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Transfer: European Review of Labour and Research 2002 8: 234

DOI: 10.1177/102425890200800208

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Impact of privatisation and commercialisation on municipal services in the UK

Dexter Whitfield*

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Summary

This article looks at the fundamental changes that have occurred in recent years in the area of public services in the United Kingdom, with a focus on those provided by local government. The various forms of privatisation and commercialisation that have been applied are described. In the second part the in many cases catastrophic impacts on users and workers, for democratic accountability and service quality are detailed. The article closes with a discussion of responses and alternatives.



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Sommaire

Cet article examine les changements fondamentaux qui se sont produits ces dernières années dans le secteur des services publics au Royaume-Uni, en se penchant tout particulièrement sur ceux fournis par le gouvernement local. Il décrit les diverses formes de privatisation et de commercialisation qui ont été mises en oeuvre. La deuxième partie explique en détail les conséquences catastrophiques, dans de nombreux cas, pour les utilisateurs et les travailleurs, de même que pour la responsabilité démocratique et la qualité des services. L'article conclut par un débat sur les réponses et alternatives possibles.



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Zusammenfassung

Im Mittelpunkt des Interesses stehen hier die grundlegenden Veränderungen, die sich in den letzten Jahren im Bereich der öffentlichen Dienstleistungen in Großbritannien vollzogen haben, insbesondere auf der lokalen Ebene. Die verschiedenen Formen von Privatisierung und Kommerzialisierung werden beschrieben. Im zweiten Teil werden detailliert die oft katastrophalen Auswirkungen der Veränderungen aufgezeigt, sowohl auf die Nutzer als auch auf die Erbringer der Dienstleistungen, sowie die Probleme bei demokratischer Kontrolle und Dienstleistungsqualität. Abschließend werden Lösungsvorschläge und Alternativen erörtert.

* Centre for Public Services (<http://www.centre.public.org.uk/>), a national independent non-profit organisation committed to the provision of good quality public services by democratically accountable public bodies implementing best practice management, employment and equalities policies.

The political economy of modernisation

The privatisation and marketisation of local government in the UK has been underpinned by political support for the enabling model of government, the OECD's performance management system, and more lately, New Labour's Third Way. It is also significant because Britain is well advanced in creating the conditions for implementing the World Trade Organisation's General Agreement on Trade in Services well in advance of global agreements. Public-Private Partnerships, Strategic Service-Delivery Partnerships (SSPs), private management of public services and competitive-based performance management systems have had a significant role in laying the foundations for a global market.

There has been a high degree of continuity between the Conservative Government's strategy in the 1979-97 period, which saw the privatisation of the transport, energy, utilities and communications sectors as well as many other nationalised industries and state-owned corporations, and that of New Labour since 1997. New Labour has extended privatisation into the welfare state, particularly local government services, the defence sector and the criminal justice system (see Table 1).

Table 1:
Infrastructure privatisation in the UK 1980-2002

Privatisation Completed 1980			Privatisation post 1997		
Transport	Energy & Utilities	Communi-cations	Welfare state	Defence	Criminal Justice
Railways	Electricity	British Telecom	Hospitals	IT systems	Prisons
Airports	Oil and gas	Cable & Wireless	Schools	Barracks	Courts
Ports	Water & sewage	TV transmitter	Council housing	Transport	Police stations
Bus services	Waste management		Residential Care	Equipment	IT
Rapid transit	Coal mining		Leisure centres		Fleet management
Roads			Regeneration		Detention centres

Labour's modernisation agenda has centred on:

- transition to a performance-competition state with inspection regimes
- marketisation, privatisation and private management of public services
- externalisation and transfer of local government services to the private sector and social enterprise sectors
- escalating corporatisation and commercialisation of the state

- private funding of the public infrastructure through public-private partnerships
- deregulation
- a flexible labour market.
- democratic renewal
- partnerships

The modernisation agenda has focused on the provision of services and functions of central and local government. The latter is responsible for education, social services, housing, environmental services, sports and recreation, highways and traffic management, waste management, parks, regeneration and community planning. Labour has created Regional Development Agencies, ultimately leading to a new tier of regional government, but the modernisation debate to date has concentrated on their powers and responsibilities rather than service delivery.

Enabling model of the state – the virtual local council

Labour has fully embraced the enabling model of the state. The enabling state is merely a purchaser of services, with the management and delivery carried out by the private sector. Enabling is presented by the government as adopting a neutral position on who provides services or carries out functions, but in reality this model relies on competition to determine service provision, market forces to allocate resources, and business rather than social criteria to assess performance. This leads to a purchaser-provider or client-contractor split, increasing outsourcing and creating an internal market for trading and charging of services which cannot be contracted out. It has profound consequences for the capacity of the state to implement economic policy, to intervene in the economy to ameliorate the effects of market forces, to enforce redistribution and social justice, and to enhance the welfare state. Basically, it affects what government does, how it delivers and its ability to make policy a reality.

The separation of responsibilities has a number of problems. Policy formulation, implementation and evaluation are not separate or distinct processes. The first requires constant adaptation and continuous development based on the experience of service delivery and the identification of changing needs. Learning organisations are needed with continuing cooperation and interaction between policy-making and implementation.

The split means two sets of competing, and in some cases, confrontational relationships and power struggles. Information about changing needs, user views of the service, contract performance and service development are often subject to 'ownership' disputes. The so-called vested interests of providers (staff and trade unions) are replaced by external vested interests of business elites and transnational companies.

The virtual local council is fast becoming a reality. It means 'Virtual Elected Members' because fewer will be needed and they will have a reduced role, less power and meet less frequently. They will have less power to influence change to meet local needs because services are delivered via long-term contracts. Only a select elite of Elected Members are involved in Partnership Boards and are heavily constrained by commercial confidentiality and a 'partnership ethos'.

The scope of transformation in local government

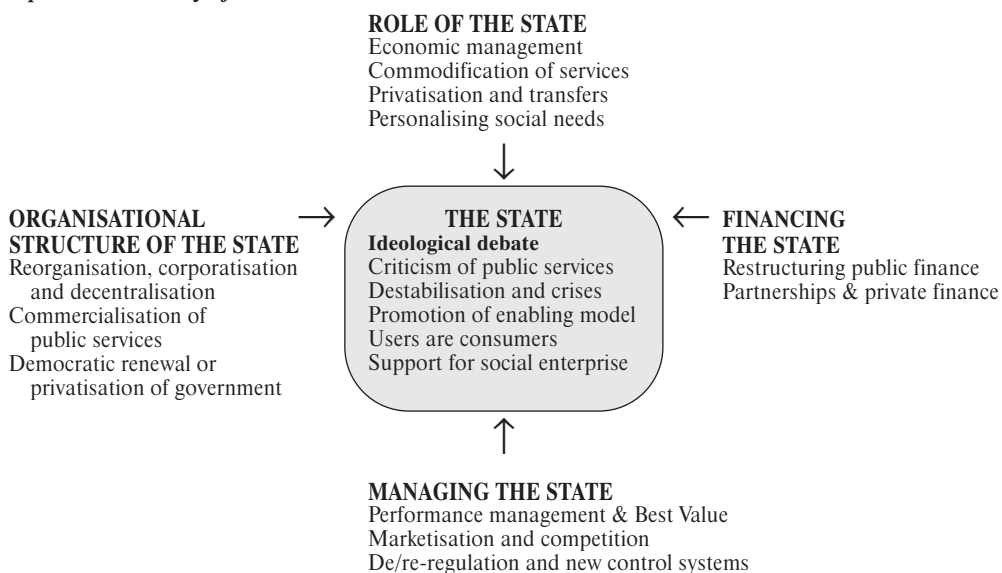
The extent, scale and depth of restructuring public services, particularly local government, has been unprecedented in Britain. This is best understood by briefly discussing changes in the role, financing, organisation and management of the state (Figure 1). For example, the commodification of services – the process of shaping and packaging services into saleable and marketable items – has been a key part of the pre-privatisation process. Privatisation has reduced or changed the range of responsibilities of the state.

The financing of municipal services has also been radically changed, with a range of new financial controls, private finance for infrastructure projects, discounts for council tenants buying their homes, and a plethora of new competitions for government grants and projects. The privatisation of government, the transfer of functions to the private and voluntary sector, and the commercialisation of municipal services necessitated almost continual organisational change.

Both Conservative and New Labour governments adopted the OECD's performance management regime, which focuses on outputs, auditing results, efficiency, competition, alternative providers and decentralised management (OECD 1995). This inevitably resulted in further marketisation of public services and the mainstreaming of competitive market forces.

These fundamental changes in the role, financing, organisation and management of the state were underpinned by an ideological debate which consisted of continued criticism of the poor quality of many municipal services and the 'failure' of some local authorities. The deliberate policy of destabilisation and of creating or exacerbating crises has been used to legitimate further privati-

Figure 1:
A political economy of modernisation



sation and marketisation, including central government intervention to force some local authorities to privatise services and to promote private sector management.

Privatisation and marketisation

The privatisation of municipal services originated with legislation in 1980 to force local authorities to increase the extent to which manual services, such as building and road repairs and maintenance, had to be tendered, and to increase the sale of property assets. However, privatisation has progressively widened as different types of asset sales and marketisation have been developed. A political economy approach identifies eight different types of privatisation:

- **sale of public assets to private ownership:** the sale of municipal companies, land and property.
- **private production of public services:** contracting out/outsourcing or franchising of services.
- **private finance of public services:** Public-Private Partnerships which design, build, finance and operate services; increased user charges and replacing grants with loans.
- **transfer of services to the third sector or social economy;** services remain financed by local government but responsibility for delivery (including staff, management and operational assets) are transferred to new or existing trusts and other non-profit organisations.
- **increase family/domestic responsibility:** reducing the scope of services assuming that families (i.e. women) take over responsibility for care of elderly and children.
- **deregulation/liberalisation and regulation:** the withdrawal, watering down of business regulations and the imposition of new regulations to restrict trade union activity.
- **expansion of private markets:** the withdrawal or reduction of public services to spur the private sector and adoption of a commissioning role creating and stabilising a private market previously dominated by public providers.
- **commercialisation of the public sector:** modelling local government on the private firm through adoption of business values and criteria, internal markets forcing departments to trade with each other.

New Labour has attempted to redefine privatisation as being limited to the sale of assets. There have been attempts to brand PPPs, SSPs and outsourcing as 'partnerships'. However, these projects involve the transfer of resources (staff, equipment, and intellectual capital), private investment in public facilities and private management of a wide range of services. This is privatisation. Staff are frequently not categorised as assets but commodities 'protected' by the European Acquired Rights Directive and can thus be transferred from one employer to another with impunity.

The rest of this section focuses on four parts of the typology which have had the greatest impact on public services, staff and trade unions, namely the private delivery of public services, private finance of public services, the transfer of services to the third sector or social economy, and the expansion of private markets.

Private delivery of public services

Local authorities have been required to tender or market test entire services and specific functions since 1980, although tendering was already common for construction work. The proportion of

building repair and highway maintenance work to be tendered was systematically increased from 1980. Other manual services, such as refuse collection, street cleaning, catering, cleaning, grounds maintenance and maintenance, commenced tendering in 1989. It was later extended to sports and leisure management, parking, home to school transport, security, fire and police-vehicle maintenance. White-collar services such as legal, finance, personnel, housing management, construction and property services had to be tendered from 1996. The value of services subjected to competitive tendering in local government and the civil services rose from £1.6 billion in 1991 to £3.5 billion by 1997.

Competitive tendering inevitably led to further privatisation. Private firms acquired over 100 Direct Service Organisations (DSOs, - established by local authorities to operate contracted services) and local authority technical departments (architects and engineering) to increase their market share, acquire knowledge of public sector work and establish national networks of offices/depots.

Competition is embedded in New Labour's modernisation programme. The new government duly kept its promise to abolish Compulsory Competitive Tendering (CCT), but mainstreamed competition in the replacement Best Value regime. Best Value requires local authorities to review all services on a five-year cycle. Reviews must challenge the rationale of service provision, compare performance with other public and private providers, consult users and assess their competitiveness. A system of national performance indicators, Audit Commission inspections and annual local performance plans monitored by the District Auditor are part of the Best Value superstructure. However, over 70% of local government contracts (by value) were retained by in-house services.

But 'assessing the competitiveness of services' quickly became competition and outsourcing, with local authorities required to 'research the market' and carry out an options appraisal which, as a minimum, must cover seven government-imposed options which include different forms of privatisation, while only two relate to retaining in-house provision. Even then, the government assumes that services will require re-engineering and restructuring. Best Value was originally developed on the concept of continuous improvement (DETR 1999), but this has been systematically replaced by the demand for 'step change'.

The government plans to introduce a new comprehensive performance assessment which will combine the results of different inspectorates, such as Schools, Social Services, Best Value and Benefit Fraud, into one overall assessment in which authorities will be ranked as high performing, striving, coasting or poor performing. At the same time the government is introducing a new prudential borrowing system for local government which gives councils greater freedom to borrow to invest, trade and charge for services and to set local spending priorities. However, only those authorities in the high performing and striving categories will be allowed to exercise these freedoms. They will have a revised 'light touch' Best Value regime. 'Coasting' and 'poor performing' authorities will face increased centralised control by having to negotiate their service review programme with the Audit Commission (DTLR 2001).

The Best Value regime will also be revised to ensure greater neutrality of who provides the service, wider use of open competition to promote diversity of service provision and a more concerted effort by local authorities to develop and create markets.

Best Value is now being used to mainstream competition, procurement and the creation of markets. There have been substantial changes in the local government outsourcing market since the early 1990s. Firstly, services are grouped in multi-service packages rather than single services and the inclusion of difficult, unprofitable and/or core services no longer has a deterrent effect on bidders, in fact quite the opposite. PPP projects have provided the private sector with an opportunity to diversify into the design, construction, finance and operation of municipal services. The government has also used its powers to intervene in local authorities by directing them to outsource and privatise their education services thus helping to create a 'new education economy'.

Secondly, the comprehensive input specifications have been replaced by a short output-based statement of needs. Thirdly, the companies are mainly transnational multi-service companies (for example, construction, engineering and ICT firms which have diversified into facilities management and other companies which have expanded into public services such as education and health) to the exclusion of smaller local and regional firms. Fourthly, the hostile climate of the last two decades has been largely replaced by 'partnership working' between local government and the private sector. Finally, business-funded trade and lobby groups are more powerful and embedded in local government networking on a scale not evident in the 1990s, and are hence able to promote vested interests more directly and overtly with government.

Local authorities have become increasingly reliant on management consultants for financial, legal, project management and other advice. PPPs and SSPs have provided a new and lucrative source of consultancy.

Strategic Service-Delivery Partnerships

Another significant development, strongly promoted by New Labour, is the emergence of Strategic Service-Delivery Partnerships (SSPs). They are long-term (usually ten years with option of a further five years) multi-service, multi-million pound contracts between a local authority and a private contractor. Between 500 and 1 500 council staff are transferred to a private firm (or, in two cases to date, are seconded to a joint venture company established by the private firm and in which the local authority has a minority stake). SSPs are supposed to 'free up resources for frontline services' by imposing restructuring and privatisation on 'back office support services' – these include information and communications technology, customer service and call centres, financial and legal services, human resources and property management.

SSPs have emerged in the last two years and operate in ten large municipalities with a further ten in procurement. The value of contracts already exceeds £3bn. The government has established a national task force, dominated by business and management consultancy representatives, to support 'pathfinder' projects and promote 'best practice' – the same treatment afforded to PPPs. Milton Keynes Council and Northamptonshire County Council recently invited bids for the first joint local authority SSP, which also included a wide range of frontline services.

In theory, a strategic partnership involves the council and the contractor 'working closely together' and 'planning' future business strategy. In practice, they are little more than large-scale outsourcing contracts. Middlesbrough, Lincolnshire, Blackburn, Bedfordshire, Cumbria and West Berkshire have signed deals, and several more authorities are in the procurement stage. BT, Hyder Business

Services (Nomura Investments), Capita Group PLC and Amey Group PLC lead the business charge for this vast new market.

SSPs use Best Value reviews to establish current service performance, a financial and resources baseline and are used as 'comparators' in evaluation as the reviews are treated as in-house proposals although there is usually no formal in-house bid.

Another key element is the establishment of regional business centres which will, it is claimed, create jobs by the private firm winning similar contracts from neighbouring local authorities. But the 'new' jobs only replace job losses within the contract. For example, Hyder Business Services (Nomura, Japan) operate the SSP in Middlesbrough. Jobs are expected to fall from 1 046 to 605 by the end of year four, a 42% loss; but 480 'new' jobs will be created. There is also evidence that companies merely transfer contracts between regional business centres in order to meet local targets.

SSPs are significantly different from Private Finance Initiative (PFI) projects. PFI was launched by the Conservative government in November 1992, as a financial mechanism to obtain private finance which could satisfy a political need to increase investment in the infrastructure without affecting public borrowing, guarantee large contracts for construction companies and create new investment opportunities for finance capital. PFI projects primarily provide privately financed assets such as buildings and equipment together with a facilities management contract. SSPs, however, embrace a wide range of services with a relatively small private capital investment and thus are an easier, more direct way of providing core public services than PFI. Contracts are larger: £200m to £350m over ten rather than twenty-five years for PFI. The local authority finances the contract from its revenue budget with the private contractor committed to finance new equipment and a regional business centre, representing only between 5% and 10% of the total cost. Contracts are more flexible than PFI and put the contractor in a powerful position to pick off additional services as the contract proceeds. PFI is led by the construction companies, whereas it is managed services and ICT companies that are dominant in SSPs. Furthermore, a significant part of the work will be transferred to the private contractor's business centre and amalgamated with work on similar public and private sector contracts. PFI contracts to date have been rooted in buildings and equipment, although this is likely to change.

Labour is thus privatising and marketising public services on a scale unknown even in the Thatcher years.

Private finance of public services

Public-Private Partnerships

Increasingly used to finance infrastructure such as motorways, bridges, rapid transit, ports, water and sewage projects in both the developing and industrialised worlds, Britain has extended Public Private Partnerships (PPPs) to schools, hospitals, courts, street lighting and other parts of the local infrastructure. Britain leads the world in the application of PPPs in the welfare state.

By 1990, with much of the basic transport and utility infrastructure in private ownership or planned for privatisation, private contractors were lukewarm over proposals for privately funded roads, and turned to other sectors such as hospitals, prisons and urban development where they believed they could obtain higher returns and access 'surplus' land and property for development.

There are various types of PPP, but the most common in Britain requires the private sector to Design, Build, Finance and Operate (DBFO) facilities, usually for 25-35 years (7-15 years for equipment). The private sector finances construction and is repaid by the public sector, in regular payments for the use of the buildings and for the services provided under a facilities management contract. Payments are classified as revenue, not capital and thus do not count against public borrowing.

The new Labour government acted quickly in 1997 to streamline the PFI process. It also rushed through legislation to clarify the powers of local authorities to enter into PFI agreements and guarantee financial payments over the life of the contract, irrespective of public expenditure. In other words, PFI contract payments are 'ring-fenced'. PFI was heavily promoted in local government, which had lagged well behind other sectors such as central government departments and the National Health Service.

The case for PFI has, in part, been justified on a separation between core and non-core services (for example, between teaching and education support services). But PFI is not limited to the provision of buildings and facilities management, and the growth of companies providing an ever increasing range of education services demonstrates that core/non-core distinctions are false (Whitfield 1999).

By early 2002, the total cost of PFI projects, either committed or in the planning and procurement stage in health, education, transport, housing, the criminal justice system and defence, was over £150 billion.

There are many fundamental criticisms of PFI projects relating to their high financing and transaction costs, the need for public subsidy and cuts in other services to make them affordable and the claimed transfer of risk which is small once construction is completed. The required comparison with a publicly funded option is frequently rigged by attributing the cost of delays and cost-overruns to the public sector option whilst assuming high efficiency gains in the PFI option. PFI projects also create a two-tier workforce because private contractors hire new staff on inferior terms and conditions. They also erode democratic accountability by limiting staff and trade union involvement in the procurement process because of so-called 'commercial confidentiality' and by limiting the scrutiny of long term contracts (Centre for Public Services 2001).

Transfer of services to the third sector or social economy

The sale of council houses to individual tenants under Right To Buy legislation was one of the core strategies of the Thatcher government. Over 2.5m million homes were sold after 1979, and when the programme began to flag the government encouraged local authorities to sell entire estates and then the entire stock. Large scale transfers of council housing began in the late 1980s,

and by 1997 a total of 30 000 council homes *per annum* were being transferred to housing associations. The housing association sector had grown rapidly since 1974 when a previous Labour Government had began an ideological shift to switch public resources from council housing to the housing association sector. When Labour returned to power in 1997, the council housing transfer programme was increased to an annual target of 200 000 houses. Local authorities must ballot tenants, and it is only a number of 'no' votes, most recently by 88 000 tenants in Birmingham, that has limited Labour's ambition to oversee the demise of municipal housing provision.

Over 50 local authorities have also transferred leisure services (swimming pools, sports centres) to non-profit trusts enticed by financial savings through reductions in property taxes and VAT. Trusts erode democratic accountability and most reduce the terms and conditions of employees once they are outside of local authority control. Although some trusts have user and trade union representation, most tend to be dominated by local business people and local elites. Some cities have transferred arts and museums to trusts, for example, Sheffield City Council has established a network of five trusts for sports facilities, parks, theatres, museums and galleries with subsidiary trusts and trading companies for other services such as residential care homes.

Expansion of private markets

Local authorities have been required to establish commissioning arrangements for social care. This involves a group of officers working to create a local care market by diverting individual and block packages of home care from local authority provision to private and voluntary sector providers. In the early 1990s local authorities provided over 90% of home care services, but by the year 2000 this had declined to under 50% directly as a result of 'commissioning'. Wage rates and employment conditions in the private and voluntary sectors are substantially lower than local government. There has been evidence of 'cherry picking' where the private and voluntary sector choose to work in towns and cities, leaving local authorities to provide care in higher-cost rural areas. Furthermore, redirecting care to the private and voluntary sector on a case by case basis avoids an employment transfer under the European Acquired Rights Directive. Hence the private and voluntary sector can hire new staff at the much lower market rates.

Local authorities are also expected to act as brokerages for support services such as cleaning, catering, payroll, information and communication technology, curriculum support and other services for schools. The intention is to 'stimulate the market for school services'. Schools pay a fee and the brokerage seeks 'service providers' for schools.

Combined assault with some opposition

Most cities face the combination of all these policies. For example, the policy agenda in Birmingham City Council, the largest local authority in Britain, includes PPP projects for new schools, the closure of some residential care homes for older people and the transfer of the remainder to a trust, the transfer of the city's entire council housing stock to the third sector, a similar transfer of leisure services, plus a massive £2 billion 25-year PPP project covering the management and maintenance of highways, traffic management and street cleaning.

There is evidence of the merging of strategic partnership and PPP projects in which the former influence the scope of the project, with PPPs being used a financial mechanism to fund investment. They are likely to cover an even larger range of services in future, including core functions. Ultimately major cities could have a handful of multi-service SSP/PPP projects operating on a sub-regional level. They would, in effect, be company-run towns and cities.

Whilst privatisation and marketisation continue to be pervasive, there has been some opposition. Strategic service delivery partnership proposals were halted in Kent and Salford, where local authorities rejected private sector models in favour of publicly funded in-house solutions, following strong trade union campaigns. Tenants in Birmingham recently voted resoundingly against the transfer of 80 000 homes in the largest stock transfer vote held in Britain. A number of other towns and cities have voted against transfer, although they remain a significant minority. The closure and/or transfer or sale of residential care homes for older people have been halted in several local authorities. Proposals to set up leisure trusts have also been stopped in some authorities. Some PPP projects have halted and been funded by public investment.

Impact of privatisation

After nearly two decades of privatisation and marketisation, when New Labour took power in 1997 municipalities were confronted with:

- widening poverty and social exclusion – inequality rose by a third in the 1977-97 period, and the UK has one of the highest levels of inequality in Europe;
- decline in the public infrastructure – an infrastructure deficit had grown with over £12.6 billion backlog of repairs in the NHS and council housing alone;
- decline in local government assets – the net wealth of the public sector plummeted from 61.0% of GDP in 1989/90 to just 5.0% in 1997-98 as a result of the declining asset base;
- equality and social justice marginalised – competition regulations prohibited all but simplistic analysis of equalities policies and practices;
- declining capacity of local government – increased reliance on management consultants and advisers;
- superficial consultation of service users – ‘participation’ consisted of complaints, market research and focus groups;
- jobs losses and the emergence of a two-tier workforce whenever services were privatised.

New Labour’s response included adopting the Conservative’s public spending plans for the first two years, although public investment has since been increased; for example local authority social services expenditure will rise 6% in real terms over the next three years. But an increasing proportion of expenditure is spent in the private sector. There is a welcome commitment to reducing poverty and social exclusion, but local government powers to impose conditions and carry out rigorous equality impact assessments are negligible (except in Northern Ireland). New Labour has continued to centralise power with new powers of intervention within the state, for example, central government’s ability to dictate the management of local authorities, rather than intervention in markets. Intervention in markets is now directed at creating and stabilising markets rather than intervening to achieve social or employment objectives.

Erosion of democratic accountability

The promotion of decentralisation and 'community empowerment' gives the appearance of more participative government at local level, but decision-making at central and local government predetermines spending and policy issues. Representation has increased at local level, for example in schools and regeneration projects. However, participation is increasingly on the state's terms in tightly defined and controlled programmes in which the main policies are not open to debate – the only agenda is how the money is going to be spent and how performance measures are going to be achieved. Consequently, local decisions are largely about the management of scarce resources. Devolution and decentralisation have required a redistribution of responsibilities within local authorities, but this does not automatically lead to democratisation and a redistribution of power to users and community organisations. The domination of 'spin' and public relations in parallel with 'commercial confidentiality' restricts disclosure and discussion of policy issues in any depth.

There have been few attempts to genuinely involve staff and users in the planning, design and management of services. Charters and complaints systems are designed for individual consumers. Public bodies have increasingly turned to market research in order to determine users' needs and opinions. Management maintains control and determines the issues on which opinions will be sought. It is ultimately about power relations, and the focus on consumerism is intended to maintain the *status quo*. Power is limited and constrained by the consumption relationship. It is also determined by users' perception of what can be organised and the extent to which they can influence public policy. It can lead to the reduction of people's ability to collectively discuss, debate and understand service delivery issues.

The strength of trade union and community organisations is becoming an even bigger factor. Where branches are well organised and with strong strategic leadership it is more likely that there will be involvement and good practice. The increasing complexity of projects means that community and trade union capacity to be involved is often stretched to the limit. There is very little capacity building following two decades of cuts and closures of community development budgets and projects.

Fragmenting municipalities

Privatisation and marketisation has led to *organisational and managerial fragmentation*. It has also led to short term, narrowly defined service or business planning, more competitive inter-organisational relations, the loss of responsiveness to implementing corporate policies, decreasing accountability as responsibility is transferred to contractors and non-elected bodies, and the loss of economies of scale, with smaller organisations sourcing goods and services from the private sector. Fragmentation also leads to more contracting out and greater reliance on management consultants.

Competitive tendering has led to *service fragmentation*, as services were packaged for tendering. The rate at which contracts are extended to new areas of work exceeds the rate at which contracts are consolidating. User needs are narrowly defined because of the limited responsibility and

purpose of each organisation. Policy coordination and integration of services is more difficult and time consuming given the larger number of organisations responsible only for proscribed parts or specific services, thus making it harder to integrate services and adopt multi-disciplinary working.

The launch of health, education and employment zones and PFI has led to *policy/project fragmentation*, rather than creating 'joined-up government'. Institutional, organisational and service fragmentation has resulted in a multiplicity of employers, or *employer fragmentation* which caused difficulties for trade union bargaining and representation, performance monitoring and data collection.

The formation of agencies and transfer of responsibility to quasi-public bodies, trusts and arms-length companies, privatisation and public/private partnerships has led to *workplace fragmentation*, with staff working in smaller, geographically dispersed units. Multi-site working, split shifts and the loss of enhanced payments for unsocial hours have also become more widespread. Local bargaining fragments negotiations and results in more conflict and competition between unions at the workplace.

The effect on users

The interface between service delivery and the user is being depoliticised. Need and class are deliberately ignored as consumers are treated as a homogeneous group of individuals with little or no collective identity. The user is encouraged to think only of how the service relates to them personally. The creation of 'one-stop shops' and call centres are a service improvement, but equally a further manifestation of individual consumption. Government is seeking to privatise operational failures to prevent them becoming public issues around which people might organise and campaign.

The commercialisation of services leads to individual grievances being channelled into corporate structures where they are dealt with as separate complaints within the organisation. This has obvious advantages for management in responding to and containing issues. The focus is almost exclusively on a narrowly defined quality of service delivery. Standards will be increasingly set by market forces and business criteria.

The erosion of commitment to in-house services and adoption of 'what matters, what works' is in effect neutralising the provision of service delivery. 'Third way' advocates claim that the quality of service at the point of delivery is most important, not who delivers the service. But this approach assumes that competition between contractors is *per se* a 'good thing' and the well chronicled negative consequences and high transaction costs are outweighed by advantages.

The public cost of competitive tendering

The transformation of public services incurs a wide range of costs. Organisations incur transitional costs, which include: the cost of setting up trading organisations; advisers and management consultants fees; the cost of preparing specifications, evaluating tenders and the market testing

process. Periodic costs include the cost of reviewing and implementing organisational change, creating new business units or adapting to new regulations. Permanent costs include client/purchasing costs, additional costs of controlling and monitoring contracts and the loss of economies of scale with the duplication of personnel, financial and support services. Other departmental, organisational, government and public sector costs 'external' to the contract are rarely quantified.

Between 1979-97 the Conservatives claimed cost savings of 20%-25% from competitive tendering in local and central government (Cabinet Office 1996). Although, this figure was never substantiated by research, this did not stop it being widely quoted as fact. For example, the OECD stated boldly that '...the UK, for example, has obtained typical savings of 25 per cent from its market testing' (OECD 1995).

Three major studies have examined local government competitive tendering savings in Britain, and all demolished such savings claims. The first study found average cost savings in service budgets of 6.5% in 40 local authorities when comparing the costs of the service before and after competition (DOE 1993). A follow-up study covering 34 authorities and revealed re-tendering savings of just over 8% (DOE 1997).

The third national study, the Equal Opportunities Commission study into the gender impact of competitive tendering, was the only one based on detailed employment data, and developed a model to assess the overall public costs of competitive tendering nationally (Escott and Whitfield 1995). It took account of the effect on government income and expenditure from changes in unemployment and welfare benefits, taxes, the loss of non-wage social contributions, corporate taxes and the impact on the local economy. Although local authorities budgets produced £124m 'savings' in 39 authorities, the full social and tendering costs totalled £250.1m, leaving a net cost of £126m per annum for four services in 39 local authorities (including most of the major cities). There were no savings because competitive tendering increased public sector costs by 16%. In other words, every £1m of 'savings' claimed under competitive tendering cost the government £2m.

Employment impact

The EOC study identified 12 587 job losses in four services provided by 39 local authorities in the 1989-94 period, equivalent to 74 010 job losses nationally. Women accounted for 96% of the net job loss in building cleaning, education catering, refuse collection and sports and leisure management. Cuts in hours have forced many women to take on several part-time jobs in order to try to maintain their earnings. A similar study of health and education service tendering in Northern Ireland identified an overall 14% job loss for women compared to 6% for men, with contracting out to private firms resulting in a 37% job loss compared to 11% for contracts won by in-house services (NIEOC 1996). Both studies also quantified cuts in working hours, increased use of temporary workers, loss of holiday pay, wage cuts, particularly in contracted out services, and a differential and adverse impact on women.

The rapid expansion of private care in the last two decades has exploited women workers. Two 1997 surveys covering 1 270 and 187 nursing and residential homes (39 000 and 7 440 staff)

respectively, revealed very poor working condition, including: low hourly pay rates (half of all employees in the PSPRU survey earned under £3.50 an hour), increasing casualisation, reliance on untrained staff, between 15-17 days holiday a year, and the lack of a pension scheme for manual staff (PSPRU 1997, Centre for Public Services/Fawcett Soc 1997).

The benefits of transfer regulations

The European Acquired Rights Directive provides a degree of protection for workers subjected to privatisation and contracting out. However, despite the initial frenzied opposition from contractors, the private sector has recognised the usefulness of the regulations, which guarantee the transfer of experienced staff and 'intellectual capital of the service'. There are loopholes in the regulations which do not apply to new employees, hence legalising a two-tier wage structure, and changes to staffing levels, pay and conditions can be made if justifiable for 'economic, technical or organisational' reasons.

Service failures

There is no evidence to demonstrate that outsourcing has improved the quality of municipal services. But there is evidence of service failures. Recently seven financial services and housing benefits contracts have been terminated in Hackney, Taunton Deane, Wandsworth, Waltham Forest, Lambeth, Newham and Kingston upon Thames, after causing large backlogs of claims, financial hardship for tenants, soaring complaints and financial crises for housing associations (contracts held by ITNET, EDS, Capita and CSL). Several other similar privatised contracts have had similar problems.

Many contracts have returned to in-house provision after the contract was re-tendered. There has also been evidence of significantly higher costs at the re-tendering stage, particularly where private firms were suspected of winning contracts with loss leader or very low-margin bids. Several PPP and SSP projects have suffered financial penalties but most are in the early stages and performance will only fully assessed over the next few years.

Equality and social justice

During the 1980s most public bodies adopted corporate equal opportunities policies, so the issue became one of implementation and monitoring. However, the commercialisation of public services, particularly competitive tendering, produced a widening gap between policy and practice. CCT regulations limited the examination of contractors' equal opportunities employment policies in the award and operation of contracts. Not surprisingly, CCT in local government and market testing in the National Health Service were found to be discriminatory (Escott and Whitfield 1995, NIEOC 1996). Furthermore, the debate has largely been about access to services and employment rather than a social-justice perspective encompassing economic and class interests.

Corporate welfare

The 1960s and 1970s saw the emergence of a military industrial complex consisting of defence contractors, transnational corporations, financial institutions, consultants, business associations and politicians. A comparable three-part 'corporate welfare complex' is now emerging. It consists of:

- a contract services system with a shared client/contractor ideology, value system and vested interests, in which the state outsources an increasing range of services and functions;
- an owner-operator infrastructure industry created by the rapid expansion of PFI; and
- a system of regulatory and financial concessions to business (Whitfield 2001).

The transformation of the state is supposed to signal the 'end of the era of big government', but more importantly the core functions of the state are being redirected in the interests of corporate welfare to maintain legal and regulatory frameworks essential for markets to operate and to maintain the conditions for capital accumulation.

The impact on trade union organisations

The combination of privatisation, marketisation and commercialisation of municipal services has led to a weakening of trade union organisation, as well as imposing new demands on trade unions locally and nationally in terms of their strategic response to third way and modernisation policies. Local branches have been simultaneously confronted with Best Value reviews, outsourcing, PPPs, transfer of services and other fundamental policy changes which affect working methods, staffing levels and terms and conditions. PPPs and SSPs often mean that local union branches have to 'represent' sections where trade union density is low and/or is poorly organised. They have also had to deal with transnational companies since local and regional companies do not have the resources to take on large long-term, multi-million-pound contracts.

The same policies create opportunities for organising, for example, increasing representation in poorly organised services or new organisational structures in a large multi-service contract. However, many of these opportunities have not been grasped.

In addressing the modernisation agenda, local branches have to develop action strategies and priorities for each policy initiative because they cannot be dealt with as part of normal trade union work. The centralisation of public policy has meant that trade union branches have had to confront the imposition of both national and local policies, and have therefore found themselves opposing both the government and their own local authority. It has meant that branches have to have a clear position on public service management, which has frequently not been recognised as a trade union issue.

They also have to develop alternatives – simply defending the status quo is inadequate and ineffective, but developing viable alternative policies requires more resources and technical/strategic support at the local level. Furthermore, ensuring genuine involvement of representatives and frontline staff in reviewing services under Best Value requires the training of represen-

tatives, coordinating involvement across a number of reviews and ensuring involvement in strategic policy level where decisions on reviews recommendations are made. Frequently branches have not had sufficient experienced shop stewards to be keep abreast of all management initiatives.

Local trade union branches are confronted with a number of organisational issues. Firms will often only recognise and negotiate with branch officials and shops stewards who are their employees. There is also evidence of contractors setting up parallel 'business councils' or joint trade union consultative committees which operate separately from existing local authority arrangements. This can often result in the fragmentation of local government branches. Recruiting and retaining membership in the private and voluntary sectors is frequently more difficult, particularly with hostile or uncooperative employers and fewer resources. Branches also have difficulty in retaining and recruiting new trade union representatives after transfer, because staff are more reluctant to maintain or become stewards for fear of jeopardising their careers. Companies often restrict time off for trade union duties and training.

The modernisation agenda has required public sector trade unions to work together in joint trade union committees and campaigns to maximise their strength and attempt to thwart a divide-and-rule strategy.

Trade union responses to municipal privatisation

In the early stages of the Thatcher government, a seven-part strategy was drawn up to oppose privatisation. It required the simultaneous application of all seven elements, namely: developing alternative plans and proposals to improve services; education and propaganda; building stronger workplace organisations and making links with workers in other places; developing coalitions and alliances; the tactical use of industrial action and negotiating machinery; direct action by workers and users; and a counter offensive against contractors already providing public services (Whitfield 1983 and 1992).

This strategy has been successful in many campaigns in several countries although such campaigns have, unfortunately, been the exception rather than the rule. In Britain there have been selective high-profile local strikes against competitive tendering and PPP proposals which were intended to be 'test cases' but were never fully supported by the unions nationally. The trade unions, particularly UNISON, promoted a best practice public management approach to tendering which was largely successful with Labour controlled local authorities. However, this became more difficult when the confrontation between central Conservative government and local Labour council was eroded, with the Liberal Democrats gaining control of some major cities such as Liverpool and Sheffield.

The situation has been transformed since New Labour came to power in 1997 and imposed competition and marketisation on a scale which the Conservative government had found politically impossible. Opposition to PPPs and SSPs has proven more difficult. The lack of alternative policies has been a fundamental shortcoming for the past two decades but is now compounded by New Labour's modernisation programme.

Strategic alternative

The case for an alternative modernisation strategy grows daily. It should focus on extending democratic accountability with new models of governance, reverse marketisation and privatisation accompanied by increased public investment and public delivery. PPPs and SSPs should be terminated, with Best Value redesigned to increase the capacity of the state with genuine involvement of service users, frontline staff and trade unions.

Privatisation and marketisation require strategies which transcend the narrow economic and competitive model of modernisation, and demonstrate the relevance and viability of alternatives. Such strategies must expose the consequences and contradictions of neo-liberal modernisation, the third way and the private provision of public goods. This must include campaigning for democratic accountability and involvement, to increase the power of labour and civil society and to constantly press for increased public investment. A new public service management based on public service values, principles and best practice for the production and provision of public goods should be centred on innovation and provision without procurement

The organisation and formation of alliances and coalitions between labour and civil society locally, nationally and internationally must be strengthened, particularly by combining industrial, civil and community action: the recent establishment of Public Service Alliances in several cities, consisting of public sector trade unions, tenants and community organisations, together with other campaigns, is a major step forward.

The campaign against the World Trade Organisation's GATS will need to be intensified. Privatisation, commercialisation and deregulation are incompatible with sustainable economic, social and environmental development.

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