the *Transforming public procurement* Green Paper. The emphasis on social value has encouraged sector-wide collaboration and integration of the concept into local growth and recovery strategies, enhancing the organisational stature of procurement teams and fostering innovation among local authorities and suppliers.

This report seeks to further examine the potential of strategic public contracting in fostering equitable local growth and a networked social prosperity within a changing government and policy landscape. It underscores a shift from traditional cost-efficiency procurement to value-for-money frameworks prioritising sustainability and public responsibility. Additionally, the report critiques the efficiency of all-out outsourced services, noting a trend towards insourcing and more of a pragmatic approach to improving local contracts and their management. Throughout, the report advocates for a model of social prosperity when assessing public contract outcomes, aligning with contemporary challenges such as austerity, climate change, and cost-of-living, and emphasising community wellbeing, inclusive growth, and environmental stewardship as integral components of local contracts and procurements.

The legislative framework for strategic procurement

Legislative and policy frameworks	Implications and strategic realignment
Local Government Act 2003 & Localism Act 2011	These Acts provide local authorities with the commercial rights to create Local Authority Trading Companies (LATCos) and undertake more entrepreneurial activities. They aim to foster financial self-sufficiency and innovation in service delivery. The Localism Act introduces general power of competence, expanding freedoms but requiring adherence to existing regulatory structures to ensure fair public management.
Public Services (Social Value) Act 2012	Mandates local authorities to consider economic, social, and environmental wellbeing within public contracts. Encourages using procurement as a tool for broader societal benefits, aligning procurement team activity with strategic objectives to enhance the impact of public spending.
Public Contracts Regulations 2015	Implements EU directives in the UK, setting out procurement rules local authorities and LATCos must follow. Mostly ensures a retention of fairness and transparency in contracting, even post-Brexit.
Teckal exemption	Allows local authorities to award contracts directly to entities they own, like LATCos, without competitive tendering. Encourages alignment of LATCos with local strategic goals by simplifying procurement processes and enhancing operational efficiency. The exemption includes stringent control and functional criteria to ensure LATCos operate within legal frameworks and focus primary on servicing their local authority owner(s).

Procurement Act 2023	Set to consolidate and streamline over 350 procurement regulations into a single regime. Emphasises value-for-money, public benefit, transparency, and integrity. Encourages lowering barriers for SMEs and social enterprises, allowing for a more diverse supplier base and fostering local economic growth. Introduces “most advantageous tender” criterion to evaluate bids based on quality, sustainability, and social value, promoting a comprehensive approach to public procurement that is enabled in supporting broader socio-economic objectives through specific provisions.
Labour's proposed changes	Labour have proposed the largest wave of insourcing of public services in a generation, challenging the trend of privatisation and outsourcing. They aim to strengthen public procurement to support local businesses and ensure contracts drive local economic development, sustainable growth, and high employment standards. Includes plans for a National Procurement Plan mandating social value in public contracts, suggesting a continuing strategic shift towards a more wholesale integration of social, environmental, and labour considerations into public contracts.

Recent legislative updates encapsulated by the Procurement Act mark a significant shift in public procurement, integrating economic, social, and environmental objectives more fully into public contracts. With provisions that empower local authorities to prioritise broader value-for-money considerations and support local SME involvement, the framework demands strategic refinement in local contracting and procurement practices to harness these new opportunities for local development and enhanced public service delivery.

While the Local Government Association (LGA) has shown cautious optimism, noting the government's collaborative approach to developing the Act, there remain substantial challenges. These include managing the transition to new procedures such as the Competitive Flexible Procedure, which allows for more tailored procurement processes while maintaining integrity and value-for-money. Additionally, the transition will require robust capacity-building, training programs, and stakeholder engagement to equip procurement teams with the skills needed to navigate increased transparency and the complex criteria of the new framework.

Effective utilisation of the described legislative framework will hinge on a local authority's ability to adapt to the landscape as it has evolved, ensuring that local contracts and procurement not only meet immediate needs but also contribute to broader strategic goals and the fostering of social prosperity.

Challenges and opportunities of insourcing and outsourcing

In recent decades, local governments worldwide have been increasingly shifting from all-out privatisation and outsourcing towards insourcing and a reassertion of strategic control over public contracts. This trend reflects a broader disillusion with the New Public Management (NPM) approach that has dominated in public services for over 30 years, which advocated for market-driven solutions that often did not yield the promised efficiency gains. High-profile failures and the realisation of non-competitive markets and high transaction costs, all of which contextualised by sustained austerity, have prompted local authorities to reassess and recalibrate their strategies.

In the wake of service failures, councils are increasingly turning to insourcing and hybrid commercial models for service delivery. The shift is driven by local authorities' desire for greater direct oversight, enhanced flexibility, and financial sustainability in service delivery – indicating a healthy pragmatism is at play.

Local Authority Trading Companies (LATCos) have emerged as a pivotal model for enhancing the strategic potential of public contracts through outsourced, insourced, or hybridised service delivery. LATCos operate as commercial entities owned by local authorities, enabling them to offer public services with both commercial acumen and public-focused integrity.

Insourcing and the adoption of hybrid models involving both insourcing and outsourcing specific functions within public contracts are now seen as more pragmatic approaches that better integrate social, environmental, and economic considerations, thus aligning strategic potential at the local level with that of the previously described legislative framework while moving to deliver a more holistic conception of value-for-money.

However, despite the shift towards more strategic control in public contracting, local authorities continue to grapple with deeply embedded challenges, primarily the inequality in strategic capacity that affects their ability to effectively manage public contracts – skills that have been systematically drained from local authority departments throughout the NPM era. This disparity is particularly acute among smaller local authorities and reflects a broader issue of over-reliance on outsourcing of essential administrative functions, which has led to a dilution of managerial expertise and governance quality.

While LATCos and arms-length management organisations (ALMOs), inherently aligned with local initiatives due to their local government origin, provide opportunities for strategic innovation and better service delivery, the persistent capacity gaps and the entrenched NPM orthodoxy pose significant barriers to realising the benefits of a more strategic approach. Addressing these issues will require a comprehensive strategy that includes enhancing local strategic capacity, fostering adaptability, and ensuring that local public contracting is able to take full advantage of the new, more strategically-minded legislative framework.

Public contracts for social prosperity

The legislative advancements, outlined in the Procurement Act, will enable local authorities to optimise their public contracts and procurement strategies towards the fostering of social prosperity. This approach promotes a balance of insourcing, outsourcing, and hybrid models tailored to local needs. The approach is designed to capture a more holistic conception of value-for-money while fostering social prosperity and inclusive growth. Central to this framework is the utilisation of competitive flexible procedure which enhances inclusivity and participation from local SMEs in local economies and supply chains. Furthermore, the Procurement Act stresses the importance of the “most advantageous tender” which unlocks the potential for tenders to go beyond mere cost-savings analyses. Local authorities are encouraged to upgrade the capabilities of their procurement teams to leverage new reforms and assert more strategic control over public contracts going forward.

This report proposes a **local service reshoring** model, which is an application of hybrid insourcing to the English local government context. Administrative responsibilities of lower tier local public contracts are *reshored* to arms-length service delivery bodies owned by higher tier local authorities, while on-the-ground execution of the service is outsourced to local external entities – whether LATCo, private or third sector. This model ensures local authorities preserve strategic oversight and enhance operational flexibility by maintaining a closer proximity to the administration and management of public contracts, ensuring contracts are designed to closely align with local public interests and strategic objectives with mechanisms for periodic review and adjustments built into the contracts themselves. By utilising early market engagement and robust collaboration frameworks, this approach can support adaptive and dynamic contract management that is able to respond to evolving local needs and market conditions. Scalability and continuous improvement of this model are possible through sector-led peer review and knowledge-sharing platforms – both pivotal in ensuring the fostering of social prosperity through public contracts can become networked across local government as a sector.

Recommendations

Central government

- Central government should launch a local government capacity building programme to enhance the staffing and training of procurement departments and ensure that the intended aims of recent reforms can be met at the local level.
- To ensure strategic procurement can be carried out successfully at the local level, there is a need for greater clarity in legal definitions and scenarios around the new regime, particularly in the context of a drive to hybridised and insourced models.
- Central government should conduct economic and social impact studies on local authorities and their public contracts to assess strategic capacity and resource allocation in relation to upcoming reforms at the local level, with a view towards tailored and sustained central government support where it is needed most.

Local government

- To drive social prosperity, councils should integrate procurement strategies with wider socio-economic objectives, as defined by local understandings of wellbeing and prosperity.
- As part of this process, it is important to take advantage of the new reforms to tailor contract design to local economic needs such as the privileging of local SMEs or development of training pathways.
- When approaching new public contracts, councils should consider a hybrid model – particularly regarding the use of LATCos and arms-length delivery vehicles to deliver strategic goals across public contracts.
- Councils should emphasise dynamic contracting, where local contracts are designed with mechanisms that allow for periodic review and adjustment of terms – making use of the new procurement regime to ensure local objectives are being met.
- In the context of an insourcing drive, given capacity constraints in local government, councils should consider joining together to set-up or make use of delivery vehicles for strategic assessment of administrative and managerial control over public service contracts:
 - **County, unitary and other regional authorities:** consider the possibility of setting up an arms-length body to take on the administrative and managerial functions contracts among groups of local authorities

- **District and constituent authorities:** Consider the possibility of reshoring relevant administrative and managerial functions to be contracted out to an arms-length body at the regional or sub-regional level

General

- As we end one political cycle and begin another, it is important that momentum is not lost and that central government continue ongoing dialogue and collaboration with local government, combined authorities and other stakeholders to ensure that public contracting for social prosperity continues to be realised across the country.
- As part of this, both local and central government must adopt non-ideological, evidence-based approaches to procurement strategy, to ensure best local outcomes, maintaining a pragmatic and socially-inclined mindset.

CHAPTER ONE

Introduction

In the context of an evolving public contracting landscape, local authorities in England are grappling with multiple challenges and opportunities. An increasing strategic turn in procurement is being reflected by legislative reforms, notably the pending Procurement Bill, which aims to simplify and modernise the system. Concurrently, local authorities are about to be given the statutory duty to align their procurement strategies with national priorities.

However, the responsibilities of the new reforms for local authorities are complicated by the fact that the capacity of local government is in a worse state than it was in 2019, despite financial uplift and a widespread recognition of the value of strategic procurement at the local level – as evinced by the 2023 Procurement Act. As the country enters a new political cycle, the urgency to re-evaluate public procurement and its relation to national priorities is heightened.

1.1 Previous Localis report, *True Value*

In 2021, Localis published *True Value*¹, a stakeholder-informed analysis of the strategic potential of public procurement in the context of ongoing reforms. The key points of which were:

- The UK's departure from EU procurement rules, as mandated by the Public Contracts Regulations 2015, offered a newfound flexibility. Previously, contracts were often award to the lowest bidder within the EU, constraining strategic domestic procurement decisions. This regulatory shift, with the UK joining the WTO's GPA, presented an opportunity for more strategic, socially-minded practices.
- At the time, public procurement was increasingly recognised not merely as a back-office function but as a strategic tool capable of delivering public value and addressing local strategic priorities, as evidenced by trailblazer local authorities at the time and a broader shift towards long-term, advisory relationships with suppliers, and the development of collaborative procurement strategies that emphasise social value.
- At the time represented by the *Transforming public procurement* Green Paper, the government's reforms encouraged a move away from lowest-price bidding towards a broader consideration of value-for-money that included social value. The reforms, then aligned with a broader governmental push towards more socially-conscious procurement policies, with a particular focus on benefiting SMEs and VCSEs, aimed to foster a more ethical and transparent public procurement system.
- The proposed changes introduced potential risks, including unfamiliarity with new processes, potential for divergence across buyers, and the risk of establishing procurement principles through legal precedent. Local authority concerns, at the time, included the need for more nuanced approaches that reflected local contexts and the integration of social value into recovery and growth strategies.
- The report found that, building on the **Public Services (Social Value) Act**, there is a continued emphasis on integrating social and broader economic value into procurement decisions. The government's social value model, particularly post-COVID-19, focused on outcomes such as community recovery, job creation, and environmental stewardship, indicating a shift towards procurement that actively contributes to societal goals.

¹ Localis (2021) – *True Value: Towards ethical public service commissioning*

- The principle of social value has also fostered sector-wide and inter-sector collaboration. It has become increasingly embedded across local government and the private and third sectors, breaking down silos internally and fostering collaborative efforts between various stakeholders externally.

True Values demonstrated that the adoption of social value has enhanced the role of procurement in public policy, moving from a strictly bureaucratic to more proactive function². This shift has led to healthy competition, collaboration, and innovation among local authorities and suppliers in procuring for social value, continuing to drive further interest and development to this day, soon to be reflected in legislation through the upcoming Procurement Act.

1.2 This report

With the current spend on goods and services by local authorities currently standing at over £72bn, local government continue to pragmatically navigate market conditions, policy shifts, and operational needs to approach public procurement strategically and determine the balance between public and private provision of services. With procurement reforms and a change in government around the corner, this report examines the role of strategic public contracting and its potential for fostering equitable local growth and a networked social prosperity. Our focus is to harness theory, policy, and practice to not only boost the efficiency and impact of local public contracts but also to foster a healthy pragmatism within local authorities that secures sustainable social value – whether through outsourced, insourced, or hybridised public services.

Across local government, a discernible shift is already underway towards a more strategic and rational approach to achieving value for money and strategic outcomes, influenced by evolving theories and practices. This section explores the progression away from traditional procurement methods and mindsets towards frameworks that emphasise sustainability, social responsibility, and innovation.

At the core of this transformation is the concept of strategic local contracting, redefining traditional, 'back-office' procurement by emphasising alignment with the core values and strategic goals of contracting authorities. Approaching local contracts more strategically seeks to not only fulfil immediate needs but to serve broader local policy objectives through enhanced collaboration between public, private and third sectors. This strategic alignment is crucial for fostering interorganisational trust and achieving common goals, which are foundational to building robust public-private partnerships

² Craven (2020) – The legal and social construction of value in government procurement markets

– the likes of which have seen great successes in recent years. The integration of social value into contracting and procurement strategies, particularly under conditions of austerity, exemplifies how public contracts are increasingly used to address and mitigate economic, environmental, and social challenges.

Complementing the strategic approach, innovative public procurement approaches have positioned contracting authorities as **first buyers**, stimulating private sector innovation toward the public good. This role of the public sector as a catalyst for innovation underscores the importance of public procurement beyond its traditional boundaries, influencing market trends and promoting technological advancement toward better contract and service delivery.

The shift from economic models focused solely on cost-efficiency to those prioritising sustainability and social responsibility has its roots in trailblazing practices such as the UN sustainable development goals and green public procurement (GPP) throughout the start of the 21st century³. Japanese local governments are recognised as pioneers in GPP due to their early implementation of policies that prioritise environmental and social value in procurement decisions, often exceeding national requirements as early as 2001⁴. Since then, GPP and other socially-responsible models and methods of public contracting have proliferated across nation states and localities. These methods aim to minimise environmental impacts and maximise social benefits, addressing environmental challenges and community needs in tandem.

On the other hand, analytical frameworks based on factors such as transaction costs, social choice, and strategic political competition have provided insight into the dynamics of outsourcing and privatisation, and how the promises of cost-savings and efficiency-gains have often failed to materialise. Across localities all over the world, inadequacies in outsourced services have spurred on a trend towards insourcing or what is sometimes referred to as “remunicipalisation” or “reverse privatisation”⁵. In the UK, the Labour Party in opposition promised an insourcing initiative that aims to reverse the outsourcing trends of previous decades, marked by what they describe as taking a significant toll on service quality and labour conditions⁶. These dynamics illustrate a broader trend towards reclaiming public control over services and their delivery. This trend is not merely ideological but reflects an increasingly pragmatic approach to

3 Hamilton (2022) – Public procurement: price-taker or market-shaper?

4 Aoki-Suzuki (2019) – Circular Economy in Japan

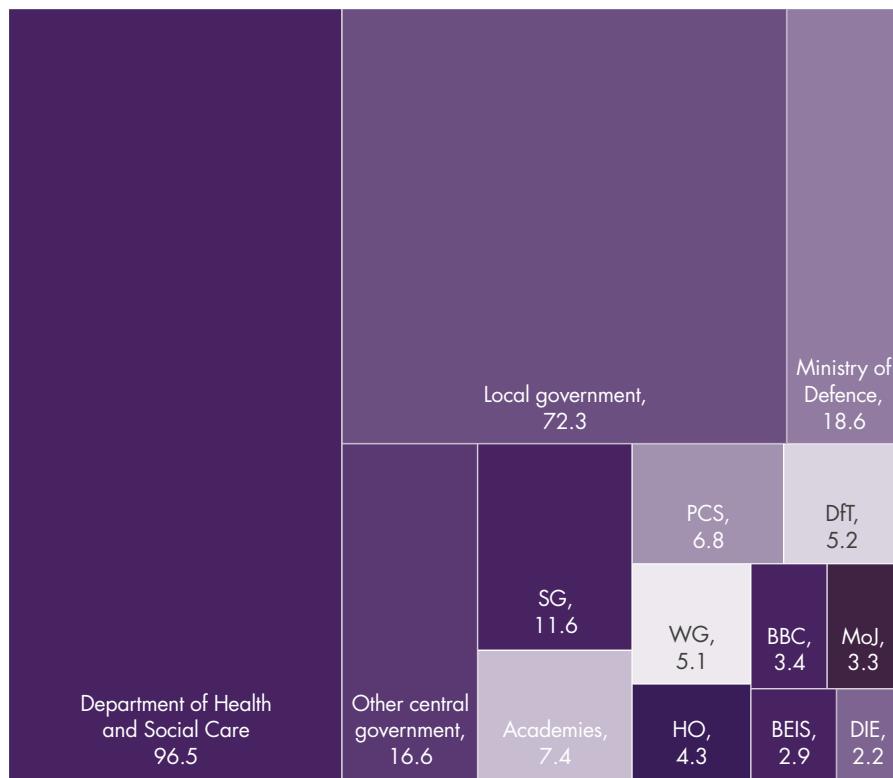
5 Albalate et al. (2021) – Re-municipalization of local public services: incidence, causes, and prospects

6 Neame (2023) – Revealed: Full policy platform set to shape next Labour manifesto

managing markets and improving public services, one that does not simply lock public authorities out of the administrative and managerial control over services, to begin to transition away from the inefficiencies and failings of the prevailing understanding of value-for-money in public contracts^{7,8}.

Whole of Government Accounts 2022

Purchase of goods and services (£bn)



7 Clifton et al. (2021) – Re-municipalization of public services: trend or hype?

8 Gradus & Budding (2020) – Political and institutional explanations for increasing re-municipalization

1.3 Towards social prosperity

The changes described, alongside the practical shifts in local procurement processes, suggest a significant transformation in how local authorities conceive of and achieve value-for-money. As these changes continue to unfold, public contracting is set to play a pivotal role in shaping and delivering on the strategic outcomes of government, both central and local. The implied theory of change here represents a move towards a more rational and outcome-orientated public management paradigm that seeks to reassert strategic control over services and a social responsibility towards residents and communities rooted in principles of stewardship and equitable growth.

In an attempt to capture this theory of change, this report puts forward the fostering of *social prosperity* as an appealing and tangible framework for local authorities – one that has the potential to be applied throughout the management of public services, whether outsourced, insourced, or hybridised. Policies and strategies once dictated by a neoclassical logic of cost-savings and closed market systems are being rewired to place growing emphasis on equity, sustainability, and community wellbeing. The shift is underpinned by a contemporary pragmatism at the local level in the face of increasing challenges posed by austerity, climate change, and poor infrastructure – not to mention the high-profile failings of traditional outsourcing models^{9,10}.

There is tacit public and third sector demand for more accountable, transparent, and participatory governance and a reassertion of public duty in service delivery; further suggesting a move towards models that value collective well-being over traditional economic measures alone. In a 2019 study of locally-defined measures of the so-called “good life” by residents of east London, researchers found a strong emphasis on economic stability, social inclusion, and overall well-being¹¹. Local definitions of prosperity encompassed secure, well-paying jobs that offer satisfaction and career growth, alongside affordable and quality housing. Central to these conceptions was the inclusion of all community members in economic and social life, ensuring access to essential services, education, and opportunities for civic participation. The 2019 study underscored the importance of healthy environments, both physically and mentally, supported by robust local support networks and access to green space, whilst highlighting the value of continuous learning, cultural integration, and political inclusivity. *Social prosperity* in this report therefore refers to the participation and

9 Ibid.

10 Craven (2020) – The legal and social construction of value in government procurement markets

11 Moore & Woodcraft (2019) – Understanding prosperity in east London: Local meanings and ‘sticky’ measures of the good life

wellbeing of residents and communities in their personal and civic lives, driven by local government actions. It includes economic development, environmental stewardship, social harmony, democratic governance, and effective public services provision¹² – all of which, if made the case for well enough, align with principles found within existing legislative and policy frameworks (as will be explored throughout this report).

Economic prosperity is still essential for social prosperity, but is not the unsparing metric it was traditionally considered to be and is instead seen as a facilitator towards more postmaterialist concerns – such as social and environmental stewardship – as prosperity grows for residents, communities, and local businesses.

The language of prosperity is intentional here; the UK's public sector procurement spending was £393bn in 2022/23, with forecasts suggesting continued growth at around 5 percent in 2023/24 and around 3 percent in 2024/25¹³. This spending still represents a significant portion of the UK's overall public expenditure and underscores the pivotal role of public procurement in the national economy. With the outcomes of public procurement now being increasingly looked at and leveraged for their strategic potential, the potential of this spend to deliver relative prosperity is palpably immense.

12 Primarily drawn from insights found within Hamilton (2022) – Public procurement: price-taker or market-shaper?, Lee et al. (2019) – The contribution of open government to prosperity of society, and Moore & Woodcraft (2019) – Understanding prosperity in East London: Local meanings and “sticky” measures of the good life

13 House of Commons Library (2023) – Procurement statistics: a short guide

CHAPTER TWO

Legislative and policy framework

This section examines the legal and strategic frameworks that can facilitate local authorities undertaking commercial activities and managing public assets for social prosperity. The **Local Government Act 2003** and the **Localism Act 2011**, which allow for commercial ventures, innovative service delivery, and, along with other relevant legislation, allow for the establishment of **Local Authority Trading Companies (LATCo)** within set guidelines to ensure fair competition and financial prudence. Public Works Loan Board (PWLB) guidelines on investment constraints for community assets and the strategic implications for local authority commercialism and insourcing are also discussed.

The evolving public procurement legislative framework, notably the post-Brexit changes and the **Procurement Act 2023**, are analysed for their potential to further align procurement with local policy goals and social prosperity. Additionally, the **Teckal exemption's** role in facilitating strategic initiatives and the impact of proposed **Labour reforms** on public contracting practices are highlighted.

2.1 Commercial rights and LATCos

In 2003, the **Local Government Act**, specifically **sections 95-111**, empowered local authorities with the right to trade commercially through a separate legal entity in any of their statutory functions, with certain limitations. This provision was designed to encourage local government to explore more commercial and entrepreneurial opportunities, aiming to generate income that can support the delivery of local services. The Act was reflective of a broader NPM agenda, a management philosophy that pushed for public sector bodies to adopt more business-like approaches. The Act sought to promote financial self-sufficiency, cost-efficiency, and a competitive ethos within the public sector, key tenets of the NPM approach.

Section 19 of the Local Government Act amended restrictions originally set out in the 1988 version of the Act, that prohibited local authorities from considering certain “non-commercial” factors when awarding contracts—including the geographic location and workforce-related matters. The amendment allowed local authorities to now consider some of these non-commercial factors, particularly when it is in the public interest to do so. The change laid the groundwork for more flexibility in procurement decisions, enabling local authorities to begin aligning their procurement strategies with broader strategic goals and matters of local importance.

However, this activity has to comply with guidelines and regulations to ensure that it does not unfairly compete with the private sector and is consistent with public service objectives. Local authorities must adhere to conditions and follow the guidance issued by the Secretary of State, including preparing a business case for commercial activities, demonstrating that they are not taking undue financial risks, and ensuring that any profits are reinvested back into local services.

As LATCos are typically set up as companies limited by shares or by guarantee, they are subject to the requirements of the **Companies Act 2006**. This includes obligations related to company formation, governance, financial reporting, and director responsibilities and the Act should be thoroughly familiarised with as a basic necessity for LATCo formation.

The **Localism Act 2011** further developed these commercial rights across local government. It provided local authorities with the general power of competence, allowing them significantly more freedom to act. This broad power encourages councils to explore commercial opportunities and innovation in service delivery. However, this freedom is again somewhat curtailed by existing legislation, which necessitates that local authorities navigate and adhere to pre-existing restrictions on certain activities to avoid legal pitfalls and ensure fair public administration – a drag on organisational

capacity that can produce challenging outcomes when mismanaged. The complexities surrounding the Act's implementation reflect the tension between encouraging local commercialism and ensuring activity remains within legal bounds. Specifically, regarding charging for services, the Localism Act stipulates local authorities can only charge for discretionary services—those they choose to provide—and must aim only to recover costs, not generate profit. This framework is designed in such a way as to enable councils to recover the costs of providing or improving services, ensuring financial sustainability without overstepping into profit-making.

A notable case involved a local authority's attempt to establish a joint venture with a private firm, aiming to drive regeneration through new housing and job creation. The authority chose to structure this partnership as a Limited Liability Partnership (LLP), which led to increased legal scrutiny and eventually challenge. A local resident and ex-government official argued that the use of an LLP for what was perceived as commercial activities contradicted the Localism Act's stipulation that such activities should be managed through a company. The authority maintained that the venture's activities were non-commercial, thus not necessitating a company structure¹⁴. Such cases underscore the critical importance for local authorities to thoroughly understand the legal frameworks and existing regulations when exercising their newfound powers, no matter what pieces of legislation they are found within.

Beyond the Localism Act, the **Public Services (Social Value) Act 2012** requires local authorities and other public sector bodies to consider how the services they commission and procure might improve the economic, social, and environmental well-being of their locality. It encourages a broader view of value that can support more innovative and commercially minded approaches to service delivery.

Finally, the **Public Contracts Regulations 2015** implement EU procurement directives in the UK and outline the procurement rules that local authorities need to follow when they are procuring goods, services, or works. Even though LATCos operate as commercial entities, when they are contracting with the parent local authority, they must comply with these procurement regulations to ensure transparency and fairness, so familiarisation is necessary.

The strategic implications of this legislative framework encourage a shift towards more business-like approaches in public service delivery, whilst supporting the adoption of a broader view of value through other pieces of legislation. The framework has developed to promote innovation and commercial opportunity, but has also set up

14 Dobson (2018) – General power of competence

several legal restrictions and often falls back on older, more restrictive legislation, requiring careful management to avoid legal pitfalls. Local government practitioners should familiarise themselves with broader local authority commercial legislative frameworks and accompanying guidelines and conditions to leverage commercial opportunities effectively and foster local social prosperity.

2.1.1 Public Works Loan Board Guidance

The Public Works Loan Board (PWLB) provides crucial financial support to local authorities across the UK, offering loans for capital projects at below-market rates. This funding can be instrumental for local authorities, particularly in relation to the establishment of LATCos that require significant capital investment. The PWLB's guidance outlines the terms, conditions, and procedures for accessing these loans. Adhering to the PWLB guidance ensures local authorities maintain compliance with the prudential borrowing framework, which mandates that all borrowing be affordable, prudent, and sustainable. This framework is crucial when forming a LATCo, as it helps local authorities integrate the financial needs and risks of these commercial enterprises into their overall financial strategies. Ensuring regulatory compliance through adherence to PWLB standards supports the financial health and stability of LATCos, enhancing their credibility and operational viability.

Moreover, the PWLB's structured financing supports the strategic objectives of LATCos by enabling projects that might otherwise be unfeasible due to budget constraints. The guidance provided by the PWLB also aids local authorities in managing financial risks associated with commercial activities undertaken by LATCos, outlining clear criteria for borrowing and repayment that safeguard against fiscal mismanagement. Thus, the PWLB guidance is not just a financial tool but a strategic enabler for local authorities looking to expand or improve services through LATCos, aligning investment with local strategic goals and ensuring long-term sustainability.

The recently updated PWLB guidance limits local authorities' use of loans to service delivery, housing, regeneration, and treasury management, explicitly banning investment in assets solely for financial yield. Authorities must now submit a three-year plan showing the link between borrowing and approved expenditures, with a clear prohibition on funding speculative income-generating assets without a **policy purpose**. The guidance permits investments in assets that serve a direct policy aim or are delivered through compliant third parties, reinforcing adherence to the prudential framework to manage risks like non-repayment.

Increased restrictions and oversight are in place for local authorities at risk of default, emphasising financial planning. Although this curtails some commercial ventures, it

supports investments tied to service enhancements and could encourage insourcing aligned with service improvements, shifting focus towards borrowing that directly benefits local service delivery and policy objectives.

2.2 Legislating public procurement by local authorities

The **Public Services (Social Value) Act 2012** plays a crucial role in the legislative and policy framework of public contracting for local authorities. The Act mandates considerations of how local authority procurement processes and decisions can enhance social, economic, and environmental wellbeing. This Act requires local authorities to assess not only the direct value of the services and goods procured but also how they can positively impact residents and communities. This holistic legislation allows local authorities to leverage their buying power to foster broader societal improvements, aligning procurement strategies with key strategic objectives and enhancing the overall impact of public spending. The Act is well-trodden ground by local authorities, but its ability to enhance local strategic procurement has been expanded by the **Procurement Act 2023**, especially in the context of the **Teckal exemption**.

2.2.1 Teckal exemption

The **Teckal exemption** is a pivotal legal mechanism within EU and, subsequently, UK procurement law, allowing public authorities to directly award contracts to entities they own, bypassing the usual competitive tendering requirements. Originating from the 1999 European Court of Justice case *Teckal Srl v Municipality of Viano*, this exemption enhances the strategic importance of LATCos by ensuring that local authorities can directly procure services from owned companies to reduce administrative burdens and enhance operational efficiency. The exemption necessitates that the local authority exerts control over the LATCo akin to its internal departments and that the LATCo primarily conducts its business with the owning authority, thereby further aligning LATCos with strategic goals and regulatory frameworks.

In terms of compliance, the Teckal exemption sets out specific criteria that must be met to justify the direct award of contracts. These include the **control test**, where the public authority must demonstrate a level of control over the LATCo similar to that over its own departments, typically evidenced by holding all shares and influencing governance decisions. Additionally, the **functional test** requires the LATCo to conduct at least 80 percent of its activities for its public sector owner(s), limiting its commercial activities with third parties to no more than 20 percent of its turnover over a three-year period. Meeting these criteria ensures that LATCos can operate within legal bounds while commercialising services and managing financial risks, thereby presenting themselves as a compelling option through which to approach local service delivery

and strategic public procurement.

The integration of the Teckal exemption into UK law through the **Public Contracts Regulations 2015** and its anticipated protection under the forthcoming Procurement Act 2023 underscores its enduring relevance post-Brexit. For local authorities, this means an assurance of continued strategic flexibility in establishing and managing LATCos. These entities can become instrumental in local service delivery, enabling authorities to tailor public contracts and services to community needs, enhance cost efficiency, and foster social prosperity, with the potential to retain administrative and managerial control. Consequently, local authorities should familiarise themselves with and apply the Teckal exemption to spark nuanced governance and operational strategies that are able to leverage this specific legal framework where appropriate and pragmatic to do so.

2.2.2 Procurement Act 2023

The **Procurement Act 2023** and its upcoming enactment stands to be the culmination of a longstanding legislative turn towards strategic public procurement. The Act aims to consolidate and simplify over 350 disparate procurement regulations into a single, cohesive regime. This consolidation is intended to eliminate redundancies, streamline processes, and enhance the procurement landscape's responsiveness to the dynamic needs of the country.

Key principles and objectives that underpin the Act include:

- **Value-for-money:** Ensuring that public spending achieves the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought.
- **Maximising public benefit:** Considering the broader impact on society and the economy, aiming to achieve positive outcomes beyond the immediate purchase.
- **Transparency:** Making public procurement processes more open, allowing suppliers and the public to understand decision-making, policy and practice better.
- **Integrity:** Maintaining high ethical standards, preventing misconduct, and ensuring proper management and control to tackle fraud and corruption.

The Act will also codify the equal treatment of suppliers, except where differences justify alternative treatment, and emphasises the removal or reduction of barriers for SMEs. Furthermore, it mandates contracting authorities to consider the **National Procurement Policy Statement**, effectively placing strategic procurement policy on a legal footing nationwide.

It is also set to better facilitate a broader proliferation of a strategic approach to procurement across local government. The Act's introduction of flexible procedures empowers local authorities to customise their procurement activities to meet unique requirements, fostering innovation and greater responsiveness to changing needs. This flexibility, combined with measures to lower barriers for SMEs and social enterprises, enables wider participation in procurement processes, which can enrich the supplier base and stimulate local economic growth in locally set terms.

Provision 12 of the Act outlines a strategic framework that mandates local authorities to pursue value-for-money, maximise public benefit, ensure transparency, uphold integrity, and foster equitable supplier relationships. Its strategic implications are profound and reflect a broader shift towards procurement that supports broader socio-economic objectives already underway across local government.

At its core, the provision codifies a holistic approach to procurement, where decisions extend beyond cost to consider long-term economic, social, and environmental benefits. This will require local authorities to view procurement as a strategic tool for local economic growth, social equity, and sustainability. The emphasis on transparency and integrity aims to build trust in the procurement process, encouraging a more competitive and diverse supplier market.

Importantly, Provision 12 addresses the specific challenges faced by SMEs in accessing public procurement – a longstanding concern of local government. The provision acknowledges the crucial role SMEs play in local economies but also the barriers to their participation in public contracts. Local authorities are thereby given the statutory duty to identify and mitigate these barriers in their approaches to public procurement, promoting inclusivity and diversity in the supplier base with a focus on local proximity.

Another compelling provision; **Provision 19**, contains a “most advantageous tender” criterion, encouraging a holistic approach to tender evaluation, again extending beyond cost to include quality, sustainability, and social value. This approach further aligns public procurement with broader economic, social, and environmental goals, enhancing it as a tool for public value creation.

Provision 19 emphasises supporting local and national suppliers, promoting local economic development, and ensuring supply chain resilience. It provides local authorities with the legislative backing to prioritise tenders that contribute to local job creation and economic vitality, fostering stronger, more self-sufficient local economies. Moreover, the ability to disregard abnormally low tenders addresses the quality and sustainability concerns often echoed throughout the public procurement system, further serving to ensure that cost-savings do not undermine the long-term interests of the

communities. This will prove crucial for integrating high standards as part of local contracts and projects. Local authorities are also permitted to exclude tenders that fail to meet procedural requirements, seeking to promote a fairer, more transparent procurement system that builds trust and ensures the effective and ethical utilisation of public funds.

Finally, the Competitive Flexible Procedure, set to be introduced under the Act, also represents a notable shift towards a more adaptable and bespoke approach to public procurement. This procedure allows contracting authorities to tailor the procurement process to the specific requirements of each contract, enabling the design of multi-stage processes where potential suppliers can be progressively narrowed down based on refined criteria. Such flexibility is intended to foster innovation and a strategic purview of procurement whilst encouraging procurement practices to become better aligned with the complexity and nature of the goods or services being procured.

The procedure mandates that these processes remain proportionate so they do not become unnecessarily burdensome, particularly for smaller, lower capacity suppliers like SMEs and community-based third sector organisations, who may otherwise struggle with overly complex requirements. Moreover, the procedure is underpinned by stringent compliance and transparency obligations—contracting authorities are required to publish various notices through the procurement lifecycle. By streamlining and reducing the complexity of previous procurement methods, this reimagined procedure is further indicative of the Act's strategic potential for local contracts.

2.2.3 Implications for local contracts

These provisions confirm an all-out shift towards a more strategic purview of public contracts and their potential for delivering economic, social and environmental benefits across localities. Provision 12 challenges and empowers local authorities to emphasise value for money alongside socio-economic benefits and encourage SME participation. Similarly, Provision 19 equips these authorities with the legislative means to align procurement with broader policy goals like economic regeneration and environmental stewardship. To capitalise on these opportunities, local authorities must refine their procurement policies and practice to ensure compliance and begin to think deeper strategically about how their approach to procurement can deliver local economic growth, social well-being, and environmental stewardship.

The LGA has expressed a cautiously optimistic stance towards the Procurement Act, acknowledging the government's willingness to incorporate feedback from local authorities into the legislative process. The LGA's engagement with government officials, particularly in the wake of the *Transforming public procurement Green*

Paper, has demonstrated a collaborative effort to refine the procurement framework in a manner that is both efficient and sensitive to the operational realities of councils, aspects the original Green Paper was notably lacking in¹⁵. By welcoming amendments that preserve the ability of local authorities to still utilise both vertical and horizontal procurement exemptions, the LGA recognises the potential for these reforms to facilitate more collaborative and effective public service delivery.

Incoming reforms inevitably bring practical challenges, such as managing the administrative burden of transitioning and increased transparency, as well as evaluating bids based on broader criteria some procurement teams may not be familiar with. These aspects should be planned for accordingly by local authorities and central government should consider a sector-wide capacity building programme to help procurement teams across the public sector and local government get the most out of the reforms.

The Act also replaces traditional procurement procedures with a Competitive Flexible Procedure (CFP) allowing LATCos to tailor processes to their specific needs while adhering to principles of value-for-money and integrity. Enhanced transparency requirements will necessitate detailed disclosures throughout the procurement lifecycle¹⁶. Additionally, the Act does accommodate direct awards in urgent scenarios, aiming to better align operational responses with efficient local governance. LATCos are also encouraged to align their procurement activities with national priorities such as those dictated by the **National Procurement Policy Statement**. This is promising as LATCos and their various models have had great success in delivering direct social impacts to local communities without the need for contractual social impact KPIs when managed well, allowing them to be leveraged for strategic gains without overly burdensome and prescriptive bureaucracy.

Transition management is a critical concern, necessitating comprehensive planning, capacity building, and the revision of current processes to align with the new framework. There is now a more pressing need for training and development to ensure procurement teams are well-equipped with the necessary skills to effectively operate within the reformed landscape. Engaging stakeholders is another increasingly vital aspect, requiring efforts to educate and bring them on board with the changes and broader strategies, thereby ensuring as seamless a transition as possible and cultivating a culture that embraces the new system.

15 Local Government Association (2023) – [Procurement Bill, Remaining Stages, House of Commons](#)
13 June 2023

16 Brown (2023) – [The Procurement Act 2023 – key implications](#)

Additionally, interpreting and implementing the National Procurement Policy Statement within local contexts, managing the risk of legal challenges, and ensuring contracts are clear, fair, and adaptable presents a multifaceted set of practical issues concerning capacity, capability, and workforce skills – challenges local government has been known to struggle with even beyond the purview of public procurement.

2.3 Relevant Labour proposals

Labour's documentation and rhetoric before the 2024 election, if put into practice, represent a paradigm shift aimed at redefining the role of local authorities in fostering inclusive and equitable growth. Through strategic policy adjustments, Labour seemingly intends to further leverage public contracts as tools for societal, environmental, and economic good, underscoring the continued significance of this approach for local government leaders, practitioners, and stakeholders.

At the core of Labour's conceivable strategy is the ambition to initiate the **largest wave of insourcing of public services in a generation**, directly challenging the previously prevailing trend of privatisation¹⁷. This move is paired with a notable overhaul of government contracts to support local businesses, ensuring that public procurement is strengthened further as a catalyst for local economic development and sustainable growth. The extension of the Freedom of Information Act to private companies holding public contracts and publicly-funded employers' associations are also intended, indicating an accountability and transparency angle to their platform.

Key to Labour's proposals in terms of public procurement is the establishment of a *National Procurement Plan*, which, much like the incoming Procurement Act, will mandate social value as a core consideration in contract design¹⁸. The plan not only aims to continue elevating procurement processes beyond mere cost-effectiveness but also to embed social, environmental, and labour considerations into the heart of public procurement practices. The plan envisages a procurement landscape where contracts are awarded based on their potential to deliver public value to society, thus encouraging local authorities to continue adopting more strategic and socially-minded approaches to their contracts.

Labour have also suggested the introduction of a *Fair Work Standard*, aiming to ensure public contracts are awarded to businesses that uphold high employment standards, and the creation of a *Social Value Council*, comprised of public, employer, and

17 Express & Star (2021) – Labour pledges to 'clean up cronyism' with insourcing plans

18 Chappell (2022) – Angela Rayner to open conference with pledge to end Tory "procurement racket"

trade union representatives, tasked with ensuring that public contracts support local economies and meet enhanced standards of accountability¹⁹. The framework is said to be designed to recognise and reward exemplary employment practices, ensuring public contracts drive positive workforce outcomes.

Although the Labour Party has seemingly quietened on the details of their approach to insourcing, outsourcing and procurement in the run-up to the election and since taking office, efforts must be made to ensure these aformentioned proposals become national policy and local government should look to collectively advocate to this end. There is immense economic, strategic and socially prosperous potential in these proposals, so to see them fail to materialise will be a grave mistake and missed opportunity.

The previous proposals by Labour are reminiscent of the local charter for ethical public procurement put forward previously by Localis. The charter emphasises the need for fair wages, diversity, and representation within suppliers' workforces, along with efficient and transparent procurement processes that include public accessibility to contracts and performance metrics, as well as proactive engagement with local businesses to foster tailored opportunities and stress timely payments throughout local supply chains. The charter can be found in full within *True Value*²⁰. Further reflecting points made in *True Value* and by various stakeholders, Labour also place emphasis on supporting local business and reducing bureaucracy, thereby streamlining the bidding process for SMEs.

Labour's proposals resemble other European models that integrate social, environmental, and economic considerations into public buying decisions, such as Germany, whose procurement policies include social and environmental considerations, focusing on sustainable procurement, and Scandinavian countries, such as Denmark, Norway, and Sweden, who are known for integrating social clauses into public procurement to promote employment opportunities, fair working conditions, and environmental sustainability.

Labour's proposals, much like the Procurement Act, will require significant operational, strategic, and cultural shifts within local authorities and public procurement practitioners, many of which have begun to proliferate across local authorities with the means and innovation to do so, with several success stories to boot.

Nonetheless, the shift towards insourcing necessitates local authorities to reassess and potentially rebuild internal capacities to deliver services that were previously outsourced. This would involve investing in workforce development, administrative

19 Neame (2023) – Revealed: Full final policy platform set to shape next Labour manifesto

20 Localis (2021) – *True Value: Towards ethical public service commissioning*

infrastructure, and technology. Labour's proposed requirement for a public interest test before outsourcing and the focus on insourcing when contracts expire or fail, while righteous on paper, would inevitably increase the operational burden on local authorities to conduct necessary assessments and manage transitions effectively. This would require a significant programme of capacity-building and upskilling if there is to be a level enough playing field for local authorities to realise the most strategic potential out of any upcoming reforms, proposed or otherwise.

CHAPTER THREE

Value-for-money beyond economic measures

In recent years, the traditional understanding of value-for-money has undergone a significant reconceptualisation. Traditionally viewed through a purely economic lens, the concept is increasingly incorporating social and environmental considerations through the practices of local authority strategic directors and procurement teams. Previously, the compliance-focused mindset of public procurement, dictated by austerity measures and EU regulations, often stifled innovation and a strategic approach to public procurement by treating it as merely an administrative function. Still persisting in many ways, this approach emphasised strict adherence to budget constraints and regulatory compliance, sidelining strategic considerations.

3.1 Social and environmental value

The introduction of the **Social Value Act** marked a pivotal shift in the UK, mandating local authorities to consider how public contracts might improve the economic, social, and environmental wellbeing of their area. Although the Act imposes minimal legal requirements, it significantly influenced procurement practices, pushing procurement teams to consider social and environmental benefits alongside cost. Social value has been described as a “weak legal nudge” that has nonetheless had a significant impact due to a convergence of factors, including austerity, recession, and a general impetus for change²¹. This environment fostered a receptivity to the duty of social value, particularly within local government and the third sector, leading to strategic interactions that shaped the practical application of the law.

Social value was initially met with resistance due to challenges in aligning it with traditional procurement criteria, but this resistance waned as social value became routine and integrated within organisations²². Young professionals, often with backgrounds in activism, championed social value in its nascent stages, promoting its importance through training and advocacy. Just over a decade of the legal duty to consider social value has represented a transition from a purely cost-saving focus to a balanced approach consider economic efficiency and social prosperity through a local lens. Best practice strategic procurement now prioritises social outcomes without compromising cost-effectiveness, requiring a nuanced understanding of local socio-economic conditions. Thus, public procurement is now increasingly seen as a tool for targeted social and economic regeneration, with great potential in going beyond statutory requirements to deliver a more socially prosperous local economic model.

Moreover, the regulatory approach underpinning the social value duty empowers procurement team leadership, positioning them as key actors in determining and realising value that aligns with organisational and societal goals. This approach discourages the imposition of values on the market; instead, it promotes an engagement with and adaptation to ongoing conversations and practices within the market and broader locality. By endorsing specific conversations, behaviours, case studies, and awards, central government steers the narrative around social value, thereby redefining value-for-money to encompass a balance of economic efficiency with social and environmental benefits – the likes of which are reflected in recent and ongoing procurement reforms.

21 Craven (2021) – The legal and social construction of value in government procurement markets

22 Ibid.

By embedding social value into procurement strategies and public contracts, local authorities have worked towards holistic goals that encompass both market efficiency and the broader public good, although this has required innovative contracting, ongoing supplier management, and robust stakeholder engagement to resolve conflicts effectively. This has produced a “social value rationality” where concepts such as environmental sustainability, social inclusions, fair labour practices, and equitable growth are embedded into contracts and other public procurement practices²³.

3.2 Administrative, control and managerial value

There is an equally significant yet less overt expansion in the concept of value-for-money also underway, integrating aspects of administration, control, and management. This shift is particularly pronounced in scenarios where outsourcing has been inefficient or failed, prompting local authorities to reevaluate the management of public contracts and services. The growing preference for insourcing or hybridised contracts underscores a broader shift towards enhancing control over service delivery and the perceived value of such control within service departments and procurement teams. In this sense, value-for-money not only considers cost or social aspects but also accountability, the quality of management, and the ability to respond dynamically to public needs, thereby improving overall service outcomes.

Social choice theory aligns this trend with societal values, emphasising that public decisions increasingly reflect a broader array of social and environmental outcomes beyond economic metrics – and being able to control and manage public contracts directly is perceived as a direct enabler of delivering on this basis²⁴. Local authorities, as political entities, often have the administrative and management aspects of service delivery closely scrutinised by residents and communities, whether they have been outsourced or not. Therefore, taking back relative control over the administration, delivery, and management of public services becomes an attractive offer – one that has seen many willing to take on short-term economic losses for the sake of long-term strategic control, adding further nuance to local conceptions of value-for-money.

Both the pragmatic and ideological drive towards integrating administrative control into the value-for-money paradigm are further supported by the shift towards achieving strategic goals through public procurement. This shift not only challenges traditional economic conceptions of value-for-money but also redefines procurement

23 Ibid.

24 Warner (2023) – Pragmatic municipalism: Privatization and remunicipalisation in the US

success to include effective management, strategic control, and the fulfilment of environmental and social goals – even if this means a trade-off for short-term economic gains.

This renewed emphasis on administrative control is evidenced by the increasing adoption and consideration of insourcing and hybrid strategies, alongside the Labour Party's proposed initiative for a local public service insourcing drive. These developments signify a transformative approach to value assessment, recognising managerial oversight as a critical component of value-for-money in public sector procurement. The expansion of the value-for-money concept to encompass administration, control, and management aspects marks a further evolution in the operationalisation of public procurement at the local level, further aligning economic actions with the broader stewardship responsibilities of local authorities.

CHAPTER FOUR

Outsourcing- insourcing dynamics

This section explores the evolving dynamics of outsourcing and insourcing within local government, highlighting the limitations, transformations, and strategic recalibrations that have shaped public service delivery and contracting over recent decades.

Initially driven by the rigour introduced in 1980 by Compulsory Competitive Tendering (CCT) practice and subsequent NPM ideologies that championed market-driven approaches, local authorities extensively pursued outsourcing to private external providers. This model, intended to reduce costs and enhance efficiency through competitive tendering and specialised expertise, frequently encountered obstacles such as non-competitive markets in practice and high transaction costs.

4.1 Historical failings

As a consequence of these and other systemic challenges, including high-profile failures like the collapse of Carillion, there has been a marked shift towards insourcing and other means of reasserting public control over public contracts. This strategic pivot is aimed at regaining control over service quality and cost management, integrating administrative, social, and environmental considerations into a more holistic value-for-money framework. Through a critical assessment of these past practices and emerging trends, the section examines innovative approaches like hybrid models and the integration of LATCos and local arms-length bodies to foster more resilient and responsive public service systems.

The application of outsourcing and privatisation in local government services has often faced significant limitations. The theory suggested that competitive pressures would drive down costs and spur innovation, yet so often in practice, many local contract markets were non-competitive, leading to high transaction costs and monopolistic practices²⁵. Over the coming decades, it became evident that achieving the theoretical efficiency gains was more complex than anticipated. High-profile failures and scandals highlighted the risks and inefficiencies inherent in these approaches. The insolvency of major suppliers like Carillion, which led to severe financial and operational disruptions, brought criticism and scrutiny of the reliance on private contractors for public services by governments, revealing systemic issues like poor contract management, inadequate oversight, and a prevailing orthodoxy of prioritising cost-savings over service quality.

One significant limitation of historical outsourcing and privatisation initiatives is the relinquishing of public administrative and managerial control. This loss of control results in what can be termed “bureaucratic injustice”²⁶, where local authorities have become increasingly marginalised from participating in their own public contracts, not only by the design and technicalities of the contracts themselves, but also by a systematic reduction of the strategic capacity to do so. As these contracts evolve, local administrative and managerial capacities have diminished. This erosion occurs because long-term public contracts, with all duties outsourced to a private entity, locks away any strategic potential until at least the completion of the contract. In the meantime, those with pertinent expertise and experience are not drawn to procurement or strategic roles within local government, especially

25 Gradus & Budding (2018) – Political and institutional explanations for increasing re-municipalization

26 Craven (2021) – Managing dissonance: Bureaucratic justice and public procurement

in the context of austerity reducing the ability of councils to invest in talent. This is perpetuating because it is precisely these individuals and skills that are essential for harnessing the strategic potential of public procurement.

Recognising these challenges, local authorities are increasingly inclined to explore more nuanced and strategic approaches to public contracts. The shift includes forming partnerships with suppliers and other local authorities, hybrid models that combine the insourcing and outsourcing of individual contractual functions, or in some cases moves towards full insourcing. At the core of such strategies is an aim to retain the benefits of private sector involvement and access to resources while addressing the failings of traditional outsourcing, such as poor service quality and lack of cost-effectiveness and reliable repayment.

Moreover, the introduction of social value requirements has transformed procurement practices, ensuring that contracts deliver broader societal benefits alongside economic value. This evolution reflects a growing understanding that while outsourcing can offer advantages, a lot of strategic potential and control can be lost, and careful contract design and management is required to ensure these contracts align with the public interest and deliver sustainable, high-quality public services.

4.2 Moves towards insourcing

The failings and inefficiencies of previous outsourcing drives have led local authorities to increasingly adopt a more pragmatic approach to public service management, seeking to bring key aspects of or entire contracts back under public control. This trend does not necessarily herald a return to full public ownership but represents a nuanced strategic mindset that insources specific contract functionalities and reflects a broader, more complex evaluation of value-for-money that includes social, environmental, and administrative considerations.

This shift is driven by a multitude of factors, chiefly the desire to regain control over service quality and cost management, and to address the non-competitive markets, high transaction costs, and ideological biases that have plagued outsourcing initiatives²⁷. Insourcing allows for a more direct control over services, unlocking more strategic potential out of public contracts and their progression²⁸.

27 Warner & Hefetz (2012) – Insourcing and outsourcing

28 Ibid.

Empirical findings have underscored the benefits of insourcing. A study on Danish municipal services show that work income and employment rates have seen substantial improvements following insourcing decisions, with particularly positive outcomes for underrepresented groups such as women, younger, and older employees²⁹. These findings not only challenge the efficiency claims of privatisation but also highlight insourcing's capacity to contribute to broader social objectives like reducing the gender wage gap and enhancing public sector employment attractiveness.

The move towards insourcing and remunicipalisation marks a significant shift in the philosophy of public administration from a hegemony of NPM and market-driven approaches to a strategy that integrates public interests into service delivery mechanisms. This trend is characterised by a **pragmatic municipalism** that utilises commercial nuance as a strategy to maintain service quality within fiscal realities³⁰. As local governments reassert their role in service delivery, they are not only addressing the inefficiencies born from previous outsourcing efforts but are also actively redefining what constitutes value-for-money in public service delivery, incorporating social and environmental factors alongside traditional fiscal metrics. This pragmatic, socially-conscious approach is shaping a new paradigm in public service management, steering local authorities towards a future where public control and high-quality service delivery are paramount.

Thus, insourcing involves service provision managed and delivered entirely within a local government framework or a closely associated network of local government entities (such as directly controlled delivery vehicles or community wealth building structures). This approach seeks to maximise control over the quality of public services and their integration into the wider strategic goals of local authorities. It can often involve direct service provision to a service user without third-party involvement, focusing on building and leveraging internal capacity and direct accountability to local residents and communities.

29 Hansen & Petersen (2023) – Insourcing public services: Consequences for wages and employment

30 Warner (2023) – Pragmatic municipalism: Privatisation and remunicipalisation in the US

4.3 LATCos and ALMOs

LATCos have emerged as a pivotal model for enhancing the strategic potential of public contracts through outsourced, insourced, or hybridised service delivery. This section evaluates the viability of LATCos, focusing on their operational mechanics, strategic advantages, and the potential integration of regional bodies akin to **arms-length management organisations (ALMOs)** to bolster their effectiveness in relation to the administration and management of public contracts. Given LATCos and ALMOs inherent alignment with local strategic goals, due to their public sector origins, a better understanding and utilisation of them for public contracts and services has great potential.

LATCos operate as commercial entities owned by local authorities, enabling them to offer public services with both commercial acumen and public-focused integrity. In several ways, LATCos reflect a broader trend of local governments increasingly reclaiming some or total control over service administration, management, or provision that has been traditionally outsourced. The shift is driven by local authorities' desire for greater direct oversight, enhanced flexibility, and financial sustainability in service delivery – indicating a healthy pragmatism is at play.

One of the core strengths of LATCos is their ability to maintain direct control over services or service functions, enabling profits to be reinvested back into the local area and residents. The financial structure of LATCos often results in cost-savings too, particularly regarding pensions, and enables them to operate with market agility. As noted, the application of the **Teckal exemption** is crucial here; it allows LATCos to secure contracts within their local authority boundaries without undergoing competitive procurement, fostering a potentially more streamlined and efficient operational approach if managed well.

However, this is not to imply that LATCos do not face significant challenges. The risk of operational failure due to poor governance or excessive local authority interference in day-to-day operations is present. Success largely depends on the adoption of a clear strategic direction, cultural alignment within the organisation, strong accountability and governance structures, and adequate enough technological investments. Furthermore, realistic financial planning and regular performance reviews are essential to mitigate risks and ensure sustainable strategic operations.

Arms-length management organisations (ALMOs) are not-for-profit bodies set up by local authorities to manage their housing stock. This kind of structure, focused on providing operational functions whilst leaving the strategic oversight within local authorities, presents a compelling model for service delivery where local authority strategic capacity can be prioritised.

The formation of ALMOs within the LATCo framework presents a particularly compelling opportunity to enhance the strategic management of both outsourced and insourced contracts. Originally established to manage social housing on behalf of local authorities, ALMOs operate at an arm's length from the local authority, providing a governance structure that can offer both oversight and operational autonomy. The ALMO model has the potential to be adapted to manage a variety of public services, offering a synthesised model that combines public sector strategic goals with private sector efficiencies.

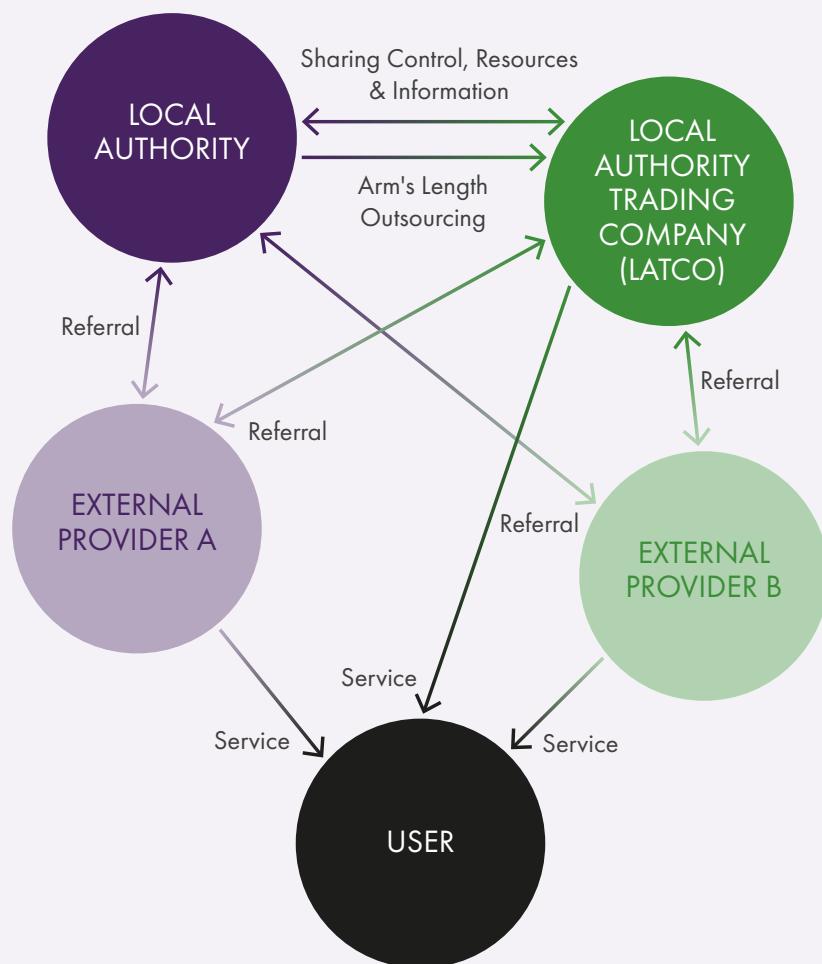
ALMOs adapted to be more orientated towards the administration and management of local service contracts could play a crucial role in the administration and strategic oversight of LATCo operations, ensuring that services are delivered effectively while maintaining alignment with broader public policy objectives. Their experience in balancing operational autonomy with strategic oversight makes them well-suited to manage the complex dynamics of LATCo and public service operations, particularly in ensuring that service contracts are delivered in a way that maximises social prosperity and financial sustainability. ALMOs adapted to be local or regional arms-length service delivery bodies in such a way have the great potential to revitalise local services and render public contracts more strategically valuable.

4.4 Hybrid insourcing

In addition to fully insourcing services, some local authorities have explored hybrid models, maintaining administrative and managerial duties in-house while outsourcing on-the-ground service execution. This strategic reassessment draws parallels with corporate reshoring, illustrating a balanced approach that considers the benefits and drawbacks of both outsourcing and insourcing³¹. Such models provide flexibility and enable local governments to adapt more readily to changing conditions and resident needs, thereby fostering a resilient and responsive public service landscape.

31 Foerstl et al. (2016) – Reshoring and insourcing: drivers and future research directions

Hybrid insourcing model



32

32 Adapted from Yang et al. (2019) – What makes hybrid insourcing successful: A new public-private partnership model for social welfare services

This particular model, reimagined from a South Korean context, strategically combines the administrative and managerial responsibilities retained by the public sector with the operational efficiency and subsidiarity of trusted local providers. Such a structure is particularly relevant for the much-needed enhancement of the effectiveness and responsiveness of public services, embodying a partnership and model of local contracting that leverages the strengths of all sectors, as well as working towards ensuring procurement for service delivery is approached strategically and makes best use of a renewed legislative framework.

In a local context, hybrid insourcing can benefit significantly from the integration of regional, county, or unitary-owned LATCos, which already operate with a blend of public oversight and private sector dynamism. In this model, districts and other constituent local authorities would assume a central role in the planning and design of contracts and services, ensuring that such contracts align with strategic objectives and foster relative social prosperity. Meanwhile, local authority owned delivery vehicles, under the jurisdiction of county or other unitary local authorities, experienced in handling day-to-day operations within defined public and private frameworks and equipped with the skills to do so, can carry out the administration and management of these services, whilst the private or third sector remain largely responsible for the on-the-ground execution of services. This operational autonomy, however, does not imply complete independence, as routine compliance and cooperation with all tiers of local government strategy and regulatory frameworks would be essential to ensure service adaptability and sustainability.

This hybrid insourcing model promotes enhanced democratic accountability and efficiency in service delivery through the shared use of resources, collaborative planning, and integrated service provision through a process of information and resource sharing, referrals, and arm's length outsourcing, that is able to capture the strategic potential of local contracts, rather than having them locked away for years to come. By reshoring service contracts, and ensuring transparency in operations, such a model not only opens the door to further strategic involvement by local residents, communities, and local providers of services by engaging all tiers of local government and the strategic use of LATCos by county and unitary authorities, but also facilitates a more nuanced approach to public service management, addressing common administrative and service challenges more effectively through strategic collaborations emboldened by a nuanced yet distinct reassertion of public control.

Key to the success of hybrid insourcing is the robust management of resources and effective conflict resolution within and between collaborating entities. Strategic leadership and clear communication by the senior teams of all involved local

authorities, irrespective of tier or structure, are crucial, as they ensure that all parties are aligned with the strategic service delivery goals of all involved local authorities and are committed to the shared vision. Equally important is the implementation of robust information systems that facilitate effective case management and enhance the efficiency of public-private partnerships, as well as allow for a referral system that is guided by the viability of local suppliers according to their efficacy in delivering strategic outcomes.

In sum, this hybrid insourcing model blends in-house and outsourced services. A local authority with certain service responsibilities reshores and retains the administrative and managerial components of the service in-house, either directly or through shared arrangements with an arms-length management LATCo of the relevant county or unitary authority, while outsourcing other components, typically on-the-ground service execution and delivery, to trusted local service providers. When the service components in-house concern administrative and managerial power and responsibilities and the capacity to act upon them, the model allows for flexible adaptation to changing needs and capacities, enabling a balance of control and local market prowess. In practice, the model would be driven by a more accountable referral system and partnerships between public, private, and third sector organisations around coherent strategic goals and how local contracts can be geared to deliver upon them—the likes of which can be enabled through formal and informal networks, online platforms, and knowledge-sharing.

The hybrid insourcing model presents a compelling alternative to traditional outsourcing in public service delivery. By bringing administrative duties back into the public sector and collaborating with private and third sector entities for operational execution, local governments can enhance service quality, ensure greater public accountability, and foster social prosperity. This model not only addresses the inefficiencies and gaps often associated with fully outsourced services but also capitalises on the agility and innovation of other sectors, making it a potent strategy for contemporary public management and renewed conceptualisations of value-for-money.

CHAPTER FIVE

Challenges and risk management

This section seeks to diagnose the multifaceted challenges and risks associated with advancing a more strategic approach to local contracting that is able to capture a more expansive conception of value-for-money and foster social prosperity. In light of the significant potential of public contracts to elevate public service quality, local authorities encounter substantial disparities in strategic bandwidth and operational capacity. These disparities critically affect their capacity to effectively manage public contracts, whether via outsourcing, insourcing, or employing hybrid models. Augmenting local government capabilities to this end is essential to address a persistent strategic capacity gap and reverse trends of excessive privatisation of core administrative functions.

5.1 Strategic capacity inequality

Despite the exciting latent strategic potential for public contracts to deliver better public services and foster social prosperity, local authorities face significant disparities in strategic bandwidth and capacity, influencing their ability to manage public contracts effectively, whether through outsourcing, insourcing, or hybrid models. This variation in implementation capabilities, particularly evident from Lord Young's 2015 review³³, underscores the need for a comprehensive national strategy to bolster local governance capabilities. Despite the sector leading the way on social value, the strategic capacity gap Lord Young identified within local government has by no means gone away and managerial capacity continues to drive the outcomes of public contracts. However, this capacity has become compromised as core administrative and managerial functions continued to be privatised excessively³⁴. Therefore, overcoming strategic capacity inequality is crucial to maximising the strategic potential of local contracts and ensuring that reforms lead to enhanced service delivery and social prosperity.

This inequality is particularly pronounced in smaller local authorities and at the central government level, where resources, expertise, and experience can vary widely. The lack of uniformity in strategic capacities leads to inconsistent adoption and effectiveness of public procurement strategies, which can stymie innovation and progress towards more efficient and responsive public service delivery nationwide.

The implementation of public contracts involves complex processes that require specific organisational capabilities, particularly in governance decisions and outsourcing processes. Effective management of these processes is essential to avoid the pitfalls of both over-privatisation and inefficient insourcing. However, barriers often include a lack of expertise in current procurement practices and a limited understanding of the benefits that innovative procurement can bring. Furthermore, local authorities have a tendency to be resistant to developing and implementing renewed strategic public strategies because such changes challenge established practices and require embracing uncertainty and the potential for initial failures, which is often perceived as too risky within governance cultures that value cost-savings and predictability.

This mindset can prevent local authorities from exploring new models that may better unlock strategic potential and foster social prosperity, where the potential benefits of innovation are overshadowed by the fear of deviating from proven methods, thereby stifling adaptability and strategic potential.

33 Cabinet Office (2015) – Social Value Act review: Lord Young's report

34 Warner & Hefetz (2012) – Insourcing and outsourcing

LATCos can play a pivotal role in either addressing or exacerbating strategic capacity inequalities. These entities, when well-governed and closely overseen by local authorities, can serve as effective instruments in managing public contracts, as well as innovative ways to break the mould of entrenched governance cultures within local authorities. LATCos are also able to deliver direct social impacts to local communities without the need for explicit contractual social impact KPIs. However, their effectiveness largely depends on the strategic oversight capabilities of the local authority. Without sufficient strategic capacity, LATCos may struggle to fulfil their potential as tools for innovative and efficient public contract delivery.

To address these challenges, there is an urgent need for a nationwide capacity-building programme initiated by central government. Such a programme should aim to enhance local authorities' strategic capacities more uniformly across the country. It would involve training, resource allocation, and sharing of best practices to ensure that all local authorities are equipped to take full advantage of legislative and policy frameworks concerning public contracts. This initiative would complement sector-led improvements and trailblazer activities currently underway through bodies like the LGA. Without addressing this inequality, local authorities risk continuing outdated practices or failing to implement new, more effective models of public contracting.

5.2 Other challenges and risks

Besides fundamental issues of strategic bandwidth and capacity, local authorities are having to navigate an increasingly complex ecosystem as they oscillate between various public contracts and service delivery models. The oscillation is driven by the need to achieve strategic goals, yet nonetheless introduces several multifaceted challenges and risks – particularly for those authorities which are most notably lacking capacity-wise. More broadly, the push towards embedding a more pragmatic and socially-inclined conception of value-for-money is a fundamental challenge. The over-reliance on numerical data is just one symptom of traditional economic models focused solely on cost-savings and performance reporting. More strategically-minded policies, geared towards social prosperity for localities, require shifts away from these neoclassical models, of which may initially be resisted by established organisational structures.

An overreliance on quantitative metrics risks marginalising broader social benefits, such as community wellbeing and other aspects of social prosperity, which are crucial for long-term development but are less easily quantifiable. Finding a balance between measurable outcomes and more holistic benefits is essential yet challenging for local authorities caught in a culture of number reporting and box-ticking. The

national TOMs (Themes, Outcomes, Measures) framework, launched by the Social Value Taskforce in 2017, has been instrumental in providing a standardised method for measuring social value, breaking down the concept into specific themes and outcomes with measurable metrics. Outcomes-based contracts, including variations like impact bonds, focus on achieving specific social outcomes as a condition of payment, allowing for the focus to be shifted towards a demonstration of results rather than prescriptive metrics. This encourages suppliers to become more adaptive and innovative when it comes to capturing and delivering on strategic and social goals through each respective public contract.

The transition from a purely private to a mixed or public model of contracting and service delivery introduce notable complexities in contract and market management. For instance, local authorities must handle the delicate balance of maintaining efficiency and local competition, whilst pushing for the best possible outcomes for residents and communities. This shift often leads to significant governance challenges, particularly in relation to the control and running of LATCos and ALMOs. These entities, while providing a means for local authorities to engage in commercial activities and corporatise the administrative function of public contracts, also introduce risks of governance failures and non-compliance with established financial regulations – that inevitably reflect very poorly on the local authority when these risks do manifest. Moreover, although the Teckal exemption gives local authorities the right to procure directly from their own enterprises and is set to be protected by the upcoming Procurement Act, the Competition and Markets Authority (CMA) nonetheless scrutinises how LATCos compete with private companies, seeking to emphasise fair play in markets often dominated by private entities – familiarisation with CMA standards should therefore be a priority for authorities looking to procure services or engage in hybrid insourcing with their LATCos.

Insourcing and TUPE regulations

In the context of a strategic shift in public procurement, from both national legislation and local strategies, pension contribution regulations are in need of notable reform if the strategic capacity to manage public services is to be improved across local government. With budgets already stretched, current regulations, particularly those under the 'TUPE' regulations, place significant administrative and financial burdens on local authorities when they attempt to insource or hybridise services.

TUPE regulations protect employees' terms and conditions when a service is transferred from one employer to another, including when services are brought back in-house. This means that local authorities must take on employees under the same conditions as

they were employed by the outsourced provider. While TUPE does not directly cover pension rights, there are further specific requirements for local authorities under the Pensions Act 2004 and other associated regulations to ensure pension protection for employees transferring back into the public sector. This can lead to substantial costs for local authorities, especially when pension arrangements from previous employment must be matched or improved, potentially requiring adjustments or back payments to align with public sector standards.

Furthermore, the complexities of TUPE regulations extend beyond pension contributions, impacting the broader operational capabilities of local authorities. Insourcing under TUPE could result in legal disputes over redundancy liabilities, difficulties in harmonising employment terms across different staff groups, and the risk of creating a two-tier workforce.

These challenges, coupled with the financial strain of maintaining or upgrading pension schemes, create a significant deterrent for local authorities considering bringing services back in-house. As a result, without reforming pension contribution obligations and the associated legal framework, local authorities may struggle to achieve the efficiency and effectiveness required to manage their contracts and services strategically.

The tension between localism and larger, international procurement priorities also poses a notable challenge. There is a fine line between locally-driven inclusive growth and outright protectionism. The strategic vision of fostering social prosperity for local residents, communities, and businesses, should not precipitate a blind faith to everything that is local, nor should larger or international suppliers be favoured solely on the basis of their influence and scale. A localist pragmatism should inform such decisions as a means of guiding local authorities in their navigation of public contract norms and local economic priorities.

Navigating regulations, local authorities are confronted with the head-on challenge of adapting to national reforms – reforms that continue to be contextualised by political instability. These reforms will influence decisions on whether to insource or outsource service, impacting the local government and public services landscape significantly. Authorities, as a basis, must remain vigilant in their monitoring and evaluation practices to ensure that procurement activities and local contracts are delivering the best possible outcome they can, based on the parameters of each respective contracts. If austerity is set to continue, this will become particularly pertinent, as there will be a continued heightened risk of reducing public and professional accountability. The temptation may be to reduce performance monitoring back down to just financial conformity, but this would inevitably lead to a continued increased risk of systemic governance or service

failures, undermining overarching strategic objectives of better public services, inclusive growth, and fostering social prosperity.

Furthermore, the implementation of the Procurement Act 2023 in February 2025 will introduce new complexities, notably around increased transparency and the administrative burdens associated with transitioning to new procurement. Although the Procurement Act seeks to simplify the procurement system, it is nonetheless a new and therefore unfamiliar framework that even the most strategically-inclined local authorities will need time to become accustomed with. If not enabled and supported by central government and sector bodies, local authorities could either face potential legal challenges due to unfamiliarity with new legal frameworks, or a reversion to outdated procurement practices that fail to take any strategic advantage of the new reforms. Both scenarios risk a significant loss of public value. Similarly, Labour's proposals for strategic and operational overhauls towards insourced service delivery further complicate this challenge. These shifts will necessitate a rethinking of traditional service delivery across all councils, and while they could very well deliver long-term savings and enhanced control over contracts and services, they will nonetheless require substantial initial investment in infrastructure and capacity building.

CHAPTER SIX

Public contracts for social prosperity

In the wake of the Procurement Act 2023, local authorities will be legislatively enabled to revamp their strategic approach to public contracts, with a locally-attuned balance of insourcing, outsourcing, and hybrid models to achieve not only financial prudence but also to foster social prosperity and inclusive growth within their localities. The Act introduces a slew of objectives centered around value-for-money, maximising public benefit, and ensuring procurement processes are conducted with utmost transparency and integrity. A notable feature is the competitive flexible procedure which promotes tailored procurement strategies thus broadening the scope for participation of SMEs and enhancing general inclusivity in local government strategy and the local economy.

6.1 Making the most of increased flexibility

The Act's emphasis on the "most advantageous tender" under Provision 19 encourages tenders that not only meet operational needs but also contribute to local job creation and community economic vitality. Local governments must invest in training their procurement teams, equipping them with the skills to manage this transition effectively and to apply broader evaluation criteria that include such additional measures.

Achieving strategic goals and making best use of incoming legislation will be best driven by a **dynamic contracting** approach, allowing for adjustments based on evolving local needs and fresh insights. By adopting more flexible procurement processes for new public contracts, local authorities can foster innovative solutions, improve contract administration and management skills, and set up mechanisms for contracts to consistently align with local strategic goals and be resilient to changes in local circumstance. This adaptability is crucial in a landscape defined by an evolving conception of value-for-money, where strategic interactions and evaluations based on administrative, social, and environmental benefits become crucial in the legal and social construction of value³⁵. Furthermore, as noted, there is a pragmatic argument for local authorities bringing and retaining critical administrative and management contract functions in-house to maintain strategic control over contracts as they progress and allow for adaptability amidst changing local and national circumstances.

Part of such an approach should be a consistent early market engagement by local authorities, as this enables them to shape procurement processes that are both innovative and responsive to market capabilities, whilst ensuring local contracts align with strategic goals. By initiating dialogue or workshopping with suppliers before formal tendering, authorities can gain insights into local industry trends, technological capabilities, and strategic potential. This proactive approach will help in designing more effective specifications into contracts and making the procurement process more inclusive, encouraging participation from a diverse range of suppliers, including local SMEs and social enterprises, and therefore instilling a healthy competition within an ongoing renewal of local markets. Ultimately, early engagement supports the development of contracts that deliver great value and are better tailored to meet both the operational needs and the broader strategic objectives of a local authority, irrespective of what specific public contract model is being pursued.

35 Craven (2020) – The legal and social construction of value in government procurement markets

Accountability frameworks within local government procurement must be strengthened to balance the assessment of operational performance with stringent financial conformance, ensuring that public spending delivers traditional value-for-money without losing out on the strategic potential of broader legislative and policy frameworks. Such a balanced approach will be critical as it not only assesses the efficacy of public contracts and service delivery against set strategic objectives but also ensures that relevant expenditures are accounted for to avoid fiscal wastage and promote financial integrity. Sector-led improvement remains integral to developing these frameworks, as they are collaborative efforts within the public sector specifically aimed at self-improvement and peer review, enabling local authorities to learn from each other and pre-emptively address areas of potential underperformance or seize upon areas of potential strategic advantage.

6.2 Hybrid partnerships and scalability

6.2.1 Local service reshoring

Where the previously described hybrid insourcing model finds its most appropriate application is through hybrid partnerships – both vertically and horizontally across tiers of English local government and geographically proximate suppliers and service providers – in what this report terms **local service reshoring**. This would be a refined operational structure where the capacity to carry out the administrative and managerial responsibilities of lower tier local authority public contracts would be ‘reshored’ under the jurisdiction of a delivery vehicle under the ownership of either a combined or county-level authority. Meanwhile, the on-the-ground execution of these service contracts would be delegated to external entities including private, third sector, or community organisations.

The premise here rests on the necessity for local authorities with proximity to service contracts, and an inherent obligation to uphold the local public interest to preserve strategic oversight and accountability over them, while also capitalising on the agility and specialisation of other sectors. Constituent authorities are able to retain a semblance of control over the strategic direction and contractual oversight alongside the relevant regional authority within hybridised partnerships equipped with a thorough understanding of local needs and governance structures. The approach ensures that the overarching strategic goals and the fostering of social prosperity can be pursued and delivered upon. This strategic retention aligns with the principles outlined in the Procurement Act and looks to leverage partnerships for the sake of capacity-lending and mutually assured local benefits.

Practically, the implementation of this model would require robust frameworks for collaboration and oversight. This includes the development of comprehensive contracts

that clearly delineate the roles and responsibilities of all parties involved, ensuring that external service delivery organisations are aligned with the strategic goals set by constituent local authorities working with service contract-orientated delivery vehicles at the county or regional level. Additionally, it necessitates the establishment of circular governance mechanisms that allow for continuous feedback and adaptation of strategies based on performance metrics and community impact assessments. Such systems would not only support the dynamic nature of public service requirements but also uphold transparency and accountability in related spending. Implementing frameworks for sharing resources and expertise between different tiers of local authority and the external organisations responsible for service delivery will be key to level up operational capacity where constituent parts would otherwise be lacking.

6.2.2 Scalability

Scalability is a critical consideration when implementing strategic, socially-minded approach to public contracts across various tiers of local government. The expansion of these strategies involves a complex, multifaceted approach that emphasises knowledge-sharing, network-building, and political pragmatism on contract design, roles and responsibilities. Without this element of scalability considered in such approaches, inequalities, whether in terms of capacity or benefits for residents, risk deepening further.

The creation of platforms for exchanging challenges, experiences, and opportunities in transitioning and implementing relevant strategies is fundamental. By facilitating the sharing of information and best practice through online forums, in-person events, etc. local authorities can gain insights into effective management techniques, avoid common pitfalls, and explore innovative approaches. These can also serve as an opportunity to establish connections with the potential to develop into working relationships or contractual partnerships, the likes of which have been described previously in this report. Such open exchanges will not only reduce the learning curve but also foster a collaborative environment conducive to the strategic overhaul and improvement of public contracts, of which the Procurement Act intends to enable.

Similarly, formal and informal networks play a pivotal role in scaling up these strategic approaches and legislative tools. Geographically proximate local authorities can form tacit alliances to support mutual interests and potential partnerships, leveraging a collective sector strength when pursuing strategic interests or advocating for further guidance or policy changes at higher levels of government, or securing funding for joint initiatives. Informal networks, maintained through regular meetings, communication, or shared digital platforms, encourage peer-to-peer support and mentorship, facilitating more personal interactions and innovative collaborations – the likes of which have

already proven their worth in the proliferation and shaping of social value at the local level³⁶. Involving anchor institutions in such networks provides further access to advanced analytical tools, technologies, and nuanced insights, essential for developing and evaluating relevant strategies so that they remain relevant and innovative.

Moreover, adaptable policy frameworks and strategies are crucial for allowing local variations and encouraging innovation, no two local markets are the same, and despite the regain of strategic control being a seemingly ongoing trend, local authorities must seek to have an understanding of their locality and its markets that is unique and locally-informed. Therefore, mechanisms for consultation, feedback, and adjustments must be designed into strategies and local contracts, ensuring they are able to remain effective in the face of changing circumstances or local needs. Existing networks can accelerate and enhance these processes by acting as conduits for facilitating discussions, disseminating knowledge, and advocating for relevant strategic outcomes.

CHAPTER SEVEN

Recommendations

Central government

- Central government should launch a local government capacity building programme to enhance the staffing and training of procurement departments and ensure that the intended aims of recent reforms can be met at the local level.
- To ensure strategic procurement can be carried out successfully at the local level, there is a need for greater clarity in legal definitions and scenarios around the new regime, particularly in the context of a drive to hybridised and insourced models.
- Central government should conduct economic and social impact studies on local authorities and their public contracts to assess strategic capacity and resource allocation in relation to upcoming reforms at the local level, with a view towards tailored and sustained central government support where it is needed most.

Local government

- To drive social prosperity, councils should integrate procurement strategies with wider socio-economic objectives, as defined by local understandings of wellbeing and prosperity.
- As part of this process, it is important to take advantage of the new reforms to tailor contract design to local economic needs such as the privileging of local SMEs or development of training pathways.
- When approaching new public contracts, councils should consider a hybrid model – particularly regarding the use of LATCos and arms-length delivery vehicles to deliver strategic goals across public contracts.
- Councils should emphasise dynamic contracting, where local contracts are designed with mechanisms that allow for periodic review and adjustment of terms – making use of the new procurement regime to ensure local objectives are being met.
- In the context of an insourcing drive, given capacity constraints in local government, councils should consider joining together to set-up or make use of delivery vehicles for strategic assessment of administrative and managerial control over public service contracts:
 - **County, unitary and other regional authorities:** consider the possibility of setting up an arms-length body to take on the administrative and managerial functions contracts among groups of local authorities
 - **District and constituent authorities:** Consider the possibility of reshoring relevant administrative and managerial functions to be contracted out to an arms-length body at the regional or sub-regional level

General

- As we end one political cycle and begin another, it is important that momentum is not lost and that central government continue ongoing dialogue and collaboration with local government, combined authorities and other stakeholders to ensure that public contracting for social prosperity continues to be realised across the country.
- As part of this, both local and central government must adopt non-ideological, evidence-based approaches to procurement strategy, to ensure best local outcomes, maintaining a pragmatic and socially-inclined mindset.

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