APPG for Public Sector Efficiency

The Public Interest Test and Insourcing Strategy – Key Considerations

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Abstract

Procurement Policy Note 024 introduces a Public Interest Test (PIT) for specified central government service projects and expects larger in-scope organisations to publish five-year Insourcing Strategies. This paper argues that the policy represents a necessary correction to a sourcing system that too readily frames questions of service delivery as discrete procurements; its significance lies not in creating a presumption in favour of direct provision, but in requiring public bodies to consider in-house delivery as a credible, evidence-based option alongside outsourced and hybrid models. Applied rigorously, PPN 024 could improve allocative, productive and dynamic efficiency, strengthen resilience and accountability, and align operating models more closely with wider economic and social objectives; applied mechanically, it could instead become an additional compliance layer, reinforce analytical bias, understate transition costs, stretch scarce organisational capability and weaken otherwise healthy markets. The paper therefore advocates a source-aware but decision-neutral approach in which the PIT operates as a proportionate gateway, is integrated with category strategy and the Five Case Model, draws on a symmetrical whole-life evidence base, treats capability and transition as investments, and applies equivalent performance disciplines to in-house and outsourced delivery. Success should ultimately be judged not by the volume or value of services insourced, but by demonstrable improvements in outcomes, productivity and public value.

A. Introduction: Reframing the Sourcing Decision

PPN 024 represents a significant intervention in the governance of central government service delivery because it moves the central question from "How should this contract be procured?" to "What is the most effective way to deliver this public service?" Where a requirement enters the commercial lifecycle already defined as a procurement, direct provision may be excluded before the relevant evidence has been assembled; the policy addresses this sequencing problem by requiring the viability of internal delivery to be considered before a Delivery Model Assessment (DMA), Outline Business Case or procurement process begins (Cabinet Office, 2026a; 2026b).

That approach is consistent with a long-established proposition in organisational economics: make-or-buy decisions should compare the whole-life cost and performance of alternative governance arrangements rather than an internal cost estimate with a supplier's headline price. The relevant comparison extends beyond direct production costs to specification, monitoring, coordination, change, risk, failure and transition (Coase, 1937; Williamson, 1985), while public-value theory additionally asks whether the chosen operating model can create valued outcomes, secure legitimacy and support, and be sustained through credible operational capability (Moore, 1995).

This paper argues that PPN 024 can improve public-sector efficiency and outcomes only if practitioners avoid treating either outsourcing or insourcing as the presumptive answer. The PIT is intended to prevent direct provision from being excluded prematurely, not to replace a rigorous and impartial DMA, Green Book appraisal or Five Case Model business case; the source of delivery should remain an instrument of public value rather than an objective in its own right.

B. Potential Benefits: Public Value and Efficiency

Allocative Efficiency and Delivery-Model Choice

The principal allocative benefit lies in matching each service, or component of a service, to the delivery model best suited to its characteristics. A contract-by-contract approach can obscure patterns across a category or service portfolio, including repeated variation, fragmented accountability, duplicated management overhead, declining competition and growing dependence on an incumbent; a five-year Insourcing Strategy provides a basis for examining these issues collectively and relating delivery-model choices to organisational strategy, workforce planning, digital architecture, estates, resilience and the commercial pipeline.

This portfolio perspective is particularly valuable where services are difficult to specify, exposed to policy volatility, dependent on government-specific knowledge or supplied through thin markets, since uncertainty may be reflected in supplier risk premiums, repeated variations and higher governance costs. Where important aspects of quality cannot readily be specified or enforced, strong cost-reduction incentives may also erode non-contractible quality, as incomplete-contract analysis suggests (Hart, Shleifer and Vishny, 1997); equally, mature and competitive markets may provide scale, innovation and specialist capability that would be costly to reproduce internally. The contribution of PPN 024 is therefore to subject both propositions to evidence rather than assumption.

The guidance appropriately recognises that the most effective arrangement may be a mixed economy rather than a binary choice between internal and external provision. Strategic control, service integration, data stewardship or architecture may remain in-house while commoditised, specialist or innovation-intensive elements remain contestable, reflecting the fact that the optimal organisational boundary often sits within a service rather than around it.

Productive Efficiency and Whole-Life Cost

Productive efficiency may improve where insourcing removes supplier margin, risk premium and avoidable contract-management cost, consolidates fragmented teams, reduces interface failure or makes better use of existing public assets and expertise. Earlier consideration of the delivery model can also reduce reliance on emergency extensions and rushed mobilisation by creating the time required to recruit, train, acquire assets and transfer knowledge.

None of these gains is automatic, since supplier margin may be more than offset by economies of scale, technology, specialist labour or mature processes, while an internal service may carry weak productivity disciplines, underfunded asset renewal, fragmented management or persistent vacancies. PPN 024 should therefore be understood not as a promise of lower cost through insourcing, but as a requirement to expose the full economics of each model; the Sourcing Playbook supports this through DMAs and Should Cost Models that compare in-house, expected market cost and mixed-economy options on a consistent whole-life basis (Cabinet Office, 2026c).

Dynamic Efficiency, Resilience and Organisational Learning

Dynamic efficiency concerns an organisation's capacity to learn, adapt and improve over time, and direct delivery may retain operational knowledge, data and technical expertise that would otherwise sit primarily with suppliers. Retaining those capabilities can strengthen the authority's ability to redesign services, respond to changes in demand and make better-informed future sourcing decisions, while also improving the "intelligent client" function required even where provision remains outsourced.

Operational capability is itself an important determinant of service outcomes and productivity. The National Audit Office identifies whole-system working, demand understanding, effective use of information and continuous improvement as central to better public services (National Audit Office, 2025); by treating readiness as a capability that can be built over time rather than a fixed constraint, PPN 024 may support the development of those functions.

For critical or uninterruptible services, an in-house or hybrid model may also reduce exposure to supplier failure, concentrated markets and supply-chain disruption. Although resilience is not always readily monetised, it has material economic value, which justifies placing control, continuity and adaptability alongside price in the assessment of value for money.

A Broader Conception of Value for Money

PPN 024 aligns sourcing decisions with the Green Book's broader conception of value for money, namely the optimal use of public resources to achieve an objective after taking account of costs, benefits, risks, uncertainty and non-monetisable effects (HM Treasury, 2026a). This permits service quality, distributional consequences, workforce stability, local employment, skills, environmental effects and wider social value to be considered alongside financial cost.

That broader perspective is valuable only when supported by analytical discipline: social and economic effects should be linked to a clear theory of change, quantified where proportionate and tracked after implementation. Practitioners should avoid both the narrow assumption that only cashable savings matter and the opposite tendency to assign spurious precision to uncertain benefits; transparent assumptions, sensitivity analysis and explicit treatment of non-monetised effects provide a more credible account of trade-offs than a single composite score.

Market Shaping and Contestability

Insourcing does not necessarily imply withdrawal from the market. A credible in-house option can strengthen the public sector's negotiating position, establish a benchmark for expected cost and performance, and support the redesign of supply markets around those components for which external providers offer the greatest value, while published Insourcing Strategies can give suppliers earlier visibility of likely changes and reduce disruption arising from late or opaque decisions.

Used in this way, the policy may support healthier competition by allowing an authority to retain a core service or integration capability while creating smaller and more accessible opportunities for SMEs and voluntary, community and social enterprises (VCSEs). It may also reduce dependence on a single incumbent and encourage innovation through modular contracting, producing a more deliberate public-private ecosystem rather than simply expanding the public payroll.

C. Implementation Risks: Factors That Could Undermine the Policy

Administrative Burden and Process Duplication

The PIT may fail at either of two extremes: as an administrative formality that records a decision already taken, or as an over-engineered mini-business case that duplicates later stages of appraisal. Given the £1 million threshold, the policy is likely to generate a material volume of assessments across government, so a prolonged cross-functional process would consume scarce commercial, financial and operational capacity, while a superficial tick-box exercise would add no meaningful decision value.

The guidance states that, except for the most complex requirements, the Test should generally take no more than two days and should be completed as a desk-based assessment using existing evidence (Cabinet Office, 2026b). That proportionality should be preserved: the PIT should identify a provisional direction and the need for further analysis rather than replicate the detailed work of the DMA and business case, while the exemption for services already appraised to equivalent rigour within an Insourcing Strategy should be used carefully to prevent repeated analysis.

Analytical Bias and Incomplete Cost Comparison

A further concern is analytical bias. Because PPN 024 is designed to correct the premature exclusion of insourcing, the guidance encourages "realistic but constructive" assumptions and cautions against placing undue emphasis on barriers; although appropriate at the initial gateway, that framing could be misread as an instruction to justify direct provision rather than test it. A clearly separated, source-neutral validation stage is therefore essential.

Cost comparison is especially susceptible to asymmetry because an outsourced contract price may encompass supplier margin and risk premium alongside assets, technology, workforce, management, financing and economies of scale, whereas an in-house estimate may omit corporate overhead, recruitment, pensions and employment costs, asset depreciation and renewal, licences, security, internal management, change capacity, transition, dual running and retained risk. The converse also applies: an outsourced option may understate the authority's contract-management effort, change charges, exposure to supplier failure and the cost of weak competition.

A defensible appraisal should use a common service baseline, consistent demand assumptions and equivalent performance standards across all options, distinguishing cash, resource and social costs, identifying the party that bears each risk, and testing sensitivity to pay, inflation, demand, productivity, mobilisation timing and asset life. High-value or politically salient decisions would also benefit from independent analytical challenge.

Capability, Capacity and Affordability

Organisational readiness presents a substantial constraint because PPN 024 requires authorities to consider whether they can recruit and retain the management, technical and operational staff needed to mobilise and sustain the relevant assets and infrastructure. After extended periods of outsourcing and headcount reduction, some organisations may have weakened technical leadership, operational management, data ownership and in-house cost-control capability, with public-sector pay constraints and scarce labour markets further limiting recruitment.

Affordability may also diverge from whole-life value, since insourcing can require significant up-front revenue and capital investment before savings or service improvements are realised. Dual running, training, estates, systems and transition teams may create a temporary cost peak, leaving an option that is economically preferable over its life unaffordable within annual budget controls unless finance, commercial and operational leaders make provision early.

Current weakness should not, however, be treated as permanent, because readiness can be developed through recruitment, training, secondments, knowledge transfer, shared services and staged mobilisation. The business case must nevertheless be candid about the time, funding and leadership required: insourcing without adequate operational management capability risks replacing contract failure with internal service failure.

Transition, Workforce and Service Continuity

Moving a live service across an organisational boundary may be considerably more difficult than designing the target model, particularly where TUPE, consultation with trade unions and the wider workforce, pay and pension alignment, security clearance, location, organisational design and culture have not been addressed early. Dependencies relating to data, intellectual property, software licences, assets, subcontractors and incumbent knowledge may also be material despite being largely invisible in the headline contract price.

A poorly planned transition can compromise continuity and erode the benefits on which the decision was based, making exit support, transition service agreements, asset-condition information, data migration, knowledge-transfer obligations and,

where necessary, dual running integral to the appraisal. These requirements should be identified before the final decision and incorporated into both the cost model and the incumbent-supplier strategy, so that contract management protects future delivery-model choice as well as current performance.

Accountability Between Outsourced and In-House Delivery

Accountability may become asymmetric if a service moves from an outsourced arrangement, under which the Procurement Act 2023 requires relevant contracts to set, assess and publish supplier performance against key performance indicators, to internal provision supported only by opaque management reporting. Such a reduction in external visibility would weaken public accountability and make subsequent delivery-model comparisons more difficult.

In-house services should therefore operate under an explicit service agreement or charter defining outcomes, cost and productivity baselines, user measures, resilience standards, escalation arrangements and periodic independent review. Performance parity does not require identical management mechanisms, but it does require comparable evidence, and a decision to insource should raise rather than lower the standard of transparency.

Market, Supplier and SME/VCSE Effects

Market effects also require careful management because a large-scale or poorly signalled shift towards insourcing could reduce the pipeline available to suppliers, weaken investment incentives and diminish contestability. SMEs and VCSEs may be particularly exposed where they participate through larger supply chains but lack the scale or accreditation to contract directly, while strategic suppliers may require coordinated transition planning through departmental Supplier Relationship Management and Crown Representative channels.

These considerations do not constitute an argument against insourcing; rather, they reinforce the need for active market shaping. Authorities should identify the external capabilities that remain strategically valuable, communicate likely changes in good time, protect continuity in dependent services and design modular opportunities through which smaller providers can contribute, implementing PPN 024 alongside the government's SME and VCSE objectives under PPN 001 (Cabinet Office, 2025).

D. Applying PPN 024: Five Practitioner Priorities

The policy will create value only if it is embedded in the way organisations plan, appraise, mobilise and manage services. The following five priorities provide a practical framework for doing so.

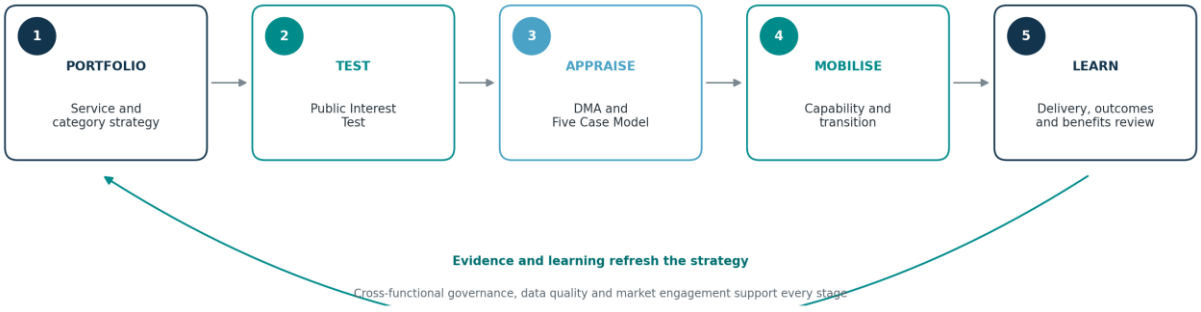

Figure 1. PPN 024 as a closed-loop delivery-model discipline.

Source: authors, based on Cabinet Office guidance.

Priority 1: Begin With the Service Portfolio, Not the Individual Procurement

The Insourcing Strategy should be developed from a comprehensive service taxonomy rather than a list of expiring contracts. For each service, organisations should map expenditure, contract expiry, criticality, user outcomes, demand volatility, performance, market health, supplier dependency, data and asset ownership, workforce requirements and internal capability, using the resulting evidence to construct a portfolio heatmap that identifies where early investigation is likely to add most value.

That assessment should be connected to category strategies, the commercial pipeline, workforce plans, digital and data architecture, estates strategy, financial planning and organisational resilience. This integration reduces the risk that commercial teams identify an attractive insourcing opportunity for which operational and finance functions have made no delivery provision, and may also prevent duplicate work where a sufficiently rigorous appraisal within the Insourcing Strategy allows an individual requirement to be exempted from a separate Test.

Taken together, this approach concentrates scarce analytical effort where delivery-model choice is most consequential, allows evidence to be reused across projects and creates the lead time needed to avoid emergency extensions or hurried transitions.

Priority 2: Use the Public Interest Test as a Proportionate Gateway

The Test should begin as soon as the requirement is identified and before the DMA or Outline Business Case is commenced. The requirement owner should normally lead the assessment, supported by commercial expertise and proportionate input from finance, HR, digital, security, property and policy functions where the nature of the service requires it.

A minimum evidence pack should address:

1. the service need, intended users and outcomes, criticality and required timescale;

2. a recent performance baseline, including user evidence and the principal points of failure;

3. a desk-based assessment of market health, competitive conditions and SME/VCSE participation;

4. a top-down cost baseline identifying the principal cost drivers;

5. the principal risks, dependencies and current allocation of risk; and

6. alignment with organisational strategy, the Insourcing Strategy and wider government objectives.

The assessment should record the evidence supporting each conclusion, identify material uncertainty and set out a provisional sourcing direction for approval by the Senior Responsible Owner or delegated authority. Insourced, outsourced and readily identifiable hybrid options should all be considered; where direct provision appears attractive but the authority is not yet ready, the conclusion should specify a capability-building route and the point at which the decision should be revisited.

The result should be an early and auditable decision that directs proportionate further analysis without delaying the project or duplicating the DMA.

Priority 3: Establish a Symmetrical Whole-Life Evidence Base

A high-level estimate is sufficient at the PIT stage, but the DMA and business-case stages should include a Should Cost Model and options appraisal based on the same service scope, demand, quality and outcome assumptions for every model. The comparison should encompass mobilisation and transition, ongoing workforce costs, assets and technology, management and assurance, risk, contract-management or internal-governance costs, change, exit and residual liabilities.

Scenarios and sensitivity analysis should replace reliance on a single deterministic forecast, with demand, productivity, pay, inflation, transition duration, asset renewal and supplier or workforce availability forming a practical minimum. Where resilience, workforce stability or local economic effects are material but difficult to monetise, the appraisal should explain the causal pathway, use credible indicators and present those effects explicitly alongside the financial metrics.

The economic case should be considered alongside the strategic, commercial, financial and management cases within the Five Case Model (HM Treasury, 2026b), since an option may generate positive long-term social value while remaining

financially unaffordable, commercially impractical or operationally undeliverable. Decision-makers require a transparent account of these tensions rather than a blended score that conceals them.

This discipline reduces optimism bias and the risk of favouring whichever model appears cheapest on incomplete assumptions, thereby directing investment towards the option most likely to sustain value over time.

Priority 4: Treat Capability and Transition as Investment Programmes

Organisations should establish a readiness matrix covering leadership, workforce, operational processes, technology, data, assets, estates, finance, governance, security and continuous improvement, deciding for each gap whether the required capability should be built, recruited, borrowed, provided through partnership or retained externally. Delivery vehicles may include direct departmental provision, a shared service, an arm's-length body, a wholly owned company or a hybrid model, but the chosen vehicle should follow the service requirement rather than determine it.

The preferred model should then be translated into a funded capability and transition roadmap covering workforce consultation and TUPE analysis, organisational design, recruitment and training, knowledge transfer, data, intellectual property and licensing, asset transfer and condition, cyber and security accreditation, business continuity, incumbent exit obligations, and any requirement for piloting, phased migration or dual running.

Where future insourcing appears attractive but immediate readiness is insufficient, the next contractual arrangement should be used deliberately to preserve the option. Contract duration, break points, data rights, asset registers, open-book information, knowledge-transfer duties and exit provisions can all help create the conditions for a later transition.

Approached in this way, readiness becomes a sequenced investment programme rather than an abstract aspiration, materially reducing the risk and cost of mobilisation failure.

Priority 5: Apply Performance Parity and Manage the Wider Market

Whichever delivery model is selected, organisations should apply a common architecture for outcomes and performance. An in-house service should operate under a charter or service agreement covering outcomes, service levels, cost to serve, productivity, user experience, resilience, social-value commitments, risk and escalation, with reporting sufficiently comparable to outsourced provision to support future DMAs and public accountability.

Benefit owners should be assigned and a baseline established before transition, followed by reviews of actual cost, productivity, service quality, workforce, user and resilience outcomes at defined intervals, for example after six, twelve and twenty-four months. Post-implementation evaluation should determine whether the predicted benefits were realised, whether costs migrated elsewhere in the system and how the next iteration of the Insourcing Strategy should change.

Structured engagement should continue in parallel with incumbent and prospective suppliers, strategic-supplier relationship leads, SMEs and VCSEs, providing a clear account of the direction of travel, identifying capabilities that should remain contestable and designing accessible opportunities around specialist or innovative components. A mixed economy requires active management and should not emerge merely as the unplanned residue of transition.

This combination sustains performance after the sourcing decision, strengthens the evidence available for continuous improvement and preserves the competition and innovation on which future public value may depend.

E. Indicative Mobilisation Plan to April 2027

Phase	Priority actions
July to September 2026 Mobilise governance and evidence	Establish senior sponsorship and a cross-functional working group; define the service taxonomy and ownership; map the contract and service portfolio; agree standard PIT, DMA and benefits-realisation templates; and identify the highest-priority data gaps.
October to December 2026 Triage the portfolio and draft the strategy	Apply the portfolio heatmap; conduct pilot Public Interest Tests on representative services; prepare the five-year Insourcing Strategy; engage workforce representatives, service users and key suppliers; and identify capability investments requiring budget decisions.
January to March 2027 Assure, approve and embed	Complete senior and ministerial governance; finalise and prepare the Strategy for publication; train requirement owners and commercial teams; embed the PIT at the appropriate gateway; test quarterly reporting arrangements; and confirm data-redaction and assurance requirements.
From April 2027 Operate, report and learn	Apply proportionate Tests; progress shortlisted options through DMAs and business cases; submit quarterly returns; monitor market effects; and use benefits reviews to refresh category strategies and the Insourcing Strategy.

F. Conclusion

PPN 024's principal contribution is to make the boundary of the public organisation a matter of strategic design rather than a procurement afterthought. By requiring public bodies to compare alternative models before the preferred route becomes embedded, it has the potential to improve allocative efficiency through better matching of services to delivery arrangements, productive efficiency through fuller recognition of whole-life and transaction costs, and dynamic efficiency through the retention and development of knowledge and organisational capability, while also strengthening resilience, accountability and alignment with wider public outcomes.

Those gains will not arise through procedural compliance alone, and the policy will be weakened if organisations treat the Test as a formality, compare a supplier's full price with an incomplete internal estimate, insource without operational readiness, or allow transparency and market health to deteriorate. Effective implementation therefore depends on the disciplined integration of portfolio strategy, proportionate testing, rigorous DMA and business-case appraisal, funded capability and transition, performance parity, supplier engagement and post-implementation evaluation.

Success should consequently be assessed not by the number or value of services transferred in-house, but by whether the selected model delivers better outcomes for users, stronger resilience, higher productivity, healthier markets and demonstrably improved whole-life public value. Maintaining that focus would allow PPN 024 to become more than an additional compliance requirement and instead support a durable improvement in the design and delivery of public services.

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