



New Values

PUBLIC CONTRACTS FOR SOCIAL PROSPERITY



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 deliver. 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.

Localis

Vox Studios, V.311

1-45 Durham St

London, SE11 5JH

0870 448 1530 info@

localis.org.uk

localis.org.uk

Kindly sponsored by:



norse
group

