UK Social Services: The mutation of privatisation

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Introduction

Social services are at the forefront of the continued neoliberal transformation of public services and the welfare state in the UK. The social care market was constructed by successive governments, starting with the rapid increase in the use of the residential care allowance for private homes in the 1980s, the growth in outsourcing home care in the 1990s, and the closure and/or sale of local authority care homes. Originally described as creating a ‘mixed economy’ of care, the public sector now has a minor role in residential and home care provision.

Many local authorities systematically reduced in-house provision of social care through ‘spot contracts’, in other words, private and voluntary providers were asked to provide individual care packages rather than ‘block contracts’. This evaded the European Union staff transfer regulations, because an individual care package do not legally constitute an ‘economic entity’. Thus private and voluntary sector providers could reduce wage rates and other terms and conditions.

The number of beds in local authority care homes declined dramatically from 85,000 in 1994 to only 17,975 in 2010, only 8% of the total (England), as local authorities continued to sell or close care homes. The care home market is estimated to total £14bn of which the private sector has £9.9bn (71%), the public sector £2.2bn (16%) and the voluntary sector £1.9bn (13%). The total number of care places declined 13% between 2000-2010.

Public sector transformation

Neoliberal ideology has dictated economic policy, the role of the state and public sector transformation over the last three decades. Free trade and competition determine the supply of goods and services with reliance on markets to allocate resources and organise the economy. Minimum regulation of financial and labour markets permit the free flow of capital, goods and services globally to create new opportunities for accumulation.

Firstly, to speed up the fragmentation of the public sector into separate units and small clusters. This is promoted as increasing user choice and diversity of service providers, but is intended to destabilise current provision, increase organisational change and increase outsourcing opportunities. The transfer of services to trusts and separate public sector companies has similar objectives.

Secondly, to speed up the marketisation and outsourcing of public services to open up new outsourcing opportunities for private capital in the delivery of public services, consolidate their presence and influence in key markets, and reduce the role of the state.
Thirdly, to transfer risk and responsibility to individuals via a new wave of privatisation of public assets. In addition, Public Private Partnerships (PPPs) will be extended to create new opportunities for the private sector.

Fourthly, to drive down the cost of employment by abolishing the two-tier code of practice (that prevented new staff being employed on worse terms and conditions), reduce pensions and encourage local bargaining.

Finally, to create an austere financial climate by imposing a rapid deficit reduction strategy with public spending cuts (28% cut in local government over a four-year period, front-loaded in 2011-12) with drastic knock-on effects and consequences.

Public sector transformation consists of four interrelated processes - financialisation, personalisation, marketisation and privatisation. These processes are examined in more detail with examples of how they are being implemented in social services.

**Financialising public services**

The capitalisation of income streams (the process of converting an income stream, such as rents, to a lump sum capital value), and the securitisation of assets (mortgages, credit card, student loans, car loans), have enabled banks and financial institutions to transfer a degree of risk, make profits from these transactions, and create new markets. New and increased charges for social care services have gone in parallel with increased outsourcing of care services. A survey of 93 out of 153 councils in England showed fees for meals on wheels have gone up by 13% over the last two years, while transport rose by 33%. The average hourly home care charge was £13.49 in late 2011 (Labour Party, 2011).

The Dilnot Commission on Funding of Care and Support in the UK recommended a capping of lifetime contribution of adult social care costs at £35,000 after which costs would be eligible for full support from the state. People would have to contribute between £7,000 and £10,000 for food and accommodation in residential care. The Commission had ‘extensive discussions’ with the financial services sector as the proposals would “…create a new space for financial products” linked to pensions, housing assets and insurance (ibid). Private equity and venture firms will be eager to develop new products. The ‘sharing cost’ model instead of fully funded state provision can only exacerbate the problems.

The switch to individual budgets and direct payments in social services, in which service users receive a cash payment, or a voucher instead of delivery of a service, has a number of consequences. Currently, a personal budget can be taken as a direct (cash) payment with each person purchasing services; as an account held and managed by the local authority with decisions taken by the user; as an account held by a third party provider and called off by users; or as a mixture of these approaches. There is wide support for people receiving on-going care to have more control over the design and delivery of long-term, high intensity services. However, programmes designed to benefit those most in need of public services, such as 24-hour care, are being adapted and mainstreamed to marketise and privatise virtually all public services.

The 2010 Spending Review announced that personal budgets would be extended to special needs education, support for children with disabilities, long-term health conditions, adult social care and other services. The Vision for Adult Social Care concluded “The time is now right to make personal budgets the norm for everyone who receives on-going care and support – ideally as a direct cash payment, to give maximum flexibility and choice” by April 2013 (Department of Health, 2010).
There is no real cut-off point and individual budgets, direct payments or vouchers could eventually become the norm for most public services. And why are legal constraints put in the way of direct payments being used to access publicly provided services? Users who transfer to private and voluntary sector providers, only help to expand the care and health markets. This in turn creates secondary or niche markets for brokers and advisers.

Information and communications technology enables the government or local authorities to rapidly change the value of individual budgets. It is, therefore, an easy mechanism to force service users to top-up budgets with their own money to maintain the quality and level of service or purchase additional services in the private sector.

**Payment-by-results**

The obsession with the performance management regime’s wide range of indicators and targets has become less dominant, but ‘payment-by-results’ has become the new performance management mantra. There are two models – phased incentive payments and the social impact bond mechanism with payment at the end of the contract. The government claims to have publicly removed many performance targets, but they are increasingly replaced by “an expectation of outcome” (Guardian, 17 January 2012).

The Work Programme, the Coalition’s five-year welfare-to-work project, has a phased payment system with a small start fee for each new participant, which is reduced each year and eliminated after three years. Contractors will receive a job outcome payment after a participant has been in a job for three or six months, depending how “...far they are from the labour market”, in plain English how long they have been unemployed. Contractors can also claim ‘sustainment payments’ every four weeks when a participant stays in work for up to one year, 18 months or two years, again depending on how long they are unemployed (Department for Work and Pensions, 2011).

Payment by results in the NHS was designed to improve efficiency and value for money, facilitate choice and plurality of providers to increase contestability, and to ‘get the price “right” for services which reflects true costs and incentivises patient care’. But it is not a results-based system because it does not take account of the quality of treatment (Leys and Player, 2011).

**Social investment state**

Social investment is a “...new alternative for channelling large-scale private capital for social benefit” (JP Morgan, 2010 and 2011). They are a new form of financialisation. A social investment market will enable social projects to obtain private investment with a financial return and hence create a new asset class. Local projects, which deliver services, provide activities, operate buildings and/or provide transport that generate social value and are self-sustaining, will ensure that investors get a return on their investment (JP Morgan, 2010 and Cabinet Office, 2011a). A number of Wall Street investment banks and large foundations such as Ford and Rockefeller are developing this model.

Various UK and US projects on social investment in the last decade, supported by financial institutions, foundations and governments resulted in plans to create a ‘new asset class’. “As this movement gathers steam, we recognize the potential for impact investments to attract a larger portion of mainstream private capital and anticipate that more investors will seek to generate positive social and/or environmental impact when making investment decisions. In fact, we believe that impact investing will reveal itself to be one of the most powerful changes within the asset management industry in the years to come” (JP Morgan, 2010).
The social investment payment mechanism is dependent on the successful performance of the contract. A Social Investment Fund will raise funds for a project and select a contractor to deliver the project. The contractor will be paid in the normal way but the investors funding the project via the Social Investment Fund will only be paid if the project is successful. For example, payments for the first UK project, a Peterborough Prison contract aimed at reducing reoffending, has three consecutive two-year periods, with payments made to the Social Investment organisation in the fourth, sixth and eighth years. Payment to the investors is contingent on the contractor reducing reoffending by 7.5% compared to the recidivism rate in a selected group of similar prisons. The greater the reduction in reoffending rates, the higher the return to investors up to a maximum of a 13% return. The return to investors is financed by reducing the cost of police work, court, community sentence, and prison costs (Social Finance, 2010 and Center for American Progress, 2011).

The UK government launched a £448m national ‘troubled families’ programme in late 2011 to help ‘turn around the lives’ of families who suffer from at least five of the following characteristics: no one in the family is in work; living in poor or overcrowded housing; no parent has any qualifications; mother has mental health problems; at least one parent has a longstanding illness, disability or infirmity; a low income; and an inability to afford a number of food, clothing items. An estimated £9bn is spent on 120,000 most troubled families, £75,000 per family per year (Department for Communities and Local Government, 2011).

The programme will concentrate on “...getting children back in the classroom and not wandering the streets” and “...getting parents onto a work programme, to stop them committing crime” (ibid).

It will “run primarily on a payment-by-results basis to incentivise local authorities and other partners to take action to turn around the lives of troubled families in their area by 2015. The Government will offer to pay up to 40 per cent of local authorities' costs of dealing with these families (Payment by Results Model) payable only when they and their partners achieve success with families” (ibid).

In addition, four social investment pilot projects have been launched in Birmingham, Leicestershire, Westminster and Hammersmith and Fulham to raise up to £40m “...to help families blighted by anti-social behaviour, crime, addiction and poor education” (Cabinet Office, 2011b).

The focus to paying only for demonstrated results shifts the focus to investors and contractors and away from the needs of service users. If the project performs poorly or fails, then the support and sympathy needs to be directed to the children, unemployed and prisoners who have a poor service, rather than affluent or wealthy investors. Furthermore, political risk cannot be transferred and government will take the brunt of criticism where projects fail.

Social investment projects require “…sufficiently high net benefits to allow investors to earn their required rates of return”; the outcomes must be measurable, the treatment population must be well-defined, impact assessments must be credible, and unsuccessful performance must not result in early closure if it becomes evident to investors that performance targets will not be met and they will not be paid (Center for American Progress, 2011). There is the potential for high transaction costs with independent impact assessment and potential for disputes arising over the measurement of impact and cause/effect of outcomes; gaming with contractors concentrating on the ‘easier’ users to maximise ‘success’; the sustainability of outcomes...
after the contract; and the longer term consequences of creating a social investment market and the wider impact on marketisation and privatisation, which is completely ignored by the social market advocates.

The Social Investment Fund, not the state, selects the contractor. Because it is initially financed by private investment, it gives the impression that projects are privately financed when, in fact, they are the same as PPPs, entirely publicly financed. Government claims, that voluntary and private service providers will have access to capital markets, is not relevant if they are ultimately financed by the public sector.

The Coalition government believes “…individual investors will be receptive to simple retail products from credible suppliers that give them a chance to ‘invest for good’, as long as they believe there is a reasonable chance of getting their money back, possibly with a positive financial return. Our vision calls for the creation of a new ‘asset class’ of social investment to connect social ventures with mainstream capital” (Cabinet Office, 2011a). This strategy is dependent on establishing commissioning and outsourcing to open up the provision of public services to new providers, reducing the ‘bureaucratic burden’ on small civil society organisations and increasing social ventures access to capital.

The UK government plans to accelerate the growth of the social investment market by dedicating resources to promote a new class and range of investment products, increase share ownership in local pubs and post offices, and develop a secondary market for the sale and purchase of shares in social ventures. Voluntary organisations will inevitably be pressured into considering social investment for projects.

The government will use a proportion of the savings that result from improved social outcomes to reward private investors who fund projects. This ‘payment by results’ model depends on developing an agreed performance regime. Safeguards to prevent cherry picking the most likely successes and leaving the difficult complex cases to the prison service should remain a concern. Social Impact Bonds are said to be a paradigm shift to “…catalyse positive cycles of government spending, improving social outcomes and reducing costs” (Social Finance, 2009).

Basically, private investors finance early intervention projects, such as preventing reoffending, and receive a share of the savings in public spending as a return on their investment. It is just another way of monetising efficiencies. The Early Intervention review (by Graham Allen, Labour Member of Parliament) recommended the expansion of outcome-based contracting for Early Intervention services and programmes funded by £1bn private investment (Allen Report, 2011). The study fully accepted the Coalition Government spending plans and concluded that without reprioritisation of public spending, Early Intervention investment will only increase with external finance. “While bringing in external finance will diversify income sources for Early Intervention and hopefully create a future private market for social investment” (ibid).

The plan is to develop the market with privately financed social intermediary funds, in effect brokers; local authorities and central government (the commissioners) will contract with a fund, which selects the providers. In other words, the private sector selects the provider, not the public sector! And consultants will not be left out – “…investors have made it clear to the review team that independent verification of outcomes delivery will be essential in encouraging them to invest” (ibid).

In the social investment market, the contractor is selected by the fund, not the state. There is potential for high returns, but the risks are high. It may lead to more contracts for contractors, but survival will be hard. And people in need may get better services.
The state (taxpayers) may benefit because the savings may be greater than the payments to investors, coupled with the delay in payment until after contract is finished and outcomes have been assessed. And independent assessment could provide consultants, agents and brokers with additional work, thus making everyone a winner! However, this ‘market’ is a major threat to universal public provision and could ultimately lead to entirely private services, reliant on state subsidies.

HSBC Bank was fined £10.5m and agreed to make compensation payments of £29.3m for mis-selling care bonds to 2,500 elderly and disabled customers between 2005 and 2010. A review by a government regulatory body (the Financial Services Authority) concluded that 87% of sales were unsuitable. The bonds were designed for those in, or about to enter, care homes to help them fund long-term care costs. But the bonds had a five-year investment horizon, and with investors having an average age 83, this inevitably led to the withdrawal of funds to pay for their care. This resulted in a faster reduction of capital than should have been the case if they had received the correct advice. Early withdrawal penalties compounded the problem (Financial Services Authority, 2011).

Private finance of infrastructure

PPPs facilitated the financialisation of public infrastructure (Whitfield, 2010a). Construction companies and banks finance the design, construction and operation of public buildings and transport systems, effectively owning and managing them under long-term contracts. The sale of equity in PPP project companies is highly profitable, averaging 50.6%. Total profits were estimated to be £2.2bn, based on a sample of 154 projects, although this excluded the undisclosed profits obtained in the sale of secondary market infrastructure funds. The number of UK infrastructure funds operating in tax havens has increased (Whitfield, 2011a).

Local authority-built facilities are also being transferred to the private and voluntary sectors. For example, several cities have used PPPs to provide housing for older people, together with care services to enable them to maintain independence within their own private accommodation. In another example, Liverpool City Council is building three ‘care hubs’ to replace a number of adult social care centres due for closure, but is considering transferring them to the private or voluntary sector when they open in 2014.

The growth of an asset-based welfare state, to increase the value of property and financial assets of the poor, has been uneven in Britain. It has ranged from widening home ownership via the sale and shared-ownership of social housing, child-care vouchers, to the ‘personalisation of pensions’ encouraging people to have additional private pensions.

Instead of addressing inequality of opportunity, redistribution of wealth and social solidarity, For example, Child Trust Funds (government payments to children born after a certain date and designed to encourage saving) “…became a tool for changing the behaviour of the poor rather than a challenge to prevailing patterns of ownership” (Finlayson, 2008). The policy “…in form and presentation, was dominated by commercial concerns and by an individualised approach to welfare, concerned to create new kinds of attitude in people” (ibid). New Labour’s attempt to ‘build the assets ladder’ could be interpreted as little more than saving for tuition fees, other service charges and tolls.

Education, health and social care could eventually be individually purchased via vouchers, individual budgets and direct payments. The more affluent are likely to continue to opt out of publicly financed, into entirely private financed and provided services. A two-tier system would lead to a fractured and residual role for public provision. The loss of social solidarity, and collective provision, would erode social rights
and concern for inter-generational needs reinforcing ‘self/today’ societal values. New forms of insurance would develop as the private sector sought to group individual purchasers to obtain economies of scale and organise the market. Tolls and charges for virtually everything electronically collected, as you inhabit the city or suburb. The erosion of universal provision could speed-up new and/or increased charges.

A new market is growing in equity release for elderly homeowners, to supplement low pensions and the cost of care, thus, potentially, reducing public welfare spending and the inheritance left to other family members. Real Estate Investment Trusts are intended to expand access to a wider range of savings products and to provide investment mechanisms, which are an alternative to the falling value of pensions. These policies help to expand and create new financial services markets in savings, insurance and pensions.

**Personalising social services**

Individual budgets, direct payments and vouchers/credits transfer the risk and responsibility to individual users, by forcing them to select their own service provider. It atomises collective provision because individuals are encouraged to make decisions based solely on their own circumstances. Trading restrictions placed on public sector providers, combined with other destabilising tactics, helps to expand private provision, whilst creating the conditions for public provision to wither on the vine and to avoid direct privatisation.

The transfer of risk and responsibility has four dimensions. Firstly, individual budgets and direct payments make the selection of a service provider a personal responsibility, although this is dressed up in the language of choice, but are in practice contrived and fake choices. The state is effectively transferring risk to the user and their advisers or agents.

Secondly, the withdrawal of the Code of Practice on Workforce Matters in 2011, and planned restrictions on access to public sector pension schemes, ensures that the consequences of a two-tier workforce are transferred to staff. Changes to terms and conditions of service, pensions and staff consultation meant most risk was borne by staff. Staff transferred to a new employer, 84% of risks are in the high to medium risk category compared to none to 8% if staff are seconded or transferred under a comprehensive agreement (European Services Strategy Unit, 2010).

Thirdly, payment-by-results is intended to incentivise contractors, with payment conditional on the completion of agreed outputs or outcomes. This can include achievement of savings targets, with the benefits shared between client and contractor. This attempt to increase the transfer of risks to contractors is not without its risks, such as gaming, concentrating on easy wins or ‘cream skimming’ and disputes could arise over the cause and effect of change.

Fourthly, there is evidence that some authorities adopt risk denial, particularly the risk of contract failure, to minimise opposition to outsourcing policies.

The increasing political interest in ‘behaviour change’ assumes that changes in the delivery, organisation and management of services have reached their limit and better services and bigger savings will only come about by changes in service users’ values and behaviour. Advocates of this approach claim that the emphasis must shift to reduce the demand for services by eliminating ‘over provision’ and ‘unnecessary/excess demand’; ‘citizen driven innovation’; and emphasis on prevention and early intervention. Whilst the case for citizen involvement and prevention strategies have been widely
advocated for decades, public service demand reducing strategies are full of pitfalls and ideological manipulation.

**Marketising public services**

Marketisation creates the conditions whereby full privatisation becomes inevitable. Competition and contestability impose commercial values and operational systems on in-house services, often resulting in the sale of direct service organisations. It encourages public sector arms length companies and trusts to expand and diversify, become more independent, which in turn is used to legitimise ‘greater freedom’ and full privatisation. Marketisation establishes a culture where the public sector assigns prices to functions and services, but reduces their wider economic and social value.

Marketisation takes many forms and is increasingly targeted in particular parts of services. For example, the Coalition government plans to extend the pilot scheme to outsource social work services for children in care to private social work practices. However, four of the nine local authorities withdrew from the second wave of pilots citing lack of finance (Community Care, 2011). A similar pilot project has been launched for adult services, funded by the Department of Health.

Market forces are imposed in different ways at different speeds in different services. Markets do not evolve naturally, nor do they emerge through self-regulation. States create the conditions, regulations and financing, and provide the legitimacy to create and sustain markets in public services. This is a political decision as much as a technical or organisational process and has five key elements, detailed in New Labour’s Attack on Public Services (Whitfield, 2006).

Commodifying (commercialising) services – users are treated as consumers and purchasers; services are quantified and organised so they can be readily specified and packaged in a contract; operational values are remoulded to meet commercial criteria; risks are commodified so they can be priced; public agencies replace grants with contracts; and market research and soft market testing enable the private sector to influence the scope and packaging of services.

Commodifying (commercialising) labour – tasks, working practices and jobs are standardised, routinised and reorganised to increase productivity, reduce the cost of labour and assist transfer to another employer. New working methods are accompanied by changes to job descriptions and restructuring of the workforce to increase deskilling and casualisation. Management will seek to renegotiate agreements or impose changes.

Restructuring the state for competition and market mechanisms – client and contractor roles are separated with public bodies becoming ‘commissioning’ agents rather than providers; market mechanisms are introduced such as public money following patients and pupils; schools, hospitals and other facilities are compelled to compete against each other; options appraisals, soft market testing, business cases and the formal procurement process increasingly dominate management of public bodies.

Restructuring democratic accountability and user involvement – services and functions are transferred to quangos, arms length companies and trusts with separate governance structures that undermine traditional structures of democratic control; participation and disclosure is limited to consultation because of ‘commercial confidentiality’.

Embedding business interests – business more deeply involved in the public policy making process; trade bodies promote free market in services, wider use of PPPs and the infrastructure market, and promotes liberalisation of public services.


Commissioning, competition and contract culture

The separation of purchaser/provider, or client/contractor functions, is a key precondition for mainstreaming marketisation in the public sector. Commissioning is based on the belief that it does not matter who provides services and that public, private and voluntary organisations should compete to deliver services. It is a re-hash of the earlier ‘enabling model’ of local government and requires the separation of client and contractor roles. The procurement process (service reviews, options appraisals, business cases and tendering procedure) is mainstreamed across all services and embedded in public management.

The economics of competition and outsourcing assumes that a combination of reduction in the cost of labour (increased productivity, fewer staff and changes to terms and conditions); the introduction of new technology and working methods; a competitive drive and business values; the relocation of work to areas with lower wage levels; and the reduction in overheads, will produce savings and better services. Changes to staffing levels and terms and conditions are usually the first to be targeted since labour costs usually account for over half the total cost of public services.

The state is required to manage demand for services (such as pupil numbers and population needs for health and social care), procure and manage contracts, and monitor the implementation of regulations. Public bodies retain statutory duties and must have strategic plans to ensure broadly equitable provision. The state must research market trends, prevent monopoly control and corruption, and take action in the event of contract and/or market failure. It must also mediate between conflicting interests of community needs, political and business interests.

Commissioning requires the state to provide financial and regulatory support for markets and contestability between providers. The notion of a ‘level playing field’ ignores structural and operational differences between public and private sectors. It requires the commercialisation of in-house services and the establishment of public sector trading companies to compete with private firms and voluntary organisations. Staff are transferred between employers with a modicum of protection. Advocates claim it promotes ‘partnerships’ between the public and private/voluntary contractors. But this is disingenuous, because the partnerships in question are contracts and indicate a degree of cooperation and common interest that rarely exists in practice.

Public service principles and values are replaced by commercial values and business practices. The loss of public sector capacity and the extension of ‘commercial confidentiality’ impacts negatively on democratic accountability and transparency. A reduction in the implementation of corporate policies is another consequence. Only corporate policies specifically applicable to the service being contracted, are legally enforceable. The development of new or improved corporate policies is likely to be stymied because the interface between service provision and corporate policy will be fractured. Employment and equalities policies require constant assessment and review, but weak public sector monitoring means that contractors can make commitments in the procurement process, in the knowledge that most monitoring regimes are under-resourced and scrutiny is less than rigorous.

The deregulation of service, labour and other markets is a consistent feature of neoliberalism. Business interests want four things – a reduction in the regulatory framework in which they have to operate to reduce costs, for example, health and safety laws; a large measure of self-assessment of performance so that they can ensure assessment is not rigorous; contract conditions that are not too onerous and incur small
financial penalties for poor or non-performance; and the re-regulation of labour and trade union regulations to impose more restrictions on trade unions organising and taking industrial action.

The Commissioning Council model of local government is the ultimate objective of business and right wing political interests. Client and service delivery functions are separated so that delivery can be outsourced. In theory, this could produce a ‘mixed economy of provision’, but in practice it leads to the increasing commercialisation and marginalisation of in-house provision resulting in large-scale outsourcing, transfer of services to public sector companies and trusts or full privatisation. Some local authorities want to retain only a small strategic hub with everything else delivered by the private and voluntary sectors.

**The mutation of privatisation**

Privatisation was never simply about the sale of nationalised industries and utilities but included restructuring the economy to increase capital accumulation. It is “…a comprehensive strategy for permanently restructuring the welfare state and public services in the interests of capital” (Whitfield, 1983).

Changes in genes, caused by viruses, radiation or chemicals or error in replication, may result in changes in DNA sequences that prevent a gene from functioning properly, alter the product of a gene or have no effect. Privatisation has mutated into a variety of forms. The transfer of ownership and control of public assets was initially concentrated in state owned corporations and real estate, for example, the sale of oil, gas, electricity, telecoms and water. Once the scale of privatisation reached a threshold where further sales were complex or politically untenable, the emphasis moved to different forms of ownership and control. New forms of privatisation emerged as the focus moved to the marketisation of services by outsourcing, joint ventures, public private partnerships, combined with a new ‘gene’ of personalisation which gave service users individual budgets and direct payments/vouchers. This widened and deepened the role of the private sector in the design and delivery of public services.

Although the sale of assets took centre stage, privatisation was never intended to be solely about selling assets to increase government revenue in order to minimise taxation, or to improve economic efficiency. Private ownership was a means of marginalising democratic accountability, and reducing the cost of labour and the power of trade unions. Commodified services and markets with minimal regulatory oversight ensured profits and transferred risk. New forms of privatisation were needed to outsource public goods and encourage a ‘privatisation of life’ perspective to address ‘cradle to grave’ needs and the privatisation of land, sea, air and space.

Thatcherism triggered a new, more intensive sale of public assets in the early 1980s, beginning with the privatisation of nationalised industries and utilities, plus the sale of council housing. Privatisation developed, by political and economic necessity, into a multi-dimensional process. Because of political, staff, trade union and community opposition most of the core functions and services of the state could not be privatised by a stock market flotation or trade sale. The market mechanisms were not in place and required more complex arrangements with a longer timescale. Political values and social attitudes had to be changed, for example, the erosion of ‘public service values’ together with the traditional interests of staff, professional bodies and trade unions.

In the 1979-97 period, the Conservative government privatised the transport, energy, utilities and communications sectors, as well as most other nationalised industries and state-owned corporations. This period was dominated by the sale of assets through
stock market flotations and trade sales (Whitfield 1992 and 2001). Three key areas remained in the public sector – the welfare state infrastructure (such as health and education), the criminal justice system, and defence. The Labour government gave a commitment to continue the previous government’s spending plans and agreed to rapidly expand Public Private Partnerships. The ‘modernisation’ agenda consisted of performance targets, inspection by government agencies, widening the role of procurement and outsourcing strategic partnerships, the transfer of services to quangos and public sector companies, and increased focus on the efficiency of service delivery.

New Labour, subsequently, increased public spending, but public sector transformation was rooted in a neoliberal ideology of competition and market forces. They attempted to redefine privatisation, claimed that PFI projects, strategic service-delivery partnerships (SSPs) and outsourcing were ‘partnerships’ and not privatisation, and that marketisation was little more than the application of the principles of a mixed economy. However, these policies involved the transfer of resources (staff, land, buildings, equipment, and intellectual capital) to private companies, private investment in the public infrastructure, and private management of a wide range of public services. This was, and is, privatisation.

New pathways to privatisation have been created to speed up the mutation of privatisation process. The transfer of services to an arms length or trading company is one route. For example, the London Borough of Barnet has established a Local Authority Trading Company (LATC) with two subsidiaries, one adult social services and another for Barnet Homes, the Council’s housing management service. However, the LATC’s financial sustainability has been rigorously challenged. Adult Services are expected to contribute up to 90% of the group profits, £2m between 2012-2015. It places the learning disability and physical and sensory impairment services in an untenable, inequitable and unsustainable position (European Services Strategy Unit, 2012).

The policy of self-sustaining services, cost reduction strategies and pressure to maximise income to achieve profits will lead to new and increased charges. An increasing business and commercial operating environment, profit targets, cost reduction strategies and potential closure/reduction of services will increase inequalities in Barnet. Staff will face increased pressure on staffing levels, morale, working practices and terms and conditions, potentially leading to job losses and redundancies. This model creates the opportunity for full privatisation at a later stage when the decision-making process can be less transparent than under direct democratic control.

The privatisation of care homes has been a particularly damaging and costly. Takeovers of care companies by private equity funds increased rapidly prior to the financial crisis. Following the collapse of Southern Cross plc, Four Seasons has become the largest UK care home operator with over 500 homes. It is 40% owned by the Royal Bank of Scotland. In July 2011, NHP announced formation of new care operating company to takeover the care homes operated by Southern Cross. The collapse of Southern Cross led to two other banks, Lloyds and Barclays, suffering a £50m loss (Guardian, 2 December 2011).

The sale and leaseback model became a typical model in the care sector. Care home properties were sold to property companies with a requirement that the company received a lump sum, which it then used to reduce debt incurred in the original acquisition of the homes. The care company became a manager of homes leased back to them on 30-year leases with built-in annual rent increases of between 2.5% - 4.0% and assumed high occupancy levels. The financial crisis, decline of the property market, which led to a fall in the value of portfolios, and local authority freezing or cutting care
home charges caused a crisis. It wasn’t just the operational/property model that failed. Most care home companies had several owners in the last two decades. Staff had several employers in a relatively short period.

This labyrinth of ruthless takeovers, financed by high levels of debt and the sale and leaseback of property assets is not sustainable. It is a direct consequence of marketisation and privatisation of care dating back to the 1980s. The financial crisis only hastened the impending crisis. Once care, or any other service is commodified, service provision and employment conditions has a low priority compared to the circulation of money to pay-off debt and a search for new business opportunities. This process also generates a steady stream of consultancy and legal fees.

Whilst some private care home chains had less than 6% of homes classified as poor or adequate by the Care Quality Commission in April 2010, Southern Cross had 18.5%, Care Tech 17%, Four Seasons 15.5% and BUPA 12.2% (Financial Times, 2011). A year later Southern Cross was served with improvement orders at 164 care homes, 28% of its homes in England (The Observer, 2011).

Staff turnover rates in residential care homes are 25.6% and 20.9% in the private and voluntary sector homes respectively, compared to 11.6% in the public sector. Median hourly pay rates are significantly lower in private and voluntary sector homes and the gap widens further when other payments, training and pensions are taken into account.

**Opposition continues**

A survey of care practitioners by Community Care magazine revealed the continued opposition to outsourcing and privatisation. “Two-thirds said the quality of adult care had deteriorated because of large-scale outsourcing since the early 1990s, while 90% thought that outsourcing had been driven by the will of councils and governments to cut costs” (Community Care, 2011). 79% of respondents said further outsourcing would reduce the quality of care. A majority opposed plans for social workers to establish social enterprises to deliver services – see Chart 1.
Irrespective of the stated objectives and claims made for the advantages of neoliberal transformation of public services, there is increasing evidence that they are in fact designed to dispossess, disinvest, destabilise, depoliticise and disempower, in effect the de-construction of democracy at local, national and international levels. I now examine each of these impacts.

**Dispossessing**

Housing foreclosures, the loss of jobs, reduced employment protection in staff transfers, the erosion of public sector pensions and the closure of local facilities due to spending cuts are forms of dispossession. The community-right-to-bid to run public services, and right-to-buy local public facilities are a blatant attempt to divert attention from the impact of spending cuts and to hand community organisations a poisoned chalice, whereby they have to redirect their effort and resources to managing facilities. It will turn many community activists into community centre and volunteer managers! Most community organisations don’t have the level of active membership and resources to divide up responsibilities between management, organising and campaigning.

The offshoring and relocation of public service jobs is another form of dispossession. The loss of locally provided services results in job losses and reduced spending in the
local economy. The claim that increased economic efficiency (taking advantage of lower wage rates elsewhere) will enable the local authority to increase expenditure in other services is fallacious because the benefits are outweighed by the loss of local economic activity. Most of the gains are captured by the private contractor when they relocate service provision to low wage regions or to other countries.

**Disinvesting in public services**

The process of retrenchment begins with spending cuts, extends to converting universal services to being targeted to selective groups, focusing on core services at the expense of support services, and switching public resources to alternative providers (Whitfield, 2001). Disinvestment includes the reduction or withdrawal of investment in existing and new infrastructure, failing to ensure staff are fully trained to deliver the required service and/or using high levels of agency staff, and failing to prepare service improvement plans, so any innovation and improvement reduces to a snail's pace.

Disinvestment often includes promoting private finance as the solution, exaggerating the need for spending cuts, and making the case for the rundown and withdrawal of public services (ignoring the fact that it is ultimately entirely financed by the public sector and/or user charges). It is not limited to financial matters, and includes the decline in capability and expertise, and fails to recognise a need for capacity building. Government reviews of civil service capacity were narrow in scope and focused on identifying the skill shortages to implement neoliberal policies.

The engagement of management consultants to carry out service reviews, options appraisals and business cases, further undermines public sector capability and reinforces the ideological drive of neoliberal public management. The lack of controls on the exchange of knowledge, training and capacity building, allows consultants to obtain, and then resell, public knowledge.

The degree of embeddedness of these processes varies between local authorities and public sector bodies. There is sometimes an element of ebb and flow in the their implementation, due to fluctuating political control and priorities.

**Destabilising the public sector**

The destabilisation strategy is designed to challenge the affordability, capability and viability of continued state provision of public services and the welfare state. It takes several forms - creating doubt, fear and insecurity about the quality of public services; deliberate simplification of the complexity of delivering public services; promoting alternative service providers; and exaggerating private sector ability, efficiency and performance in delivering public services.

There is a strong element of self-destruction, or ‘creative destruction’, in the process of imposing neoliberalism in the delivery of public services. This has only a limited connection to innovation, the driving force being to marketise and privatise as widely and rapidly as possible. The notion that this is a seamless or orderly process, with minimal negative consequences, is nonsense and perpetrated by those who stand to gain most. There have been repeated attempts to privatise state provision and establish market forces in the 20th century, for example in health and social care, council housing, schools, higher education, and bus services. The process pays little attention to people’s lives and incomes, social needs, careers, democratic accountability and transparency (Whitfield 1992 and 2010a).
Welfare programmes, often with different levels of entitlement and applicable conditions, have a level of complexity that is not evident in other public services. Control mechanisms to prevent fraud and abuse and protect the public interest, often add another layer of complexity. These programmes are vulnerable to not being fully understood either by recipients or by the public. Contractors brazenly claim they could deliver services more efficiently. They are, therefore, vulnerable to being exploited for political ends.

Personalisation creates new constituencies and interest groups of service users with individual budgets who will usually want to retain those budgets, irrespective of their cost or public policy issues. This creates further uncertainty and conflicting interests, ostensibly pitting vested groups of service users against each other whilst ultimately being pawns in a wider struggle of political and economic interests.

The introduction of market systems causes distortions, which lead to further destabilisation, for example in the NHS, with a structural imbalance of power between purchasers (Primary Care Trusts) and providers (acute trusts) and perverse incentives caused by payment-by-results. These distortions usually lead to the private sector demanding speedier implementation of market systems and regulatory changes and further criticism of the public sector.

**Depoliticising public provision**

Depoliticisation has been defined as a governing strategy as removing the decision-making process from the main political arena. Burnham cites three forms of depoliticisation. Firstly, a “...reassignment of tasks away from the party in office to a number of ostensibly ‘non-political’ bodies as a way of underwriting the government’s commitment to achieving objectives” (Burnham, 2001). The granting of operational independence for monetary policy to the Bank of England in 1997, the establishment of ‘regulators’ for privatised utilities and the formation of public sector companies in local government are examples. Secondly, the adoption of “...measures ostensibly to increase the accountability, transparency and external validation of policy” such as the adoption of rules or codes of practice (ibid). The Labour government agreed to limit borrowing and to ensure public debt, as a proportion of national income, would be held stable. Thirdly, new regulatory regimes that constrain government, such as World Trade Organisation agreements on trade, services and procurement that “...remove or significantly diminish the discretion of politicians” (Flinders and Buller, 2005).

There is a further dimension of depoliticisation. Financialisation and personalisation in effect, transfer decisions about service delivery from the state to the individual. This changes the nature of those decisions from ‘collective’ to consumer selection in a market of alternative providers. It changes the emphasis from public service principles and values into ‘indisputable’ commercial values, and thus reduces the scope for debate and challenge. In doing so, it nurtures passivity and apathy, or at most a complaints culture.

This is not simply another aspect of public sector depoliticisation, because the objective is not only to transfer decision-making to another arena, but also to depoliticise the decisions and reduce the ability of service users to take collective action. Individual decisions are privatised and atomised, irrespective of the claims for increased accountability and participation through social enterprises and voluntary organisations, which affect only a small part of economic and social life. The simplification or ‘dumbing-down’ of complex issues into general statements reinforces depoliticisation, in part dictated by media and social network communications.
The privatisation of public services attempts to depoliticise the design, finance, delivery and employment in service provision by transferring decision making to the private sector and establishing an individual commercial relationship between provider and user.

**Disempowering service users**

Despite the empowerment rhetoric, personalisation will disempower many community organisations, as volunteers replace paid labour, contracting reduces advocacy, and community initiative is directed into financing and managing facilities. Depoliticisation is not simply a consequence of financialisation and personalisation, but part of the neoliberal strategy. Individual choice, customer care, market research, and individual participation reinforce personal decision making, whilst further undermining collective or public interest. The financial crisis and recession have dispossessed many of their jobs, livelihoods and status.

Democratic accountability is being fundamentally eroded. Localism, partnerships and other participatory mechanisms simply mask this reality and offer little to mitigate the impact.

Greater use of procurement and a contract culture in the public sector leads to increased secrecy and reduced disclosure. Greater access to general public spending data is only marginally useful if the real information upon which public policy decisions are based is kept secret. The procurement process inevitably imposes certain constraints on the availability of information but this does not justify increased secrecy, which nullifies transparency and disclosure.

Policy decisions are increasingly made by Boards of Directors with relevant decision-making taking place in closed sessions with confidential reports. The directors of leisure and community trusts, urban regeneration companies, Local Enterprise Partnerships, public sector housing management companies, irrespective of whether they are political representatives, tenants/service users or independent directors, have a legal duty to take decisions in the interests of the company first and foremost. The public interest or community needs come second. Furthermore, contract performance, service provision, financial matters, employment policies and other important matters are removed from directly accountable governance structures to indirect and semi-public/private bodies.

Public policy decisions are increasingly made, or are heavily influenced, by business involvement in the formation of local, national and international public policy decision-making. The transfer of services to arms length companies is swiftly followed by the formation of national associations to represent the interests of new service providers. For example, the National Federation of ALMOs and the Association of Local Enterprise Partnerships, are in effect trade bodies that lobby to promote these organisations irrespective of other public policy interests and to expand their role by taking over more functions.

Depoliticisation occurs as a result of the lack of rigorous evaluation of options appraisals, business cases and contract proposals combined with the failure to fully assess the impact of policies and projects through comprehensive costs benefit analysis. This is further compounded by the failure of most public bodies to rigorously monitor the performance and policy impacts of contracts.

**There is an alternative**

Alternative policies and strategies are needed to reconstruct the economy, state and public services and invest in local economies, create jobs and rebuild public
infrastructure. Reconstruction must have three inter-connected parts – new economic policies, alternative policies for public services and the welfare state, and a new public service management. It must re-align the role of the state, democratic governance, the design, delivery and management of public services and the welfare state (Whitfield, 2012). Local authorities should be responsible for a wide range of functions and services. In-house provision is essential. Marketisation should be dismantled and commissioning abolished to provide new opportunities to redesign service delivery. A new public service management with democratic and participative governance, public planning and investment must have a pivotal role in the reconstruction strategy.

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