

# THE DAYLIGHT ROBBERY OF PRIVATISATION

Private Profit from Public Loss



APRIL 2013

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Protecting Public Services  
Supporting Public Servants

# PREFACE

## Dear friend,

This latest NIPSA research publication examines the issue of privatisation. For public service workers this is not a faraway threat – it’s already here and growing. We have seen it, for example, in the privatisation of the Northern Ireland Civil Service personnel function; NICS’ cleaning and catering, in Education, in leisure services in local government, in the increasing private sector intervention in Health via “Transforming Your Care” and the attack on social housing that is represented by the threatened abolition of the Northern Ireland Housing Executive.

These local developments reflect the dominant trend in neo-liberal economic policy over the last forty years. This has been to undermine the post Second World War consensus and the protections “from the cradle to the grave” to which it aspired. For those who wanted to smash this consensus there is “no such a thing as society”, merely a series of barriers to making money that have to be demolished. The “wrecking ball” for this aspiration was and is privatisation.

Privatisation and “outsourcing” represents a massive redistribution of wealth. It is the robbery of what we as a community own, being sold cheap into private hands and the grotesque reward being given to the companies involved in these sell offs, most of whom are no strangers to the aggressive tax avoidance the current Chancellor of the Exchequer claims to be “morally repugnant”.

The NIPSA research points out that behind the glib language of “re-balancing the economy”, a fundamental point about ownership and political control is being lost. It also points out that, given we are already decades into this market experiment, there is no excuse for our local political leaders not taking stock of the litany of failure that privatisation has delivered and, based on the evidence, to reject a headlong rush

into repeating at a local level these international mistakes. As the research highlights, if the issue is examined logically – on issues of cost (in the fullest sense), service, accountability and treatment of employees, there is no question that the provision of public services is better delivered within the public sector. Furthermore, as is shown in the context of local government in the UK, once bitten by privatisation, many local authorities are now returning services in-house.

In essence privatisation represents the dismantling of our society. It involves the capture by private wealthy interests of more and more of our public space and our public services and a transformation from a community which regards common public services, generally free at the point of use due to a form of progressive taxation, as central to the type of society that we are, into a market focused society in which we become purchasers, buyers, clients and individuals and where the very idea of a coherent community or society becomes meaningless.

In our “battle for ideas” against this threat we need to arm ourselves with the facts. This publication will, I hope, assist local representatives and members generally in the fight against the daylight robbery of privatisation.

Yours sincerely,

A handwritten signature in blue ink that reads "B. Campfield". The signature is written in a cursive, slightly slanted style.

Brian Campfield  
**General Secretary, NIPSA**

# THE DAYLIGHT ROBBERY OF PRIVATISATION

## Private Profit from Public Loss

*"You don't have to gaze into a crystal ball  
when you can read an open book."*

Aneurin Bevan<sup>1</sup>

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## Introduction

It has been argued that “privatisation comes in three sizes...straight sell-off of public assets...contracting out to private companies for profit [and] two-step privatisation ‘by stealth’, where it is represented as an unintended consequence”.<sup>2</sup> In its various forms it is not a stranger to Northern Ireland, whether it manifested itself in the loss of Northern Ireland Electricity, market testing/Compulsory Competitive Tendering or the use of PPP/PFI in Health, Local Government and Education. In terms of the latter its presence has left us with liabilities of £10 billion<sup>3</sup> and offered a model of market inefficiency that is best exemplified by a PFI school (Balmoral High). This is being paid for, over a 25 year period, at a cost of £9.26 million, 19 years of which are after its closure due to insufficient pupil numbers.<sup>4</sup> It is also telling that, as we go to print, the whole question of publicly funded social housing is threatened by the proposed abolition of the Northern Ireland Housing Executive.

Given the current structure of the Northern Ireland economy, what the public sector is now facing, behind the rhetoric of ‘re-balancing the economy’, is the presentation of privatisation ‘by stealth’ or ‘unintended consequence’ as a ‘reform measure’. While discussion may begin with a false declaration of helplessness from the dominant voices (“what else can we do?”/“where else will we get the money?”) the underlying intent of mainstream debate led by embedded, neo-liberal journalists and economists is objectively ideological. Its purpose is to provide the political cover that presents as “common sense” the systematic move away from publicly funded public services which are democratically accountable, represent value for money and within which the workforce is treated in a manner shaped by collective bargaining.

It is important to focus, therefore, on the crucial element of public loss that this represents and not to lose sight, amidst a variety of proposed new models for private intervention, of what is actually happening. This booklet will do this by looking at the politics behind the global mania for privatisation as well as present an overview of its performance. In this way, we look at the way the private models

for public services were originally introduced i.e. what they promised and, a generation on from their promise, detail what they actually delivered. We will highlight how elements of this failed experiment are now visible in parts of the Northern Ireland public sector and why their expansion has to be resisted. Discussion of the threat of privatised encroachment, therefore, is not a warning against a future danger; it highlights an imminent threat with private firms in place already or positioning for entry in central and local government. Throughout the document, therefore, not only do we discuss the daylight robbery that the privatisation of our public services represents on an international scale, we will also offer some snapshots of the delivery trends that signify private profit from public loss throughout the Northern Ireland public sector.

### Public Opinion against Privatisation

Those who oppose reform in relation to publicly funded, publicly run public services are caricatured as the enemies of progress. David Cameron and Nick Clegg, for example, describe those who reject such privatisation as “conspiring to keep our society less free, less fair and less united”.<sup>5</sup>

Ironically, however, the major insider proponents of privatisation/outsourcing are well aware that this view is out of touch with public opinion. For example the National Outsourcing Association’s own research found that the vast majority of those surveyed do not think the outsourcing industry helps the economy. It also found that the general perception of outsourcing was that it led to cost-cutting and job losses.<sup>6</sup> These findings mirror that of the Institute for Public Policy Research (IPPR) and PricewaterhouseCoopers (PWC) who reported that: “94% believe that national or local government or public service providers should be mainly responsible for providing health care; 93% believe that different state agencies should be responsible for running local schools; and 93% believe that national or local government or public professionals should be responsible for keeping the streets safe”.<sup>7</sup>

While the public clearly believe a public service is not a commodity, this point is lost on the Prime Minister, who at the launch of the Open Public Services White Paper suggested our choice of public services was comparable to the purchase of a mobile phone.<sup>8</sup> As a consequence,

with the active encouragement of the Government he leads, the vultures are circling and salivating at the prospect. As the CBI state: “we are in the middle of the biggest wave of government outsourcing since the 1980s, with more than £4bn of tenders being negotiated in 2012 in services ranging from prisons and police to defence and health”.<sup>9</sup> Similar excitement was expressed by Kean Marden, an equities analyst with the investment bank, Jefferies, who commented: “We haven’t seen a wave this big since the 1980s when they introduced competitive tendering for public services”,<sup>10</sup> while Alex Magni of Hong Kong and Shanghai Banking Corporation (HSBC) stated: “The UK’s austerity programme is entering a more fruitful phase for outsourcing companies”.<sup>11</sup>

### The Politics of Privatisation - Ideology, Self-Interest and Opportunism

The ideological zeal which drives this private takeover of public services is explicit. As Stiglitz (2012) states, it is founded on the myth that “Government-run programs *must* be inefficient, and privatisation accordingly *must* be better”.<sup>12</sup> It informs the confidence with which the CBI can forecast that the private sector will take over a public service and do “what is already done to the same or higher standard but at a lower cost... [savings] achieved while still maintaining the quality of the service offered and, in many cases, improving it”.<sup>13</sup>

As we will highlight, the desired reach of the privatisers is extensive – including core parts of national government (prisons, schools, the NHS) and local government. In short, each of the service/delivery strands of local and central government are within their sights. In Appendix 1, we present an overview of the service sectors and the key operators in the UK market.<sup>14</sup> While many of these players are not initially well known, once they start to operate, notoriety and bad publicity in relation to performance soon follow. In fact, there is sufficient evidence of this for the anti-austerity campaign False Economy to run a competition for the “world’s fishiest outsourcing company”. While this title may be light-hearted, what is reported is anything but.

Table 1 gives examples of False Economy’s overview of three of the outsourcing companies, names that we are or will be very familiar with – Atos, G4S and Serco. This gives a flavour of what it is alleged their intervention has delivered.

Table 1: Outsourcing Companies<sup>1</sup>

## Atos

**False Economy's Company Profile<sup>2</sup>**

"Atos is a French multinational information technology services company that boasts annual revenues of £7bn and 74,000 employees in more than 40 countries. No stranger to controversy in the UK – it left a memory stick of government passwords in a pub in 2008 and was blamed for this year's Border Agency computer meltdown. Atos has attracted notoriety...for its role in assessing disability benefit eligibility. Some 40% of the people that Atos finds "fit for work" appeal that decision (through an increasingly pressured and overloaded appeals system), and about 40% of those have the original Atos decision overturned – a figure that can rise to 70% if people have welfare rights advisors supporting them. Atos seems to be doing the government's dirty work: cutting social security rather than fairly assessing eligibility for benefits. There is a growing number of reports of people in poor health or with severe disabilities being found fit for work. And the government's own studies show that more than half of those ruled fit for work are left unemployed and without income. Yet although its performance has been criticised by government-appointed experts and the National Audit Office, Atos continues to win government work, including a £400m contract to carry out further disability tests. Perhaps, as in Scotland, it intends to subcontract the work to the NHS".<sup>15</sup>

**'Performance' Related Publicity<sup>3</sup>**

- Finding people fit for work who clearly are not. Some subsequently died, and relatives blame the assessment process.<sup>16</sup>
- Leaving vulnerable people without benefits or income in a jobs market where there simply aren't enough jobs to go round.<sup>17</sup>
- Operating a process that has overloaded the courts system to breaking point.<sup>18</sup>
- Attempting to airbrush its way out of controversy by sponsoring the Paralympics.<sup>19</sup>
- Making huge profits out of other people's desperation.<sup>20</sup>

1. Nominated for False Economy's "Fishiest Outsourcing Firm" award. For all nominees see: [On line] Available: <http://falseeconomy.org.uk/outsourcing>

2. Comment from [On line] Available: <http://falseeconomy.org.uk/outsourcing>

3. Publicity highlighted by False Economy.

4. Comment from [On line] Available: <http://falseeconomy.org.uk/outsourcing>

## G4S

**False Economy's Company Profile<sup>4</sup>**

"G4S (formerly Group 4 Securicor) is the world's largest security company, with headquarters in the UK and operations in 125 countries. With more than 650,000 employees, it is one of the world's largest private-sector employers. Its slogan is "securing your world".

Six years ago British public-sector contracts made up 15% of G4S revenues, but that figure is now nearly 30%. The FTSE100 company has grown from running prisons and immigration detention centres to operating police services, public surveillance, schools, hospitals and welfare schemes.

This summer G4S admitted its failure to provide security for the London 2012 Olympics had been a "humiliating shambles". The government was forced to draft in the police and army to cover a shortfall of several thousands of staff. As a goodwill gesture, G4S donated £2.5m to the army – and then insisted it still receive its £57m management fee.

Chief executive Nick Buckles, who was paid nearly £3m in 2010, says his hero is Margaret Thatcher, and has called on the government "to continue to focus on traditional Tory values around encouraging a meritocracy and inspiring value creation". But the company has cross-party appeal. In 2009 it recruited Labour MP and former Defence Secretary John Reid to offer "strategic advice", shortly before winning a huge defence contract".

**'Performance' Related Publicity**

- Turning its Olympics contract into a "humiliating shambles" – but still demanding a £57m management fee.<sup>21</sup>
- Responding to the whistle-blower that first exposed Olympic chaos – by sacking her.<sup>22</sup>
- Abusing refugees being detained or deported, including Jimmy Mubenga, who died while restrained on a flight to Angola.<sup>23</sup>
- Running complaint-ridden immigration removal centres, including one branded "fundamentally unsafe" by inspectors.<sup>24</sup>
- Paying chief executive Nick Buckles nearly £3m in 2010, more than 200 times the salary of his lowest-paid UK staff (in contrast to the 20:1 public sector pay ratio backed by David Cameron).<sup>25</sup>
- Spurning campaigners' pleas for FTSE100 companies to pay all employees at least a living wage.<sup>26</sup>
- Going further than the government by recommending benefit cuts for 8,000 people on its workfare schemes. (5,000 of those requests were rejected.)<sup>27</sup>
- Mistreating detainees overseas: in Australia an Aboriginal elder died being transported in sweltering heat without water; in Israel G4S prisons are accused of breaking the Geneva convention.<sup>28</sup>
- Receiving an ethical rating of just 5 out of 20 from Ethical Consumer – fifth from bottom in its outsourcing league.<sup>29</sup>
- Losing the keys to one of its prisons.<sup>30</sup>
- Tagging an offender's false leg.<sup>31</sup>
- The G4S theme song.<sup>32</sup>

## Serco

**False Economy's Company Profile<sup>5</sup>**

"Serco began life in 1929 when Radio Corporation of America formed a UK subsidiary, RCA Services, to support the country's growing cinema industry. Now it employs more than 100,000, has turnover of £4.6bn, and is the UK's largest private supplier of public services. Its contracts range from cycle hire in London to maintaining nuclear warheads.

Serco describes itself as "a values-led company with a culture and ethos that is at the heart of everything we do". It is so proud of its ethos that it publishes an attractively designed magazine of the same name, dedicated to "exploring the debates that shape public services". The Serco ethos is "imbued with a spirit of public service".

So it seems almost churlish to mention money, but in 2010 the FTSE100 company, which is almost entirely dependent on public funds, paid its CEO Christopher Hyman £3.1m – six times more than the highest-paid UK public servant. Senior executives have continued to receive austerity-busting pay rises in recent years, but other staff earn less than the living wage.

In 2012, whistle-blowers revealed that Serco's out-of-hours GP service in Cornwall was understaffed, lacking in training and risked patient safety. In an act hardly imbued with a spirit of public service, the company had provided false data to the NHS on 252 occasions".

**'Performance' Related Publicity<sup>2</sup>**

- Running an out-of-hours GP service that was understaffed, provided inadequate training and left patients facing long waits – and falsifying its records 252 times.<sup>33</sup>
- Losing and mislabelling patient blood and tissue samples following its takeover of NHS pathology services.<sup>34</sup>
- Paying chief executive Christopher Hyman £3.1m in 2010, more than 250 times the salary of his lowest-paid UK staff (in contrast to the 20:1 public sector pay ratio backed by David Cameron).<sup>35</sup>
- Spurning campaigners' pleas for FTSE100 companies to pay all employees at least a living wage.<sup>36</sup>
- Going further than the government by recommending benefit cuts for 9,000 people on its workfare schemes. (Almost 7,000 of those requests were rejected.)<sup>37</sup>
- Multiple allegations of assault, abuse and neglect at its UK and Australian immigration detention centres.<sup>38</sup>
- Receiving an ethical rating of just 4.5 out of 20 from Ethical Consumer – second from bottom in its outsourcing league.<sup>39</sup>

5. Publicity highlighted by False Economy.

The dramatic scale of this threat is accelerated by political opportunism. As Hurley and Gindin state:

The aftermath of the deepest capitalist crisis since the Great Depression has provided political and economic elites with an opportunity to lock-in two longer-term changes: a reduction and privatisation in public services on a scale not seen before, and - with private sector unions devastated by job loss and unable to significantly expand unionisation – weakening the remaining stronghold of unionism, public sector workers.<sup>40</sup>

**Moving away from Universalism**

Before looking at the ideological wave on which privatisation surfs however, it is important to look at the principles of redistribution and universalism from which it moves away. As a starting point we need to recognise that the role of public services is so extensive because they represent the 'spine' of society:

From our National Health Service (NHS) to local authorities providing key services and playing a fundamental role in social cohesion, binding our communities together, securing long-term investment and support for local economies and providing the building blocks of the welfare state.<sup>41</sup>

The reason for the scale of public service provision is twofold. Firstly due to the recognition of social need and secondly because its growth represents the progressive move away from the historic, or what was thought to be historic, negligence to which it is the alternative. In this way:

Before the welfare state was created, essential services that were required by the public were actually only available to those who could afford them, or those who benefited from charities. This is why state education, the National Health Service and the welfare state were created.<sup>42</sup>

Such progressive developments also set the standard for employment rights and reward from collective bargaining in the workplace as well as building the basic structure of a civilised society. This is due to the fact that:

Workers in state-sponsored companies...led the way in achieving equal opportunities, equal pay, and the provision of child care, setting standards in working conditions and wage levels that [also] benefited workers in the private sector.

State and state-sponsored companies also provided what is socially required, not merely services from which a profit can be made by private corporations.

They formed part of the collective experience that makes us citizens of a country rather than mere consumers.<sup>43</sup>

In this way public provision, under-funded as it is, represents an attempt at progressive distribution of resources, with some measure of political scrutiny. By contrast, at its core, privatisation is the reverse - involving a massive transfer of wealth "to private corporate interests, most of all to monopolies beyond national or democratic accountability".<sup>44</sup> What we are seeing locally therefore, is merely the 'first world' consequence of what are long-standing events in 'developing countries'. For example:

The major international lending banks and development agencies have all promoted a policy prescription for developing countries that includes privatisation of state-owned enterprises and liberalisation of access for foreign investment in those enterprises. This policy prescription has benefited banks, multinational corporations and international financial institutions, often at the expense of local business, and always at the expense of the poor.<sup>45</sup>

## Delivering Inequality

Furthermore far from such economic policies "spreading wealth", it has become clear that privatisation has an effect that is the opposite of the "trickle down" it promised. It has, in fact, delivered grotesque levels of inequality. For example, internationally, we can see how:

The entrepreneurs who took over... public assets, usually at a discounted rate, quickly became billionaires. Mexican Carlos Slim Helú, rated the third richest man in the world by Forbes magazine in 2009, got his big boost with the privatisation of Mexico's telecommunications in the early 1990s. This wave of privatisation in a country riddled with poverty catapulted several

Mexicans on to the Forbes wealthiest list in short order. Shock market therapy in Russia put seven oligarchs in control of nearly half the economy within a few years.<sup>46</sup>

Such restructuring of society over the last thirty years has emphasised where political power lies with it becoming clear how:

Privatisation was driven by the power of the financial sector, which benefits both directly and indirectly ... the direct benefits include the massive fees and bonuses derived from managing privatisations, not to mention the returns from advising the bidders. The indirect benefits include the enhanced economic and political power of the financial sector in an economy where all major investment decisions are driven by the demands of financial markets.

In the era of market liberalism, the power extended over all major political parties. As U.S. senator Dick Durbin said: "The banks are still the most powerful lobby on Capitol Hill. And they frankly own the place". He could equally well have been talking about the City of London and its dominance of British politics.<sup>47</sup>

## Profiteering and Tax Avoidance

The manifestation of such power is a political and economic structure that facilitates uncontrolled profiteering and tax avoidance. It is clearly evident in the profiles of the key players driving the privatisation juggernaut. For example, in terms of profit, in addition to the "£4.2bn that PFI firms have made on equity sales alone over the last decade":<sup>48</sup>

- **£21m** was made in profit by health and social care provider Care UK in 2009.
- **£310m** was made in profit by 'back office' outsourcing specialist Capita in 2010.
- **£600m** was made by Blackstone private equity on its 2006 sale of Southern Cross.
- **£625m** was made by Allianz Capital Partners on its 2008 sale of Four Seasons, and
- **£214m** was made in profit by multi-service outsourcing specialist Serco in 2010.<sup>49</sup>

Again, swimming comfortably in the corporate culture created by and for them by successive governments, many of the firms involved in privatisation are able to avoid paying domestic tax on their profits. As Prem Sikka of Essex University notes: “Numerous practices [are] used to avoid taxes, including setting up complex structures in offshore tax havens which peddle secrecy, low or no corporate taxes”.<sup>50</sup> In this way we find that:

- Capita paid **£65m** less than full corporation tax on its profits during 2004-07.
- Serco paid **£58m** less than full corporation tax on its profits during 2004-07.
- Compass paid **£24m** less than full corporation tax on its profits during 2004-07.<sup>51</sup>
- Capita, Serco, Sodexo, ISS, G4S, Veolia, Balfour Beatty, United Health Care, BUPA, McKinsey and KPMG all have subsidiaries registered in tax havens<sup>52</sup> and
- The ultimate owners of 90 PFI schemes are registered offshore. HSBC Infrastructure paid less than 0.3% tax on **£38m** profit made on 33 PFI projects last year.<sup>53</sup>

Given such arrangements, it is little wonder that, as Florio (2004),<sup>54</sup> notes:

Management...is generally seen to have benefitted from privatisation. A study of 215 board members of UK utilities showed a nominal increase in remuneration of around 600 per cent following privatisation in 1996... Overall, the average increase in management salaries in one year post-privatisation was found to be 78 per cent. This does not include stock option schemes, which will undoubtedly have increased the gains made by management by an even greater percentage.<sup>55</sup>

This point is driven home when we look at the individual pay of the key players with the combined salaries of just seven CEOs - of Care UK, Capita, Mouchel, Mitie, Carillion, Serco and Compass totalling over **£12m**.<sup>56</sup> The grotesque nature of such ‘reward’ is exemplified by Serco. This company “which receives over 90% of its business from the public

sector, paid Christopher Hyman an estimated £3,149,950 in 2010. This is six times more than the highest paid UK public servant and 11 times more than the highest paid UK local authority CEO”.<sup>57</sup>

To put this reverse redistribution of wealth from the bottom to the top in perspective, it is estimated that the failure of private contractors to pay many of their staff a ‘living wage’ costs the taxpayer as much as **£300m** in additional in-work benefits and tax credits.<sup>58</sup>

#### Private profit from public loss: SERCO Cleaning Contract in Northern Ireland Civil Service (NICS)

Serco was awarded the cleaning and catering contracts across approximately 53 NICS sites in 2012. It has been argued that the cleaning contract, in the short term, may be a loss leader for Serco and that if so, this would not be an uncommon example of how large private sector companies gain a foothold in the public sector. The implications of this win immediately became clear – the company intended to cut working hours and make redundancies in their cleaning workforce.

In addition, operationally, under euphemistic terms such as “restructuring” or “new systems of work” (including the flow cleaning system), NIPSA has found that staff have not been trained in the new systems that are to deliver the “faster/more efficient ways of working”. Furthermore, the proposed changes have not been tested for appropriateness in relation to the type of building or the extent of cleaning necessary for areas where this work is undertaken. Indeed beyond the corporate ‘spin’, in some areas, the Union has had to challenge staff being underpaid as well as deal with basic difficulties such as shortages of cleaning supplies. Overall, it is clear that, in terms of the cleaning contract, Serco expects a vastly reduced staffing complement to fulfil the requirements of an increased workload, spread over an increased number of sites. It is also clear that in relation to catering, the new Serco operation represents a move to a cost cutting profit chasing model under one company umbrella. This moves away from the general provision previously offered that facilitated a range of local sub-contractors delivering what was needed, where it was needed.

With the “who benefits?” question answered so clearly, it is obvious why the privatisation agenda was supported by a range of wealthy vested interests from the outset. In order to spread the market gospel, compliant free market think tanks (such as the Adam Smith Institute and the Centre for Policy Studies) funded by the future beneficiaries

of the sell offs, fed reports of privatisation's success "in the US, UK and Europe...neglecting to tell of the social costs of privatisation".<sup>59</sup> In this way these consultants and advisers, "played a dual role; first promoting privatisation as a scheme [to] benefit everyone, and then reaping a good share of the benefits themselves in fees for advising on how to do it".<sup>60</sup>

## European Perspective

Much of the privatisation agenda that we witness or experience has been driven by the European Union, the Directives from which propagate the belief, discussed above, that the "disciplines of the marketplace – will improve quality and efficiency in public services".<sup>61</sup>

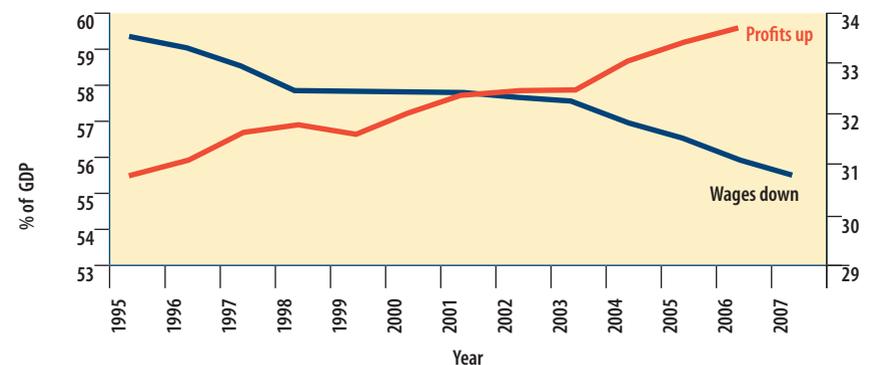
Sufficient time has passed however, decades in fact, to measure the results of this experiment in marketisation that infected social policy from the 1980s onwards. In this respect, one of the most significant international studies of privatisation in Europe - a research project funded by the EU itself (*Privatisation of Public Services and the Impact on Quality, Employment and Productivity - PIQUE*) is worth considering. This study examined "the impact of privatisation and liberalisation of public services in six European countries, Austria, Belgium, Germany, Poland, Sweden and the United Kingdom and in four public service sectors (electricity, postal services, local public transport and health services/hospitals)".<sup>62</sup> It found that:

- Given the diverse ownership structures before liberalisation, privatisation rarely entailed a shift from an entirely publicly owned to an entirely privately owned sector. **In fact, the UK was the only country in our sample that partly followed this rather extreme path.**<sup>63</sup>
- Following liberalisation and privatisation, the main company objective, i.e. the reduction of production costs, was achieved primarily at the cost of workers, mainly through the worsening of working conditions. This is manifest in the weakening of collective bargaining; the related emergence of two-tier workforces [with] any job-creation which does arise as a result of privatisation likely to generate part-time, less secure employment.<sup>64</sup>
- In sectors where it was possible to increase productivity through new and labour saving technology (e.g. in the postal services), the

consequences for the quality of services from the cut in labour was mixed. However, where the quality of the services depended on a certain level of labour input (e.g. bus driving or patient care), the project found that service quality suffered as a result of privatisation and liberalisation.<sup>65</sup>

- The privatisation and liberalisation of the electricity sector in the UK did not automatically result in a sustainable competitive market structure. Out of the 70 British companies in the supply segment, only six have a market share of more than 5% while three of them supply almost 65% of the electricity consumed in the UK.<sup>66</sup>
- In certain market segments the loss of regulatory oversight has been compensated for by increasing efforts to control outcome. More often, however, outcome is left to the 'free play' of market forces. One example is electricity prices which in most countries are now determined by market forces rather than government intervention. In the absence of comprehensive regulation and competitive markets, the companies have gained freedom to set prices and service quality at their own discretion.<sup>67</sup> This has meant that the transnational experience in the energy sector is of falling wages and job losses (over 300,000) dominating the gas and electricity sector for a decade with a clear link to the related rise in profits for the energy companies. (See Figure 1).

**Figure 1:**  
Trend in wages and profits as a share of GDP – 1995-2007 for European energy sector<sup>68</sup>



The PIQUE research also looked at the public's satisfaction with the privatisation of their services. While "the surveyed citizen groups... firmly reject full privatisation and clearly expect the state to guarantee a range of universal service obligations in each of the sectors",<sup>69</sup> the study also found: "clear social demarcations between 'haves' (higher educated, bigger income and higher professional status) and 'have nots' (lower educated, lower income and lower professional status)".<sup>70</sup>

This emphasises the point about who is *most* robbed by privatisation in that the more affluent are least affected by it at a certain level, able to opt out of *parts* of the system and buy what used to be universally available. The overall support for universalism, however, shows both principle and pragmatism in that there is a general awareness that, for the vast majority of the population, the only affordable way to avail of a service such as health is within a public, progressively funded system. This fact becomes clearer when we look at the United States' healthcare system or consider in a domestic context the private long term care costs for the elderly. This quickly clarifies the very few who could really afford, in the long term, to go-it-alone and pay for such provision.

What is explicit from the PIQUE research is that in relation to the effect of privatisation on workers' terms and conditions, those based:

in independent subsidiaries or in outsourced services usually suffer from worse employment and working conditions compared to their colleagues in the core unit or parent company. This is true for call-centre agents working in outsourced call centres in the electricity industries, cleaners employed by a private cleaning firm to clean public hospitals, self-employed mail deliverers, as well as bus drivers employed by a subsidiary of a municipal transport service.<sup>71</sup>

## Sectoral Overview of the UK

Research from the "We own it" campaign<sup>72</sup> focusing specifically on the UK reinforces the message from the PIQUE Project – of privatised failure across a range of areas.

This is emphasised by a snapshot of post-privatisation provision in sectors such as Health and Social Care, the former public utilities of Energy and Water and the Prison and Probation services as well as in Transport and Welfare provision.

## The NHS

It is clear that the use of Private Finance Initiative (PFI) loans to fund hospitals has transferred money from the NHS into private hands. In addition, as Pollock et al<sup>73</sup> argue, this policy has led to a reduction of 73,000 hospital beds (almost a third) between 1992-3 and 2009-10.

Those who have worked in and used the Health Service during this period have clearly seen the outworking of such changes. In particular "the widespread contracting out of hospital cleaning services has resulted in staff reductions, poorer terms and conditions and under-investment in training and equipment, resulting in a fall in hospital cleanliness that has been linked with the rise in Hospital Acquired Infection".<sup>74</sup> Even failure at its most catastrophic, such as that of Stafford Hospital does not put a break on a business model being imposed on the NHS. For example, Robert Francis QC who led the report into this scandal reported on an obsession with "cost-cutting, targets and processes"<sup>75</sup> that led to warning signs being ignored and, as a consequence, up to 1,200 patients dying needlessly.

This means that, given the direction of travel from successive Governments, the privatisation by stealth of the NHS will now accelerate under the Coalition to the point where a free at the point of use *National* Health Service ends and fewer services are provided to fewer people.<sup>76</sup>

## Care Work

A specific sector within the NHS – that of care work – again sees staff and patients sacrificed on the markets' altar. This starts with the assault on the terms and conditions of the workforce and leads to inevitable consequences for patient care:

Care workers employed by private companies generally have worse terms and conditions than those employed by [English and Welsh] councils. This undermines staff morale and makes it harder to provide proper levels of care to vulnerable people.<sup>77</sup> Reports into the social care sector have found a sector "struggling already to provide services of sufficiently high quality" and failing to "recruit, train and develop care workers ... to meet new demands and ways of working".<sup>78</sup> A Commission for Social Care Inspection (CSCI) report found that when it came to providing

care for older people in care homes, and home care services, private sector providers were more likely not to meet minimum national standards.<sup>79</sup>

### Private profit from public loss: Transforming Your Care (TYC)

The Transforming Your Care (TYC) agenda for Health and Social Care 'reform' in Northern Ireland will affect the entire population. There are parallels in these TYC proposals with those currently underway in England and Wales where mechanisms of the internal market are being reintroduced despite the evidence of waste and inefficiency that led to the move away from this discredited approach a generation ago. The Coalition's approach on health creates an environment where all provider functions are to be opened up to "any qualified provider" thereby introducing the full application of EU competition law.

A genuine Care in the Community approach is reliant on a knowledge-rich and confident Health and Personal Social Services (HPSS) workforce, able to deliver quality care interventions without the at hand support models of institutional care settings. The shift of resources from hospital provision to a person's home represented by TYC, however, is about doing things on the cheap, with less skilled staff, who have less time to spend with patients and work within a health system that has been systematically eroded for years. TYC, with its over-arching themes of procurement and privatisation, dressed up as value for money initiatives, will asset-strip the framework of knowledge, skills and the ethos of public service that defines the HPSS workforce, replacing key sections of it with a profit driven race to the bottom. This will lead to privatisation; the end of certain services under public provision; less resources available to support services and the potential loss of 3000 jobs.

The independent sector cannot match the statutory provision currently being delivered by Trusts where staff are given the appropriate managerial supervision and training as well as provided with terms and conditions (including pensions) protected by collective representation. The discussion about services moving into the community is legitimate but such change requires investment in knowledge, skills, training as well as the use of experienced staff. Such long term investment, with the necessary central control to fine-tune its operation (in order to protect patients) is not feasible in an ad-hoc, incohesive, profit driven model.

## Energy

In addition to the European overview presented above, the UK's Energy Sector is currently generating a scandal, equivalent to that of the interest rate rigging scandal [Libor] in banking. It has become clear that not only is there no such thing as a 'free market'; the market that does exist is rigged in favour of the private provider, at the expense in the fullest sense of the 'customer'. As a consequence in the UK, "there is a lack of competition in the energy supply market and some consumers are paying over the odds as a result".<sup>80</sup>

The gap between the market promise of competition, lower prices etc., and the reality of near monopoly provision holding a gun to the consumer's head, again, could scarcely be wider. In this way:

The supposed disciplines of the market have been eclipsed by price manipulation by private electricity companies seeking to boost the price of electricity and maximise profits. Price volatility and manipulation are an inevitable function of electricity markets, whatever their design.<sup>81</sup>

## Water

The effect of water privatisation in the UK shows a similar pattern. It is demonstrated by the fact that since privatisation in 1989 the average household bill for water and sewerage has seen a "real terms increase of 42%".<sup>82</sup> Furthermore, the fact that the profit from such changes are personal rather than sectoral or societal (in re-investment for improvement) is shown by the fact that while pay-outs to shareholders in 2010/11 totalled £1.5bn, this reward is paid for by a negligence that allows 3.4 billion litres of water to leak from the system every day in the UK – (a total that has only) reduced by 5% over the past 13 years.<sup>83</sup>

This emphasises how the 'successes' go only in one direction - to the Boardroom and shareholders. While private equity firms who have 'bought' our water demand high short term returns:

taxpayers clearly get the worst of both worlds. They no longer reap dividends from public service utilities when they are profitable, but they still have to pick up the bill when they are not. The reason for this is simple to understand: electricity and water are not commodities that consumers can choose to take or

leave depending on price and supply; they are essential services upon which lives depend.<sup>84</sup>

## Prisons and Probation

The UK Government's plans for private companies to manage low risk offenders have attracted much criticism, including from the Prison Reform Trust. The Trust argues that "privatisation would cause fragmentation and there are good reasons why the public sector needs to maintain the offender management role".<sup>85</sup> As Unison National Officer for Probation Staff Ben Priestley commented:

The running of big regional contracts [by] multinational private sector companies would destroy the localism and accountability that is [the] key to the success of probation services. These plans will dismantle the probation service – 105 years in the making – in one fell swoop, and in the pursuit of so-called efficiency, will dissolve all that is good and valuable about the service.<sup>86</sup>

Again, if these matters were assessed on evidence rather than ideology, there are enough warning bells ringing within the Justice system to stop such an approach. For example, in relation to Court interpreters, Capita Translation and Interpreting was given a £300 million contract by the Ministry of Justice to provide this service. The company reduced pay/terms and conditions for interpreters, and then hired people who were not (appropriately) qualified. This led to numerous problems in the courts.<sup>87</sup>

In addition, as an example of lack of accountability and transparency for which outsourced contracts are notorious, MPs investigating this issue were prevented from seeing the true extent of the court interpreters' contract fiasco. In this way:

Magistrates in Peterborough...revealed that they were forbidden by the Courts Services from providing the actual number of problems they have had with Capita Translation and Interpreting (formerly ALS).

In written evidence, Peter Beeke (Chairman of Peterborough Magistrates' Court) told MPs: "I receive a monthly report of ALS failures. Her Majesty's Courts and Tribunal Service have specifically forbidden me from passing that data to this inquiry.

However what I can tell you is that the initial service was truly appalling. Day after day interpreters did not arrive".<sup>88</sup>

The lack of transparency from private companies running public services happens at all stages of the outsourcing process. In this way even though it is public money that is being spent, queries in relation to the detail of submitted bids to win 'business' or profits from the formerly public service can be denied on the basis of "commercial confidentiality". Similarly even though ultimately the taxpayer is funding these contracts, because the money is channelled through the private sector, Freedom of Information legislation does not apply.

### Private profit from public loss: Police Service of Northern Ireland (PSNI)

In January 2012 Management Side within the PSNI announced a new HR Strategy, in which up to 1,000 posts would be 'outsourced'. This contract, which is to deliver police support functions, is worth £180 million with Resource NI as the preferred bidder. It was envisaged that the contract would last up to 7 years during which time recruitment to permanent posts within the PSNI would be severely limited. NIPSA has mounted a legal challenge in relation to the authority of the Chief Constable to outsource roles other than those contained within the constrained circumstances set out by Sections 30 and 31 of the Police (NI) Act 2003.

What was proposed has serious implications for public sector job loss in areas such as: station enquiry assistants; transport co-ordinators; call handlers; dispatch controllers and fixed penalty processing centre staff. It raises questions on proper recruitment procedures at a time when the NI Audit Office has already published a report into the use of agency staff by the PSNI which vindicates NIPSA's long-standing criticism of contract management and the use of contract workers. NIPSA has reiterated that such abuses are only possible as a result of a climate within which democratic control is sacrificed for market expediency in a rush to privatise and outsource.

## Transport – Buses and rail

The privatisation of transport in the UK – whether it was in the 'freeing up' of operating licences for bus companies or the full privatisation in rail- was again to be a boon for customers in terms of lower fares and service improvement due to increased competition. The reality has been very different. In fact, as the Competition Commission reports

“there is a lack of competition in the bus market, which means lower quality services and higher fares. Between 1980 and 2010, bus and coach fares increased by 54% in real terms. Bus companies also focus on making a profit from the busiest routes, so local authorities have to pay them to provide the ‘socially necessary’ services that don’t make money”.<sup>89</sup>

Similarly, the issue of how a public industry such as rail in the UK has been affected by privatisation is a perfect example of how it delivers the antithesis of accessible public provision. Indeed the separation of “wheels from steel” (rolling stock and track being run as separate privatisations) was, as predicted, a disaster for all those who used the railways but a gift for those who profiteer from their operation. In England and Wales for example:

Train travel is becoming a luxury that only the wealthy can afford. This year (2013), the 10th in a row, ticket prices have risen above inflation. This government, like the Labour government before it, [is] shifting the burden of financing the railways away from general taxation and on to the individual ticketholder. Before rail privatisation got under way, that burden was split around 50:50, but today two-thirds of the cost of the railways is shouldered by the people who buy the tickets.

Train fares have risen by 50% in a decade, hitting the poorest hardest – and it’s precisely the poorest who have no other option but to take the train into work. The fare rises mean that a London call-centre worker earning the minimum wage and living far out along the transport line, which is where you often need to live when you are earning the minimum wage, will have to work the equivalent of an extra hour a week just to be able to afford the journey to the office...While a low-waged office clerk can now expect to spend 25% of [their] income on a season ticket to London from an affordable commuter town, the same ticket will cost a well-paid executive 5% of [their] salary.<sup>90</sup>

Again, this is clearly about corporate self-interest facilitated by political cover rather than financial logic. If based on the latter, it has been argued that the government could save £1.2 billion a year by renationalising the railways.<sup>91</sup> On this point, a glance across the Channel at a different operating ethos reveals what is possible, with fares in France four times

cheaper than in the UK.<sup>92</sup>

## Welfare

The ‘divide and rule’ extension of the Coalition’s Welfare agenda that has been marked by the offensive language of “strivers versus skivers” has echoes of the self-righteous Victorian concept of the ‘deserving poor’. Such callousness finds an appropriate private sector enforcement arm in the private sector company Atos (profiled above). This company was employed by the government to assess disability claimants and decide whether they were fit to return to work. Its highly rewarded efforts have resulted in 40% of those it found “fit for work” having this decision overturned. This figure rises to as high as 70% if the claimant has a welfare rights advisor supporting them. Despite this ‘performance’, one that has attracted criticism from both Government appointed experts and the National Audit Office, the CEO of ATOS has still received “a £1 million bonus”.<sup>93</sup> This mirrors the scandal of both grotesque reward (former Chair of A4e Emma Harrison’s £8.6million dividend in 2011) and mission failure<sup>94</sup> in relation to the Government’s flagship Work Programme.

## The False Promise of Privatisation

Like the PPP/PFI rhetoric that established the funding/operational climate for privatisation, the “big sell” of outsourcing revolves around the transfer of ‘risk’ to the private sector, of greater competition as well as forecasts of savings and promise of new flexible approaches within contracts etc. In relation to the projection of promised savings as a result of outsourcing, particularly at the tendering stage, these are rarely accurate. Even the CBI admits that “many catering, cleaning and security contracts are part of wider private finance initiative facilities management contracts. As a result it is difficult to isolate savings from productivity improvements in particular services”.<sup>95</sup>

Far from privatisation in the form of outsourcing leading to increased competition or a greater range of providers, in fact, a smaller number of large providers becomes the norm. This is a pattern that has been evidenced in Facilities Management (FM) where “bundled services” or “total facilities management” becomes the template: social care (where providers amalgamate into large businesses) and, in the UK context, waste management where the Office of Government Commerce has

noted that eight or nine suppliers control at least 78% of the market.

### **Private profit from public loss: Facilities Management in the Department for Social Development (DSD)**

In October 2012 the DSD, a year after their privatisation of the Medical Support Services function to ATOS, decided to extend their outsourced catering, cleaning and security, to all facilities management 'soft services' including all messengerial services. In relation to Catering and Cleaning Contracts, Serco, has failed to provide adequate contractual detail on standards for cleaning and removed a catering subsidy.

Similarly, in terms of promises of 'market' flexibility, the evidence suggests the opposite with:

A serious problem [in] business outsourcing contracts...that they can prevent clients acting flexibly to changing environments. The National Audit Office has...warned that outsourcing corporate services to shared service providers "can tie purchasers of shared services to providers that are prepared to work around purchasers' inefficient processes" and "entrench" inefficiencies.<sup>96</sup>

In addition in their report on local government insourcing, the Association for Public Service Excellence (APSE) found that local authority contracts: "often carry premium 'penalties' should a client wish to change the way in which a service is delivered carrying minimum pricing arrangements which bind the local authority client into either set minimal financial arrangements or expensive contract variation clauses"<sup>97</sup>

### **Private profit from public loss: HR Connect**

HR Connect, the privatisation of the Northern Ireland Civil Service (NICS) personnel function, was launched in 2008. The cost of this 15 year contract rose from an original estimate of £328 million to £465 million, with implementation costs alone of £14.7 million. This 'reform' measure was sold on the basis of private sector 'expertise', doing what the public sector could not. In fact, the project has only been capable of delivering any services **at all** because of NICS investment in shadow arrangements and considerable public sector resources being deployed to rescue it. In addition, any published breakdown of costs has failed to capture the public sector cost of managing this project.

Department of Finance and Personnel (DFP) Officials have stated they do not know pre-HR Connect, "how good the HR function in the Civil Service was". With no benchmark data at the point of procurement, therefore, any promise of improvement or even minimal competence (i.e. delivering what has been paid for) from a private sector firm has no cost with which to compare it. Furthermore, it is hardly cause for celebration for a contract to begin to meet its targets years into its operation and only then because of consistent rescue from NICS staff. If after 15 years, the 'old' NICS standard is reached, does this constitute 'reform'?

While the Civil Service industrial relations system was predicated on problem solving by negotiation at the lowest possible level – the 'new' system is built on escalation via lodging of formal grievances with HR Connect. This is the contradiction and danger of any transactional, privatised service – the need for the contractor to render its presence and function, however overpriced, indispensable to its client.

The HR Connect service has taken the 'person' out of 'Personnel' and left staff struggling to seek redress in a Call-Centre culture of unsigned emails and individually unaccountable telephone exchanges. This project has become a running sore in Industrial Relations terms and is an advert for inefficient privatised 'reform'.

After the award of hugely lucrative contracts therefore, a heavy price in every sense must be paid. For example while as the National Audit Office found:

£180 million a year is paid out to PFI contractors for contractual amendments. It reported major variations in charges for what was often routine maintenance work, which had failed to be specified in the original contract. While one school had to pay

£320 to fit a new electric socket, elsewhere the charge was £30.81. At one hospital it cost £486.54 to fit an extra lock: at another it was £15.09. One hospital was charged nearly £50 for a new key – elsewhere it was £4. In many cases there has been no competitive tendering for variations and additional work carried out because of weaknesses in the initial contract terms. Contractors often seeking significantly higher fees as part of periodic reviews. The London Borough of Haringey faced demands of £2 million for backdated “variations” on secondary school facilities management contracts, plus a more than 50% increase in cleaning contract charges.<sup>98</sup>

The obvious motivation here is to chase profit – profit that can only be achieved by cutting costs. This sets up a contradictory impulse for the service provider in that:

Once outsourced, the providers of services are motivated by twin aims of fulfilling service obligations in accordance with the specific terms of the contract and cost reduction in order to improve margins. The latter is particularly true for private providers looking to maximise profits and provide shareholder dividends.<sup>99</sup>

It would be the height of naivety, therefore, to expect providers to move away from their *raison d'être* (the narrow fulfilment of a contract in order to service shareholders' needs) and think of a longer-term societal consequences. This is most evident when:

services are commissioned over short periods. As contracts draw to a close, outsourced providers have less incentive to properly resource a service particularly where this service may become the responsibility of a rival provider and where relations with the commissioning body are no longer a main priority.<sup>100</sup>

### Outsourcing – Effect on Staff

While we have discussed above the international, national and sectoral effect of privatisation it is clear that, irrespective of the outsourcing model, the effect on employees will be the same. As APSE highlight in a local government context:

- Whilst any employees transferred over to a new provider would have their rights protected by TUPE, there is always the possibility that organisations could argue that it does not apply as the transfer constitutes a ‘service re-design’.
- Even where TUPE does apply there is no guarantee these rights would continue to be respected and any future changes or improvements to public sector pay and terms and conditions would not automatically be granted.
- New employees appointed would not be covered by TUPE and could be employed on poorer terms and conditions, creating a two-tier workforce.
- There is the risk that job losses and pay cuts could be proposed as a reaction to reduced funding (contracts and providers are highly dependent on funding agreements with the local authority and their budgets are just as vulnerable to cuts in public spending).<sup>101</sup>

### Privatisation in Disguise

There is much debate currently around the idea of a different type of public service and public service delivery, one that is not in the public sector in the traditional sense but includes the Third Sector *and* private sector involvement. Such discussion implies that this new form of ownership is not to be feared in the way that a traditional privatisation might be, and is in fact, a different ‘beast’. Again the evidence from the UK and beyond suggests that, even at the tendering stage, this is a deceit. As the Federation of Small Businesses among others has observed, behind the language of ‘choice’ and competition is a process that mostly excludes small firms.<sup>102</sup> The reason for this is that the scale of the markets being competed for inevitably rigs them in favour of the larger bidders. What is more, the collaborations with charities can be a ‘front’:

Used as “bid candy” for large corporations to demonstrate a sense of social responsibility. The charities often secede from the deal later on, either because they don’t get any referrals or because they’re only given the “hard-to-reach” cases (15 charities pulled out of the Work Programme in the second half [of 2011] for these reasons).<sup>103</sup>

Beyond the tendering stage, therefore, the questions that arise are of transparency and the longer-term intentions of those interested in acquiring public services. This again demonstrates that the casual sell-off of public assets guarantees a surrender of control and accountability. In this way:

- The buying and selling of public infrastructure assets and service concessions, which most notably characterises private equity involvement in public services [means that] public bodies can have no certainty about which organisations they are working with or their long term objectives.<sup>104</sup>
- Furthermore, despite the self-definition of ‘third sector’, there is no barrier in relation to selling business on to a private sector organisation. This is emphasised in a report from the Third Sector Research Centre (TSRC) that suggests the vast majority of the 62,000 organisations designated as social enterprises under the definition used by the Office for Civil Society lack an asset lock preventing the sale of the business to a profit-making company. This means that they would not qualify for the ‘Social Enterprise Mark’, the quality mark promoted by the Social Enterprise Coalition that shows a business is a social enterprise.<sup>105</sup>
- This is replicated in every sector: who can afford to bid for a prison? Capita, G4S, Serco, Sedexo; possibly a foreign company of a similar size, GEOAmev. We can’t see who’s in the running due to commercial confidentiality; all we can do is await the result and remark upon how inevitable it was. **The lowest bidder will win, and its “efficiency saving” will generally be that it has managed to drive down wages. Especially in the adult social care sector, how could it possibly be otherwise? Their product is care; the only thing that can become cheaper is the carer or the cared-for.**<sup>106</sup>

### Social Need requires a Cohesive Response

We may not know who some of the private sector purchasers of public services are but, as we have already discussed, we know what drives them in relation to profit seeking. This primary motivation is contrary to what national, local or regional government had to, at least appear to, provide - cohesive, universal provision. This means that on specific

needs, in complex, high-cost long-term areas for example, health,<sup>107</sup> “private providers will cherry-pick the easier to deal with and more profitable services and client groups, leaving an under-resourced public sector to deal with more complex and expensive needs and more challenging services and service users”.<sup>108</sup>

As a consequence, the real risk lies in the:

Consistent tension in the privatised, part-privatised, outsourced governance arrangements... [with] its own (free market) ideological origins [preaching] the merits of the state ‘backing off’, yet those who need the services need protection/regulation from somewhere and this has to be from the state in one form or another. Even with some attempt at control, “regulation is often not an effective means of exercising authority and can lead to the phenomenon of ‘as bad as the law allows’”.<sup>109</sup>

A phrase such as patients “falling between the cracks” in a part privatised, fragmented system does not capture the human cost of an incohesive system. This was evident in the cases of the Sedgemoor and Southern Cross Care Homes where profit seeking private equity firms purchased and then, after company collapse, left the state to intervene, belatedly trying to protect the most vulnerable people in society, in the case of Sedgemoor homes sexually abused and autistic children and in Southern Cross case, vulnerable elderly people.

Furthermore in terms of public provision in the broader sense, the question of affordable/accessible leisure facilities for example emphasises the fact that the public service ethos is to provide for a wider ‘good’ rather than a short-term profit. In this way, a private provider with no ‘mission’, no local interest beyond the material responsibilities of the contract and ultimately its probably international shareholders is not charged with providing facilities as a contribution to society. For example:

Amenity benefits can be tangible (e.g. parks and playgrounds) or intangible (e.g. visual aspect) [but] they are relevant to the equality debate, as many lower income families live in areas where the local environment is degraded and amenities (tangible and intangible) are in short supply”.<sup>110</sup>

## Learning the lesson – why Services are returning in-house

In the UK context, it is not surprising that, having been ‘burnt’ by outsourcing failure, many Councils have decided to think again. Such a decision reflects a pragmatic reaction to the cost of market failure as emphasised by the fact that, as APSE have found, there is “a correlation between the high percentages of English authorities that have in-sourced services and the high proportion of Conservative and ‘No Overall Control’ authorities identified. This suggests there is no specific ideological preference for in-house services and the decision to insource is taken for pragmatic and sound business reasons”.<sup>111</sup> This reflects a realisation that despite the promise of savings, in reality, when services fail, it is the public that will pick up the tab. This is the case both at council level and beyond:

- **£7.8m** paid by Bedfordshire County Council to terminate a failing outsourcing contract in 2005.
- **£25m** estimated loss to the taxpayer as a result of the collapse of private care home operator Southern Cross.
- **£265m** paid by the Home Office to Siemens on top of the £100m originally budgeted for when its passport IT system went way over budget.
- **£300m** lost by Royal Bank of Scotland on a private equity buy-out of care home operator Four Seasons was ultimately borne by the taxpayer.
- **£410m** lost to the taxpayer as a result of the collapse of the Metronet ‘public private partnership’ for the London Underground, according to the National Audit Office.
- **£10.4bn** committed to the NHS IT project on top of its original budget – and still results have yet to be delivered.<sup>112</sup>

### Private profit from public loss: Local Government

During 2012 a number of Councils in Northern Ireland took forward specific proposals to externalise and/or privatise a range of local authority services, mainly in respect of leisure services. A particular concern of NIPSA is in relation to the introduction of Leisure Service Trusts to Northern Ireland. The concern is that these are a tax avoidance (VAT) measure by Councils (i.e. the savings accrued from outsourcing leisure to an LST saves the Council on VAT). In addition, with the use of an LST, appropriate democratic accountability disappears because, despite minority political representation on an LST Board, “Company law requires that Board members must put the interests of the Leisure Trust before those of the local authority”.<sup>113</sup>

While PricewaterhouseCoopers’ (PWC) examination of Review of Public Administration (RPA) models was dominated by an anti-public sector ethos, the HR Connect experience in the NICS should act as a wakeup call in relation to the promise of future savings for shared services. In the context of RPA it appears that discussion of what service should or should not be centralised appears to be less to do with “efficiency” and more to do with presenting a gateway to privatisation.

Furthermore, while there has been discussion, in the context of the Improvement, Collaboration and Efficiency (ICE) initiative of further moves towards Shared Services in local Government, NIPSA already has considerable experience of the failures in this area, especially when the services have been contracted out. Other dangerous developments in local government include:

**Ards Borough Council**, despite opposition, has decided to privatise the Exploris Centre in Portaferry;

**Belfast City Council** proposes to extend and subsequently privatise the Waterfront Hall despite the questionable validity of its economic appraisal;

**Magherafelt District Council** has transferred Greenvale Leisure Centre to the private sector (with staff employed on a cheaper hourly rate with either no or reduced pension) and

**North Down Borough Council** has agreed to outsource its new 50m pool and Leisure Centre, awarding the contract to Serco.

If the pros and cons of ‘in-house’ versus outsourcing are assessed objectively, returning services in-house is the most logical option. Nor is the return of services in-house merely a recent UK phenomenon. As Warner and Hefetz (2004) have documented, a fifth of all previously

outsourced services in the United States were brought back in-house. This research found primary reasons for insourcing were poor performance from the outsourced company: the need to improve quality/find greater value for money including the improved performance that comes from a properly motivated and rewarded staff.<sup>114</sup>

APSE's analysis of councils that have insourced services in recent years mirrors these findings with "the service area most commonly subject to insourcing is administrative services – such as benefits and human resources and large number of in-house, front-line services such as streetscene, grounds maintenance and waste, street cleaning and refuse collection have also been insourced".<sup>115</sup> (A summary of local authority in-sourcing and the savings generated is presented in Appendix 2.)

## Conclusions

Those who crusade for the capture of public services are wary of debate returning to the broad principles of redistribution, public good and genuinely open public services. It is little wonder they are. As discussed above the history of privatisation and outsourcing emphasises that "costs go up; services get worse; private companies are not accountable and staff are undermined".<sup>116</sup>

While the scale of private capture is extensive, the one advantage we do have in Northern Ireland is that, we are at a *different* stage of its advance. As a consequence, we have the advantage of an extensive international evidence and performance base that we can use to reject the false promises that mis-sold privatisation's central tenets for decades in the UK and European context. If our opponents try to caricature our opposition as ideological we can cite this evidence and query why, at a political level, they are facilitating this surrender of economic control, with the associated risk and cost (in every sense) that follows. We will ask them: are they so confident of their 'talents', the scrutinising ability that brought us Balmoral High and HR Connect that, in the future, they will hold the private owners of our public services to account? Do the local pro-privatisation politicians believe that a multinational like G4S who were not embarrassed at being unable to deliver a global event such as the Olympics, will be concerned about the failure of a contract in Northern Ireland? Do they believe that a similar giant such

as Serco will fret about the consequences for our public services and our population if it has to switch its resources to another part of the globe?

The evidence is there. To set it aside is either wilful ignorance, market fanaticism or possibly both. Viewed objectively we need to return to the core question of what is required of a *public* service as opposed to a business arrangement. The former requires services that are "publicly accountable; open and transparent; of high quality; value for money; a fair deal [for workers]; [designed to minimise] the risk of service failure; and are [capable of delivering] public policy objectives, such as equality".<sup>117</sup>

These objectives can only be achieved with a political control that is impossible in a fragmented, privatised outsourced environment that is designed to service shareholders. We have observed the daylight robbery of unaccountable private firms taking over public utilities and services at a national and international level. We should not be lowering our guard to facilitate private profit being made from public loss at a local level.



## Appendix 1

### Outsourcing – Service Sectors and Key Operators<sup>118</sup>

Key Service Sectors	
Sector	Key Players
Construction and “hard” facilities management	Serco, Morrison, ISS, Rentokil Initial, Carillion, MITIE, Interserve, Mitie, Balfour Beatty, Integral, Laing, Amey, Caxton, Operon, GSL, Wates, Amec, Bovis, Costain, Skanska.
Support services and “soft” facilities management	Compass, Mitie, Spectrum, ISS, Rentokil Initial, Aramark.
ICT, business process and corporate services	Capita, BT, Serco, SBS, HBS, Vertex, Atos Origin, Liberata, IBM, Fujitsu, EDS, Xansa (part of Steria).
Long term care	Southern Cross, Four Seasons, BUPA, Craegmoor, Barchester, CareUK.
Schools	Amey, Costain, Skanska, Bovis, Capita, Mott Macdonald, Balfour Beatty.
Home care and day care	Home care: most providers are small firms. Day care: housing associations and small firms.
Waste management	Veolia, Biffa, SITA, Shanks, FCC (Waste Recycling Group), Cory, Enterprise, May Gurney and Greenstar.
Consultancy	IBM, LogicaCMG, Accenture, PA, Capgemini, Mott MacDonald, PricewaterhouseCoopers (PwC), Atos Origin, KPMG, Deloitte, Xansa (Steria), Tribal, McKinsey, Booz Allen Hamilton, Hedra, Grant Thornton, Ernst and Young.

Key Service Sectors	
Sector	Key Players
Primary healthcare	Care UK, UnitedHealth, Humana, Atos Origin, Kaiser Permanente, Laing (through ExcellCare), GSL, Babcock & Brown, and Carillion.
Housing	Home Group, North British, Wakefield, Anchor, Sanctuary, London & Quadrant, AmicusHorizon, Genesis, Places for People, Circle Anglia, Synergy, Riverside.
Custodial services	GSL, Serco, Sodexo, GEO, Reliance, UKDS.
Tertiary education	INTO (part of Espalier), Kaplan, IBT, INSEARCH, A4E, Capita, Centre for British Teachers (a charity), VT (part of Vosper Thorneycroft), BPP, Cambridge Education.
Secondary healthcare	Alliance Medical, Capio, Tribal/Mercury, Nations, Netcare, Care UK.
LEA outsourcing	Serco, Capita, Tribal, Amey, Nord Anglia, Cambridge.
Leisure services	DC Leisure Management, Esporta, Greenwich Leisure.

## Appendix 2

### Examples of Local Authority in-sourcing and Savings generated

Authority	Service returning in-house	Saving per annum (£)
Blaneu Gwent	Emergency call centre	27,000 <sup>119</sup>
West Lindsey	Housing and homelessness advice service	35,000 <sup>120</sup>
Leeds Teaching Hospitals	Courier Services	50,000 <sup>121</sup>
Cotswold District Council	Housing Advisory Service	75,000 <sup>122</sup>
Cherwell District Council	Glass Collection	78,000 <sup>123</sup>
East Riding of Yorkshire	Housing Maintenance	120,000 <sup>124</sup>
Hillingdon Council	Housing Management	300,000 <sup>125</sup>
Redbridge Council	Housing Management	400,000 <sup>126</sup>
Hammersmith and Fulham	Housing Management	400,000 <sup>127</sup>

Coventry City	City Centre Management	500,000 <sup>128</sup>
West Lindsey Council	ICT Services	750,000 <sup>129</sup>
Basildon	Housing Management	1m <sup>130</sup>
Rotherham	Housing Management	1m <sup>131</sup>
Thurrock	Waste and Recycling Services	2m <sup>132</sup>
NHS	Consultancy Service	2.5m <sup>133</sup>
Banbridge District Council	Recycling	3m <sup>134</sup>
Ealing	Highways Maintenance	3.3m <sup>135</sup>
Ealing Borough Council	Housing Management	5m <sup>136</sup>
Coventry City Council	IT Services	5m <sup>137</sup>
Newcastle City Council	City Services	28.5m <sup>138</sup> (over 11.5years, not per annum)

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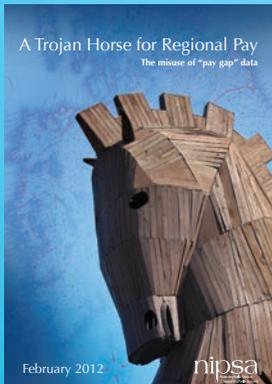
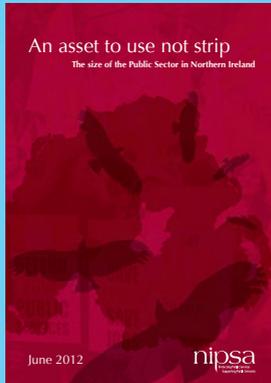
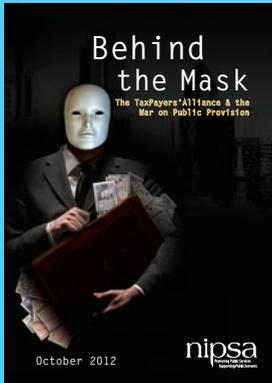
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