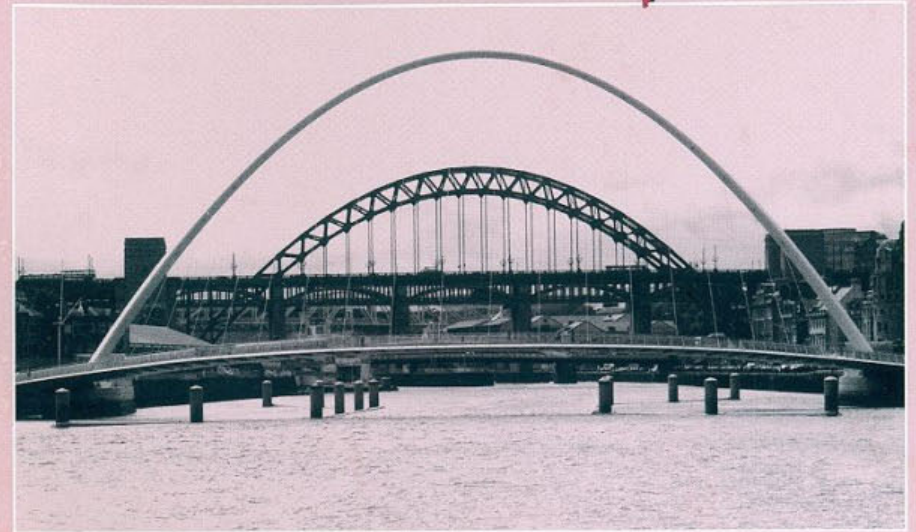


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# Executive Summary

## The challenge to local democracy

Newcastle City Council did not lose a contract under Compulsory Competitive Tendering (CCT) and recently awarded a £250m Information Technology and Related Services (ITRS) contract to the in-house service. It is the biggest in-house win in local government procurement history. However, the city council's Labour Group's commitment to in-house service delivery is being challenged by the Government's modernisation strategy and the Audit Commission. The city council, bowing to government pressure, now has a series of proposals for outsourcing and privatisation which will have a radical impact on jobs, services and the local economy.

The report identifies the ways in which democratic accountability is being eroded through cabinet government, partnership boards, the growth of quangos and trusts and imposition of the procurement process.

However, the clear message to Newcastle and other councils with similar policies is that partnerships, privatisation and marketisation of services is the overriding priority. Local democracy, public and user opinion and the views of public service workers are not 'relevant' any more. The performance management system of indicators, targets, reviews, inspections, assessments, threats and rewards is creating an edifice under the control of central government civil servants. It is a challenge to democratic government.

## Newcastle's track record

The City Council did not lose a contract under Compulsory Competitive Tendering (CCT) nor did it accept the enabling concept of local government. The support for in-house services remains solid, as regular surveys of user and public opinion have demonstrated. It has been innovative, demonstrated a capacity for implementing change and improving services, has a workforce committed to improving public services and a good record of industrial relations.

Completion of this year's Best Value reviews of corporate governance, asset management, development, the Local Education Authority (LEA), housing management and environmental services with a privatisation and outsourcing agenda could have fundamental consequences for the council, users and staff.

## Labour's modernisation programme

Labour's mantra is 'what matters is what works'. The government claims to be neutral on who should provide public services and this is translated into policy and statutory advice. This is a sham. The government is committed to creating a mixed economy or 'diversity' of provision. The consequences are examined in detail:

1. Performance management, auditing and the inspection regimes
2. Public spending and centralisation
3. Privatisation and marketisation
4. Democratic erosion, not renewal
5. Commodification of labour
6. The business agenda
7. The 'modernised' state

## Regeneration and Going for Growth

Going for Growth (GFG) is the council's citywide strategy to make Newcastle "a competitive, cosmopolitan and cohesive capital city". The Going for Growth plan for the West End is basically to apply the PFI/PPP concept at the neighbourhood level. The private sector will

design, build, finance and operate schools, health centres, sports, leisure facilities, roads and open spaces which will be privately owned and managed.

The new model of urban development will create private gated communities or private townships. The developer is also likely to provide security, heat, power, water, telecommunications, waste collection, recycling and sewage. It will have a significant impact on who benefits, reduce the need for council services and could change the city's political geography.

## Consultants move in

Privatisation and regeneration are creating lucrative opportunities for technical and management consultants who are rapidly expanding the range of 'consultancy', for example, many firms claim expertise in construction, engineering, facilities management, property and asset management and education.

## Corporatisation of the city

Privatisation and marketisation is not confined to physical assets, such as land and buildings and council services, but extends across the public realm or domain of the city. Decisions affecting the planning, design and delivery of public services will be increasingly made by business and so-called 'independent' members of Boards, Trusts and quangos. The public sector's intellectual capital – the knowledge of the city, how it works and how to meet the need of its people – will transfer to business interests. Privatisation of citizenship and the city's culture will weaken public institutions.

## The effects of privatisation

Privatisation undermines the quality of public service provision and has a number of negative effects on the community, the local economy, public sector costs, staff, and trade union organising and representation.

## European and global context

The UK is at the forefront of a global project to extend privatisation to every country in the world. This is being progressed within the European Union and outside it in the form of negotiations within the World Trade Organisation and through the global development framework implemented by the World Bank and the IMF. While this will mean enforced liberalisation and privatisation, the UK is already ahead of the game and here the effect will be to 'lock-in' policies already in place.

## Alternative modernisation strategy

An alternative strategy should be underpinned by public service principles and values including integrity, objectivity, accountability, participation and involvement, openness and disclosure, equality, quality employment and quality of service. The strategy has ten elements:

1. Increased public investment
2. Revitalisation of public services
3. Refocus on social justice, social needs and redistribution
4. Radical democratisation and accountability
5. New public service management
6. Re-regulation of markets
7. Regeneration and regional development
8. Quality employment and a better skilled workforce
9. E-citizenship
10. Environmental sustainability

# Introduction

## The challenge to local democracy

Newcastle City Council Labour Group is committed to public services delivered by public employees as its preferred option for the Best Value services for the people of Newcastle.

However, despite this commitment and widespread trade union and public support, the city council now has a series of proposals for outsourcing and privatisation which will have a radical impact on jobs, services and the local economy.

These proposals follow Audit Commission criticism of the Labour Group's commitment to in-house services. There is also increasing pressure for the liberalisation of public services orchestrated by the European Union and the World Trade Organisation.

The health and social care sector is also facing profound change with the promotion of 'foundation hospitals', and new health/social care trusts. PFI is being extended from NHS hospitals to local health centres and surgeries.

Other public services such as the Post Office are being outsourced and marketised as the private sector attempts to cream-off the profitable parts of the postal service. The government is intent on enabling "the market to play a much stronger role in determining student choice and research investment" in higher education (Financial Times, 12 September 2002). Universities and colleges will be allowed to fail, merge, downsize or expand depending on market forces despite the fact that this might "create turmoil in the sector" (Financial Times, 12 September 2002).

All of these policies will come into sharp relief in Going for Growth where the simultaneous privatisation of education, health, social care, housing and transport is likely to set new precedents. New privatised, gated, urban villages could emerge which give private companies enormous control over the city's infrastructure.

This pamphlet analyses the impact of these trends and developments on jobs, services and the community, the implications for local democracy and it proposes an alternative modernisation agenda.

## Newcastle's track record

The City Council did not lose a contract under CCT nor did it accept the enabling concept of local government. The support for in-house services remains solid, as regular surveys of user and public opinion have demonstrated. But Newcastle has also:

- been innovative – it could not be classified as 'old-style' Labour;
- demonstrated a capacity for implementing change and improving services;
- attempted to integrate and co-ordinate services within budget restrictions;
- supported vibrant community organisations and a tenants' federation;
- it has a workforce committed to improving public services and a good record of industrial relations;
- well organised and resourced trade unions which have made a significant contribution to policy debates and public management practice.

## The significance of the ITRS decision

The City Council's decision to award the £250m ITRS contract (information technology, revenues and benefits, human resources administration and payroll) to the in-house service is the biggest in-house win in local government procurement history. It was won against BT, the market leader in Strategic Service-Delivery Partnership (SSPs) in Britain. It sets a new benchmark in strategic partnerships because the private sector can no longer assume that a SSP procurement process almost inevitably leads to one of the companies winning a contract. It is also a rejection of the Regional Business Centre model so heavily promoted by private contractors despite the lack of evidence of job creation.

The decision is a direct challenge to Labour's Third Way modernisation and their 'neutral on who provides' position. Newcastle have demonstrated and reinforced the point that it does matter who provides services and that in-house services can provide better value for money than the private sector.

It is the first example where a local authority has set out a detailed plan demonstrating that it has the ability and capacity to undertake change management and the reconfiguration of ITRS services. The city council is also committed to involving staff and trade unions throughout the planning, design and change management process.

Newcastle UNISON's strategy was focused on the public policy-making process and the investment and policy decisions to be taken by the city council. Jobs, terms and conditions were *part* of this agenda. This strategy should be a crucial part of an alternative modernisation strategy (see Chapter 8). But this in-house success could be undermined by a series of other partnerships which the city council is planning as a direct consequence of the governments modernisation programme.

## Countering third way language

Strategic Service-Delivery Partnerships (SSPs), outsourcing and Strategic Framework Agreements involve the transfer of work from the city council to private firms and to management and technical consultants. This is one form of privatisation, as is the sale of assets, increasing user charges or withdrawing public provision.

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' and not privatisation. 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. Partnerships are feeble and futile attempts to 'rebrand' privatisation because of widespread hostile public opinion.

'Marketisation' is the British term equivalent to the European Union and internationally used term for 'liberalisation'. At its core is a belief that markets and business values can and will be able to deliver public services. In practice, it consists of changing regulations to facilitate the supply of services by the private sector (frequently deregulation but also re-regulation, for example of trade union activity), creating markets by 'commissioning' services from the private sector, and imposing charging systems.

The Private Finance Initiative (PFI) has been centre stage in Labour's modernisation programme. A new language has developed, such as risk transfer, bankability, public sector comparator which mask the true nature of PFI. Instead of 'private investment' read 'off-balance sheet public debt', instead of 'private sector efficiency' read 'public subsidy' and instead of 'options appraisal' read manipulating the figures to get the right result.'

'Partnerships' or 'Strategic Framework Agreements' are different from traditional outsourcing. The council enters a long term contract with a firm of technical and/or management

consultants to provide technical and management support and undertake design, planning and project management. They may also include legal and human resources services. Such agreements are sometimes justified on the grounds that the private sector will undertake only the additional work associated with the council's increased capital investment programme thus 'saving' the local authority from employing more staff. However, reality is different. There is an element of 'partnership' to the extent that the local authority and the consultants jointly plan and allocate work and there is a degree of 'outsourcing' because the private sector undertakes work on behalf of the local authority.

But this is no ordinary partnership or outsourcing project because it places the private sector in the heart of the internal decision-making and management of the service. It is insidious because the private sector is in a very powerful position to make itself 'indispensable', to 'cherry-pick' work and to literally steal the council's intellectual capital from under the noses of Elected Members. Such agreements are operated and managed by officers with limited accountability to Elected Members. These partnerships have profound consequences for the local authority (see Chapters 4, 5 and 6).

The government is keen to encourage voluntary and community organisations and social enterprises to deliver public services (HM Treasury, 2002). We have not addressed the scope for such ventures in this pamphlet. However, the current conflict between the Treasury and the Department of Health over the private funding of Foundation Hospitals illustrates the limitations of the social economy and the real danger of increasing privatisation. The rhetoric associated with the promotion of social enterprises (such as community ownership and local control) conceals major economic and social limitations of their operation in a capitalist economy.

### **The significance of Newcastle in the national, European and global context**

The privatisation and marketisation of local government in the UK has been underpinned by political support for the enabling model of government, the Organisation for Economic Co-operation and Development (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. 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. Britain is now the leading European, if not industrialised, country in marketising and privatising public services in advance, and independent of, potential global agreements.

There has been a high degree of continuity between Conservative Government 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.

The significance of Newcastle lies in the radical change which is being imposed on the city council through the different forms of privatisation and marketisation.

- The city is an example of European-style commitment to in-house services. It is currently bidding for European City of Culture status at a time when the culture of its public realm or domain is under threat (see Chapter 5).
- Newcastle is the regional capital and the government is all too aware that events in Newcastle usually have a knock-on effect in Labour's North East heartland. They hope

that driving partnerships and privatisation in the city will set an example to other councils.

- Going for Growth is a significant national and European regeneration project which is likely to set precedents and 'used as an example' to be copied by other cities.
- Newcastle demonstrates the potential effect of European and World Trade Organisation liberalisation on a major city.
- It is also an example of the application of the global development agenda of poverty reduction, liberalisation, domestic reform and debt relief in an industrialised city.

## Chapter 1

# The City Councils track record and current position

### CCT record

The City Council adopted a dual strategy of improving services combined with careful preparation of specifications and contracts and rigorous evaluation of bids. Consequently it did not lose a contract under CCT between 1989 and 1998.

The government's privatisation and marketisation agenda has changed significantly in the last twelve months. Newcastle has a unique track record having not outsourced any significant service and, to date, having not used Best Value as a tool for outsourcing.

### Labour Group position

The major campaign by Newcastle council trade unions in the autumn of 2001 culminated in the Labour Group reconfirming its support for in-house services. The Labour Group resolution stated: *"This Labour Group reaffirms its commitment to public services delivered by public employees as its preferred option for the Best Value services for the people of Newcastle. Our aim is to achieve this through improved 'in-house' services, not privatisation."* (Full resolution in Appendix 1)

### ITRS decision

The success of the in-house bid for ITRS services and the rejection of a Strategic Service-Delivery Partnership with BT on the grounds of in-house capacity, value for money, capital investment and fewer job losses will set a new national standard. But the success of this project is threatened to be undermined by a series of decisions which will result in far more significant privatisation of other key services.

### The imposition of competition

Newcastle received a 'fair' one star rating for Construction Related Services earlier this year. The Best Value Inspection reported that the aims of the service are clear and link closely to the corporate priorities of the Council; some sound approaches that support environmental, economic and social priorities; customers are generally satisfied; staff are motivated with high morale in some areas; single status and multi-skilling have been handled sensitively; and the service performs well on predicting the cost of projects. They found some weaker aspects of the service but their main concern was the lack of competition. The Inspectors concluded that:

*"The service has started to take some tentative steps towards partnering. External consultants and contractors have a positive view of the way they would like to engage with the Council and there are some examples of this happening in practice.....Members and unions do not embrace the principles of partnering and indeed, the Council's own procurement strategy, standing orders and financial regulations seem to militate against this type of approach."* (Audit Commission, 2002a).

The CRS review concluded that "the Council sees major benefits to the delivery by its in-house providers". The Inspectors claim that "these statements and assumptions to have been inaccurate and misguided."

Shortly before the CRS inspection report, the Audit Commission had published its draft proposals for the new Comprehensive Performance Assessment. This combines performance information from existing inspections by OFSTED, the Social Services Inspectorate, the Benefits Fraud Inspectorate and the Audit Commission to classify local authorities by their overall performance into five categories ranging from 'excellent' to 'poor'. A new corporate assessment of local authorities has also been introduced to assess their capacity for improvement. (Audit Commission, 2002b).

The Audit Commission ran a seminar on challenge and competition for the City Council in June 2002. The first part was a series of quotes from Ministers about the Third Way and their view of Best Value. The second, 'lets take stock locally' started with the national experience concluding with the Newcastle experience as being 'in-house protectionism', 'weak procurement approaches' and 'defending the existing rather than embracing opportunities' (partnerships and privatisation). The Labour Group statement of 16 October 2001 was part of the 'evidence'. The event concluded with the usual mantras on performance management.

Newcastle's Corporate Assessment under the new Comprehensive Performance Assessment (CPA) is expected to give a very positive assessment but to question the council's reluctance to use competition as a way of improving core council services. It is also expected to say that it had not proved competitiveness and progress in procurement has been slow.

The clear message to Newcastle and councils with similar policies, is that partnerships, privatisation and marketisation of services is the overriding priority. Local democracy, public and user opinion and the views of public service workers are not 'relevant' any more. The performance management system of indicators, targets, reviews, inspections, assessments, threats and rewards is creating an edifice under the control of central government civil servants. It is a challenge to democratic government.

### Other strategic partnerships and framework agreements

The city council has already started a financial services framework agreement and has embarked on another for Construction Related Services. These are detailed below:

PricewaterhouseCoopers (PwC) has been appointed as a partner for **financial services** although a formal framework contract has not yet been agreed. A framework contract is an agreement which allocates work to a consultant or contractor on an 'as and when required' basis. It avoids the tendering process for individual projects and work is awarded to the contractor by officers based on a project brief. It is claimed that work will only be commissioned where it has been shown that it cannot be undertaken in-house. It was through this process that PwC were asked to prepare the GfG Business Plan for the West End. The PricewaterhouseCoopers fee is £185,820 plus a £15,000 fee for the city council's Finance Division Financial Consultancy Team. The report to Cabinet claims that the business plan "will be prepared collaboratively by a multi-disciplinary team of council officers (led by the Director Community and Housing) and the community."

PwC will also "provide immediate support on the ITRS project, PFI Outline Business Cases, Tax and VAT advice" (Report to Corporate Team, 29 January 2002).

The process of appointing PwC raises fundamental issues of democratic accountability and does not bode well for future planned strategic partnerships. The city council had issued an OJEC Notice and Invitation To Negotiate and had received proposals from PwC and Deloitte Touche. The note to Corporate Team stated that a final decision would be taken in February 2002. "The decision to award a contract will be taken under delegated powers but only after consultation with the Leader of the Council, responsible Cabinet member and select committee chair". There is no evidence of this decision having been made. There was no

report to Cabinet or to Labour Group on the framework contract, only on the West End Business Plan project. The framework contract will be worth millions of pounds to PwC over the years yet there has been no formal report or democratic accountability. Nor is there any evidence of specific arrangements being built into the contract or individual projects for skills transfer to the in-house workforce.

The fact that PwC's privatisation work for the public and private sectors raises many conflicts of interest does not appear to trouble the council's leadership.

- \* A strategic partnership/framework agreement for **construction related services** (City Design and City Build - architects, landscape architects, quantity surveyors, project managers) is also planned. The council has already embarked on the tendering process to select one or more consultancy and construction firms 'to work in partnership' with council services. The intention is to use the private sector only for additional and specialist work.
- \* A strategic partnership is also proposed for **highway and engineering services** "to provide added capacity and flexibility to the in-house service" (Newcastle City Council Forward Plan, June 2002).

## PFI projects

Newcastle has the following PFI projects:

- \* A £100m street lighting project in procurement (jointly with North Tyneside).
- \* The Gosforth/Heaton project covering seven schools.
- \* Six new/replacement school projects are already identified in the West End plan with more likely to follow. A new secondary school with a network of feeder primary schools will be a big attraction for the new middle class urban villagers.
- \* Five new health resource/centres are planned for the West End plus local health and social service facilities. These will almost certainly be privately funded by the NHS Local Improvement Finance Trust (LIFT) programme.
- \* Four Customer Service Centres (possibly jointly with North Tyneside Council and/or with both Newcastle and North Tyneside Primary Care Trusts under the LIFT programme. An Outline Business Case is planned for completion by December 2002, and yes, the consultants are PricewaterhouseCoopers!

## Transfer and externalisation

**Transfer of council housing management to an Arms Length Management Organisation (ALMO).** A decision between retaining the existing in-house service or transfer to an ALMO will be made in October.

**An options appraisal for the future of Leisure Services:** A project team has been formed to examine four alternatives to the present arrangements for the future of Leisure Services – a Leisure Trust (Non Profit Distributing Organisation), a private sector partner (PPP), a Private Finance Initiative project (PFI) and PPP/NPDO hybrids. A small Members working group has been set up to oversee the project. The options appraisal is expected to be completed by 31 October 2002.

A Newcastle, North Tyneside and Northumberland **Mental Health Trust** has been established which integrates the management of services currently provided by local authorities and NHS. The formation of a Trust to achieve integration of services for older people within the NHS and social services is expected to be implemented within 2 years, and the government is promoting the establishment of Trusts for the provision Children's Services.

In the case of the Mental Health Trust, social services staff continue to be employed by the local authority although day-to-day management responsibility lies with the Trust. The government intends to establish Care Trusts which will be responsible for employing all staff.

The formation of Trusts is likely to reduce democratic control of key services for children and older people. They frequently outsource the delivery of services thus creating new markets for the private and voluntary sectors.

## Future procurement

Despite **repairs and maintenance** having been subjected to competition since 1980, the city council were criticised by the Housing Inspectorate for not making a specific commitment to retendering in the 2001 Best Value review. A report to Cabinet in the next few months is expected to recommend some form of competition and the submission of an in-house bid.

## Outsourcing

As we go to press, the Cabinet is likely to recommend that a kerbside recycling collection contract be awarded to Sita GB (Suez-Lyonnaise). The trade unions are opposing this outsourcing. A combination of increased recycling and composting with reduced packaging could eventually lead to a two-weekly collection of refuse and recycling replacing the current weekly refuse collection service. Duplicate collection schemes are unlikely to be economically viable which could provide Sita with a monopoly in collection and disposal, thus fulfilling a long-term objective of waste management firms.

## Best value reviews in 2002/03

The City Council's Best Value Review programme for 2002/03 has six major reviews covering corporate governance, Housing management including capital investment in housing (also stock option analysis), Role of the Local Education Authority in school education, Development and Asset Management.

- **Corporate governance:** The review will examine the strategic challenges facing the city council including the council's approaches to vision and community focus, structures and processes, risk management and good stewardship, service delivery and standards of conduct. The Corporate Management Team will assess strategic capacity and examine strategic procurement and partnerships, partnering arrangements and joint working.
- **Housing management including capital investment in housing (also stock option analysis):** This review covers the provision of the Community Housing Management Service to the council's 35,000 dwellings via 22 decentralised housing offices. It will also include tenant participation, management of void properties, tenancy enforcement and links with other council services. The review of capital investment will examine how the Housing Investment Plan and other capital programmes are delivered.
- **Role of the Local Education Authority in school Education:** This review covers special educational needs, access and school transport, school improvement and tackling failure, educating excluded pupils and pupil welfare and strategic management. It will also examine the educational welfare, advisory and psychology services.
- **Development:** A very wide ranging review encompassing "any activity which directly contributes to the environmental or economic development of the city". It therefore covers strategic planning and transportation policy, economic development strategy, local development planning and development control, urban design and conservation, provision of managed business space, city centre traffic and transport and the council's role in land assembly for development.

- **Asset management:** The review will cover the management of assets in order to deliver the council's corporate policies. It will review the acquisition, construction, alteration, maintenance, usage, management and disposal of the City's property assets.
- **Environmental, Engineering and Parks and Countryside Services:** The review will cover the city council's strategy, policies and delivery of services which affect the environment- these include cleansing, vehicle management, grounds maintenance, highways operations, lighting and traffic signals, civil engineering design and construction, parks and countryside services.

Completion of these reviews with a privatisation and outsourcing agenda could have fundamental consequences for the council both in terms of functions and interrelationships with the rest of the authority and for staff in these areas.

### North East context

Other local authorities in the North East face the same policies and pressures. Some have already implemented parts of the 'modernisation' agenda more fully than Newcastle. For example, the region has two strategic service-delivery partnership contracts (Middlesbrough and Redcar & Cleveland), some authorities have transferred all of their housing stock to housing companies or housing associations (Sunderland and Tynedale), a few have formed leisure trusts (Derwentside), and others have or are establishing partnerships for professional services (Durham and Northumberland County Councils). Some authorities have closed and/or transferred residential care homes and outsourced home care and other services. The region has the lowest number of government endorsed local government PFI projects (11 or 5.8% of the total for England).

#### Implications for the regional economy:

- A negative impact on employment and the regional economy because transfers from the public to the private sector usually result in fewer jobs and lower wages.
- The benefits of regional government will be severely reduced if much of local government and the health/social care sector is privatised and marketised by the time a regional government is elected.
- It has profound implications for the reorganisation of local government which is likely to accompany regional government. The government is proposing to abolish County Councils and create a single tier of unitary councils below a regional authority. Continued privatisation and marketisation will inevitably mean that reorganisation will provide business with another opportunity to consolidate its provision of public services. Existing deals may also make efficient and effective reorganisation difficult and will hamper joined-up working on a regional basis.

## Chapter 2

# The Government's modernisation agenda

### The government's modernisation agenda

Labour's reform programme is underpinned by four key principles:

- National standards backed by performance management, inspection and accountability with emphasis on outcomes in place of controls over inputs, processes and local decisions.
- Devolution to the front line so that public service staff get power over resources and the freedom to innovate.
- More flexible terms and conditions and working practices.
- More choice for the consumer.

(Tony Blair, Labour Party Conference, Cardiff, 2002)

New Labour has made significant changes with devolution for Scotland and Wales, substantially increased public spending, particularly in health and education, and improved industrial relations. The Prime Minister later claimed that "...our education, health and transport plans represent the most radical reform in public services over ten years any Government has produced since the war" (October 2000 Labour Party Conference).

However, Blair's new vision for local government was based on the premise that "...the answer is not to go back to the old model of councils trying to plan and run most services" (Blair, 1998). Instead local government was expected to create a Third Way in which local authorities would develop a vision for their locality, provide a focus for partnership and "guarantee services for all" yet directly deliver only "some services". Despite some subtle changes, there is a strong continuity with the Tories' public sector reform programme.

Labour's mantra is 'what matters is what works'. The New Labour government claims to be neutral on who should provide public services and this is translated into policy and statutory advice. This is a sham. The government is committed to creating a mixed economy or 'diversity' of provision. This ideological position is premised on the belief that public sector deficiencies can be remedied by outsourcing and partnerships with private companies and voluntary organisations. It is in denial of the longer-term implications for both the public and private sectors of increasing private delivery of public services.

This approach is at the core of Labour's 'Third Way'. It is sustained by a belief that public services can and should be privately delivered, that private sector management is superior to that in the public sector, that a separation between strategic policy and provision is beneficial, that competition is the best way of achieving efficiency and that the way services are delivered is largely irrelevant and all that matters is the quality of the final product.

This chapter examines the consequences of Labour's modernisation programme:

1. Performance management, auditing and the inspection regimes
2. Public spending and centralisation
3. Privatisation and marketisation
4. Democratic erosion, not renewal
5. Commodification of labour
6. The business agenda
7. The 'modernised' state



The scale and scope of modernisation is very wide. We can only outline the main trends and developments in this pamphlet and provide a context for events in Newcastle.

## 1. Performance management, auditing and the inspection regimes

The Labour government has mainstreamed the performance management system, started by the Tories in the civil service, across the rest of the public sector. It is built on a raft of performance indicators which attempt to measure outcomes and outputs. Inputs and the process of service delivery are, it is claimed, no longer important. This fits neatly with Labour's mantra of 'what matters is what works' and their position of neutrality on who provides services. In other words, it does not matter who delivers the service or how they do so, it is only necessary to assess the service by 'measuring' the outputs.

The Best Value regime has been radically modified by the mainstreaming of procurement. A recent Audit Commission paper concluded:

*"Procurement is more than just buying goods and services or outsourcing. When used well it is a mechanism to challenge current services and to determine new models for service delivery. In order to achieve these benefits a strong element of competition should run through the whole process. Effective procurement is fundamental to service improvement"* (Audit Commission, 2002c).

There has been a plethora of reviews of procurement (Audit Commission, Byatt, IdeA/LGA in addition to government responses to these reviews and to European Union and World Trade Organisation procurement regulations).

The new Comprehensive Performance Assessment (CPA) combines the performance and inspection of education, social services and other council services into a 'balanced scorecard'. However, it reinforces the target mentality and allocates local authorities to one of five performance groups. 'Diversity' under the CPA, combined with the Audit Commission's renewed emphasis on competition, could be used to crudely assess 'the level of private sector involvement in service delivery' and to penalise those that score low 'marks'.

Two new 'super regulators' are to be established to inspect and monitor the health and social care sector. Alan Milburn, Secretary of State for Health, conceded that the plethora of regulatory bodies had led to 'fragmentation', 'confusion' and 'unnecessary bureaucracy'.

A new Commission for Healthcare Audit and Inspection will takeover the NHS Inspectorate, the Commission for Health Improvement, the private hospital inspection role of the National Care Standards Commission and the value for money studies from the Audit Commission. The rest of the National Care Standards Commission will be merged with the Social Services Inspectorate to create a new Commission for Social Care Inspection.

However, the new bodies will not be operational until April 2004. The government has separated health and social care inspection – so much for integrated and seamless services. The extension of government inspection regimes also means more resources are ploughed into a performance management regime of indicators, targets and extending an inspection culture.

A version of public service management is being promoted which leaves managers with little scope for innovation and imagination. It leads to reduced capacity of the state. Strategic partnerships and framework agreements have the effect of transferring work to the private sector and rarely increase state capacity. Good staff are encouraged to transfer to the private sector, prestigious and innovative jobs are carried out principally by the private sector leaving the routine and smaller jobs to the in-house staff. Recruitment and retention problems inevitably follow pushing some remaining committed staff to leave. In-house services are

regularly benchmarked against the private sector (despite undertaking different types of work) which is used to highlight further deficiencies leading to further pressure to full-scale outsourcing.

Thus the concept of a strategic partnership is false under the Labour Governments modernisation strategy. **The performance management system is structured so that the in-house service will rarely be able to maintain a substantial workload. It is more likely to become a Cinderella service. Benchmarking, further reviews, and competitive spending regimes which are conditional on having private sector partners erode the level of work for the in-house service.**

The 'failed cities' concept has the same rationale as the so-called 'failed states' concept internationally, 'adopt our economic and monetary policies or face either World Bank/IMF sanctioned economic management and/or marginalisation in the global economy. External intervention and financial 'benefits' are used to impose 'modernisation'.

## 2. Public spending and centralisation

Labour deliberately constrained its public spending programme for the first two years to that set by the Tories. Public spending has since been increased substantially but from a historically low-level. Capital spending has been increased but this falls well short of a radical renewal of Britain's infrastructure after years of neglect. Private finance under the PFI has been constructed as 'the only show in town'.

By September 2002, the Labour Government had approved 208 local authority PFI projects with capital investment of £5bn, but a total revenue commitment of £23bn payable to the private sector (ODPM, 2002).

**PFI is flawed because evidence demonstrates:**

- the comparison with a public sector alternative is limited to financial issues and completely ignores service quality, employment, equalities, community well-being and impact on the local economy;
- high cost of capital and transaction fees;
- public money is needed to subsidise deals;
- lack of democratic accountability, transparency and secrecy in the procurement and operational stages;
- lack of innovation;
- creation of a two tier workforce;
- it will eventually encompass core services;
- design and planning is outsourced to the private sector;
- the level of risk transferred is small;

An analysis of the overall cost 27 PFI schemes in the North East revealed that it could be £412m more than if they were paid for by traditional public sector methods (The Journal, 2002).

The Treasury's prime focus has been to maintain centralised control of spending by local authorities and other public bodies. It has refused to move to the European model of the General Government Financial Deficit (GGFD) which would give public bodies greater freedom to borrow for capital investment.

The government plans to introduce a new prudential system for capital spending but it will only be available to those authorities which are considered to be 'good' or 'excellent' and are implementing government policy (for example, transferring council housing stock to an arms length company or to a housing association). However, it will operate the principle of 'earned autonomy' with 'failing' authorities threatened by the outsourcing of management and

services the private sector. The motto appears to be 'if you privatise and marketise we will give you extra money: if you don't, we will send in management teams and/or consultants to impose it irrespective of local democratic decisions'.

### Zones galore

Much of Labour's programme was focused on channelling resources to area-based initiatives. There has been a proliferation of zones and partnerships such as Education Action Zones, Employment Zones, Health Action Zones, New Start, Sure Start, Home Zones and New Deal for Communities. Each has their own competitive funding regime, objectives, partnership structure and evaluation. Some initiatives focus on a geographic area, some target specific groups such as children, whilst others concentrate on particular programmes such as health. In addition, Community Legal Service Partnerships and Local Strategic Partnerships are part of the many local and regional partnerships which have been required. Research into area-based initiatives concluded that there needed to be more integration and collaboration, more cross-cutting work, co-ordination of evaluation, wider impact assessment, clear targets "but no wasted effort in pursuit of a vague and generalised added value of strategic partnership" (DETR, 2000).

### 3. Privatisation and marketisation

The privatisation of council services originated with legislation in 1980 which forced local authorities to increase tendering of manual services such as building and road repairs and maintenance. Right to Buy for council tenants launched a new drive to sell off public assets. Privatisation has progressively widened with different types of asset sales and the creation of markets in public services. There are eight different types of privatisation:

**Sale of public assets to private ownership:** Publicly-owned companies supplying gas, oil, electricity, water (except in Scotland and Northern Ireland), telecommunications and transport have been sold plus large tracts of land and property. The public sector has been asset stripped ranging from individual council houses to entire nationalised industries. Yet public ownership and control is vitally important for social democracy.

**Private production of public services:** Contracting out/outsourcing or franchising of services to private companies or third sector organisations has escalated under Labour which has developed several new approaches:

**Abolition of Compulsory Competitive Tendering (CCT)** – Labour kept its promise to get rid of CCT but replaced it with Best Value which has been used to impose the option of private or voluntary sector delivery of most services. The procurement process has been mainstreamed or institutionalised throughout the Best Value review process. Outsourcing under the guise of Best Value is escalating together with Local Education Authority (LEA) support services.

**Strategic Service-Delivery Partnerships (SSPs)** - A Strategic Service-Delivery Partnership (SSP) is a long term (usually ten year) multi-service, multi-million pound contract between a local authority, health, education or other public body and a private contractor. They are essentially large outsourcing contracts, although they are branded as 'partnerships'. There are some proposals for SSPs which are based on public sector consortia. The government has established a Task Force to promote strategic partnerships. There are already ten SSPs with a further ten in procurement.

There are basically three types of SSPs – projects based on back office services, information and communications technology projects, and those that combine frontline and back office services. Staff are normally transferred to the private sector although there are examples, such as Liverpool, of seconded staff to a joint venture company. Evidence shows that a

strategic partnership in one group of services leads to further privatisation and more strategic partnerships for other services. For example, Middlesbrough is planning to outsource its streetscene services in a new strategic partnership and Cumbria County Council has a privatisation programme drawn up by PricewaterhouseCoopers following its strategic partnership with Capita.

**Framework Agreements or Strategic Partnerships:** Increasingly common in financial, construction related, engineering and highway services where the authority awards the work on the basis of lack of capacity or expertise. Long term multi-million pound agreements allow the authority to award work to a technical or management consultant thus avoiding a procurement process for each project.

**Wider use of management consultants:** The Best Value inspection and performance regime, coupled with the pro-privatisation stance of the Audit Commission, has driven many councils into wider use of management consultants to support and 'justify' service delivery decisions. In addition, PFI and partnership contracts have provided a new gravy train for lawyers, financial advisers, and technical consultants which are required by every participant. This has led to more potential conflicts of interest between auditing and management consultancy practice. It is also expensive.

**Merging of PFI/PPP and SSP:** There will be increasing dual use of PFI and SSPs (for example, financing construction of regional business centres) leading to more complex contracts, more public subsidy of private investment and two-tier workforces.

**Private finance of public services:** Under the Private Finance Initiative and Public Private Partnerships the private sector designs, builds, finances and operates services. By July 2002 there were over 220 local authority PFI schemes in England, Wales and Scotland which have been endorsed by central government's Project Review Group and thus entitled to receive revenue support. The arguments against PFI are not simply about the economics of private finance but the longer term consequences for core services and the public sector in general. (see above and various UNISON reports and Centre for Public Services website for a comprehensive analysis of PFI).

**Transfer of services to the third sector or social economy;** services remain publicly financed 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 (mainly women) takeover responsibility for care of the elderly and children.

**Deregulation/liberalisation and re-regulation:** the withdrawal, watering down of business regulations (reducing red tape) and the imposition of new regulations to restrict the trading activities of public bodies and limit trade union action.

**Expansion of private markets - marketisation:** the withdrawal or reduction of public services to spur the private sector, adopting a commissioning role to create and stabilise a private market previously dominated by public providers. The commissioning role in community care and school brokerages are but two examples.

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.

**Commercialisation of the public sector:** modeling local government on the private firm through the adoption of business values and internal markets which require departments to trade with each other. An influx of management consultants and partnerships helps to erode the public service ethos. As the private sector expands it poaches experienced public sector staff, which in turn creates the conditions for more consultants.

#### **4. Democratic erosion, not renewal**

Labour promised 'democratic renewal' but in its place we have witnessed the exact opposite. The cabinet system has centralised local governance and privatised council decision making.

Unelected Partnership Boards have become a feature of an increasing number of local authorities. They meet in secret reviewing the performance of contracts self-monitored by private contractors. Few provide minutes, let alone the performance data.

Private contractors and management consultants have increased power and influence in formulating public policy. Commercial confidentiality in the procurement process dominates an increasing part of public sector procedures and practices. Partnership contracts are negotiated behind closed doors. Freedom of information has been postponed at a time when access to matters of public interest and the expenditure of large sums of public money are 'confidential'. In this context, transparency has less and less meaning.

These issues are more fully discussed in Chapter 5.

#### **5. Commodification of labour**

The 'commodification of labour' is occurring as the government selectively strengthens those employment regulations which increase the flexibility of labour and make the process of transfer from one employer to another easier. This potentially reduces opposition to partnerships and privatisation. The government has emphasised the importance of having a skilled and committed workforce but this has been undermined by other policies, which promote the transfer of staff between employers.

The TUPE regulations (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 the 'intellectual capital of the service'.

The regulations do not apply to new employees, who are frequently employed on worse terms and conditions, thus creating a two-tier wage structure. Changes can be made to staffing levels, pay and conditions for 'economic, technical or organisational' reasons. TUPE does not include pensions. Trade unions have responded by developing TUPE Plus deals which require a contractor to commit TUPE to last the length of the contract, new staff to have the same pay and conditions and staff remain in the public sector pension scheme.

Whilst some local authorities have used Best Value to mainstream equalities, many have made what can only be described as feeble attempts. Many have used service reviews to

outsource home care services by 'spot contracting' thus avoiding a TUPE transfer for the mainly female low-paid workforce because there is no 'economic entity' to transfer. The existing workforce is reduced through the loss of work, early retirement and staff leaving for other jobs.

Meanwhile the government has focused on social inclusion rather than the much broader and more fundamental concept of social justice. Under intense pressure, it introduced a public duty on race but has failed to widen this to cover gender, disabilities and other equality groups. There is no indication that the comprehensive equality legislation in Northern Ireland, where equality impact assessments and equality schemes are a statutory requirement, will be introduced in England, Wales and Scotland.

#### **6. The business agenda**

Local government and the NHS have always been big business to the extent that they have used the private sector to deliver a wide range of goods and services. Contracting out or outsourcing has supported or created markets in many services. However, the Labour government has rapidly expanded the role of business in public policy-making, designed regulatory regimes to meet the needs of business, increased opportunities for private capital through privatisation and marketisation, and promoted the so-called superiority of private management for public services.

#### **Changes in the structure of companies and sectors**

There have been considerable changes since the early days of CCT when local and regional companies competed with larger contractors. National and international firms now dominate tender lists. Today the trend is towards multi-service long-term multi-million pound contracts covering a wide range of white collar and/or manual services. PFI and PPP contracts have fuelled the growth in facilities management contracts. Companies have diversified, mainly by acquisition, and now provide a much broader range of services. For example, Capita, Amey and Mouchel provide education services and most major construction companies have facilities management subsidiaries. These companies are major players in the booming public sector market.

Some companies have established their own strategic partnerships – Amey and Mouchel have established a partnership to undertake Highways Agency work.

The motives for the speed and scale of change are primarily the vast public sector market which is being opened up by Labour. The promise of an even bigger global market as a result of the World Trade Organisation's GATS negotiations is also within their sights (see Chapter 7).

Private sector interests are also promoted by business lobby groups such as the New Local Government Network (NLGN), a coalition of contractors, consultants, academics and council officers. The Institute for Public Policy Research (IPPR) policy commissions and research is funded in part by the private firms and financial institutions who are profiteering from the very policies being 'investigated'. These politically right of centre organisations have high level links with Whitehall departments and Government Ministers. The government also operates an interchange scheme under which 350 business people are seconded to government departments and agencies. Not so much cross cutting but cross fertilisation!

## 7. The 'modernised' state

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 or voluntary sectors. 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 for those 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 local government does, how it delivers and its ability to make policy a reality.

The combination of privatisation and marketisation and Labour's Third way policies are reducing the capacity of the state in many aspects:

- deskilling as innovative and new work is given to technical and management consultants leaving the public sector with run-of-the-mill work;
- loss of project management skills;
- intellectual knowledge transferred or 'acquired' by consultants and contractors;
- direct delivery of fewer services as services are transferred to quangos, arms length companies and the private sector;
- council officers are required to be contract managers and monitoring officers and often leave for more policy centred jobs elsewhere; and
- poaching of senior managers by private contractors.

To talk of the 'weakness of government' is grossly wide of the mark. It is not an inherent weakness but one which is being deliberately created to facilitate the growth of markets and enhance the power of business interests in the delivery of public goods and services.

### Corporate welfare

The sixties and seventies 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 corporate welfare state has three elements:

- Increasing outsourcing of public services which creates a contract services system with a its own vested interests, business values and a contracting culture.
- The widening use of PFI creates an owner-operator infrastructure industry (contractors, financial institutions and facilities management companies).
- The use of public money - tax relief, public subsidies and local and regional grants - for business to reduce its costs and 'create' jobs.

## Labour's Third Way beliefs

- Competition to decide who provides services;
- Market forces and free markets are the best way of providing most goods and services;
- Only light touch regulation is required to protect certain public interests and to stabilise markets;
- It does not matter who provides the service: Labour claims that size does not matter, but markets are dominated by global and national companies;
- Ownership of land, buildings and the infrastructure is not important so long as services are delivered;
- Public money and officer time should be used to create and support markets in services;
- Equalities and social inclusion will be implemented through contracts with private firms;
- Capacity of the state is not important because technical and management expertise can be obtained through partnerships with private contractors and consultants;
- The longer-term consequences are much less important than the policies for today and tomorrow; and
- The public should act as consumers, rather than as users, of public services.

These beliefs are the foundation for Labour's privatisation and marketisation policies. Opposition to these policies must also promote the principles and values of public service and an alternative modernisation strategy (see chapter 8)

## Chapter 3

# Regeneration and Going for Growth - New privatised communities?

### Going for Growth

Going for Growth (GfG) is the council's citywide strategy to make Newcastle "a competitive, cosmopolitan and cohesive capital city". It is centred on two plans for the regeneration of the West and East Ends of Newcastle, although plans are also being prepared for several other areas. A consortium led by Places for People was awarded a partnership contract to prepare a detailed plan for the East End following a procurement process in 2001. However, the West End procurement process has been delayed or postponed. Demolition and rehousing continues. Consultants PricewaterhouseCoopers are currently preparing a business plan for the West End regeneration.

### The key issues

#### Infrastructure privately financed

Although no decisions have been taken, it is virtually certain that a large part of the GfG infrastructure will be financed through the PFI and PPPs (see Chapter 1). Schools, health centres, leisure and community facilities, in addition to roads and open spaces, will be privately financed either by city council or developer led projects. The management and operation of these facilities such as cleaning, catering, building services, grounds maintenance, security, repair and maintenance will be outsourced to private contractors. This could involve several hundred jobs.

This potential scenario is the logic of a market driven regeneration and the privatisation and marketisation of public services. Going for Growth is likely to be the impetus to bring all the governments modernisation and regeneration policies together in one city to create new privatised urban villages.

#### Privatised urban villages

The Going for Growth plan for the West End is basically to apply the PFI/PPP concept on the neighbourhood level. The private sector will design, build, finance and operate schools, health centres, sports, leisure facilities, roads and open spaces which will be privately owned and managed.

The new model of urban development will create private gated communities or private townships. The developer is also likely to provide security, heat, power, water, telecommunications, waste collection, recycling and sewage. They may introduce a service charge model in which residents would be paying for repairs and maintenance and the provision and running of community facilities. Such villages or townships are likely to have their own 'Parish Council'.

Developers and the city council will want instant success – the GfG growth strategy is dependent on achieving a 'step change'. But success in these terms means that the 'new communities' will have to create a separate identity from the history of the area and a new school system which will give parents confidence. Developers will be marketing security,

private provision and the village concept in order to ensure 'success' and a return on their investment. New residents will want to protect their investment by maintaining/increasing property values.

Amey Group plc, one of three firms invited to bid for the joint Newcastle/North Tyneside 25 year PFI street lighting contract, is part of a joint venture with a developer building two new towns in Cambridgeshire and Bedfordshire in which it will provide all the public infrastructure and operate all utilities for 25/30 years, in the ultimate corporate town.

### Consultants

The implementation of GfG at the same time as city council services are threatened with the privatisation and marketisation could provide a bonanza for consultants. It could be argued that since virtually all the GfG work is additional to current workloads and capacity, it will therefore be outsourced to the new construction related services, engineering and highways and financial services consultancy partners.

This will not only lead to further privatisation of the development process but also help to consolidate the private sector vision and values for the West End urban villages.

### Community participation

Going for Growth has been surrounded by the rhetoric of community participation. The City Council produced a Green Paper on community participation in 2000 followed by various GfG documents which made a series of commitments about community involvement in the GfG process. However, the limited and selective involvement of community organisations in the East End procurement process to select a developer consortium and the minimal opportunities for participation in the West End, expose these commitments as a sham.

### Who benefits?

Who will benefit from this urban renaissance in Newcastle? Council officers have frequently referred to the inevitable 'pain and gain' in regeneration projects but the evidence to date shows that existing and relocated residents will suffer the pain whilst the new urban villagers will receive the gains.

### Longer term consequences for council services

The longer term consequences of privatisation and marketisation in GfG areas could be significant:

- The demolition of council housing and its replacement by privately operated and managed villages or townships will result in a loss of work for Cityworks;
- A reduction in publicly operated facilities such as schools, health centres, roads and open spaces will reduce the overall level of repairs and maintenance;
- Reduced levels of frontline services will lead to a lower demand for support services;
- A declining volume of work for council services, such as Cityworks, will lead to reduced economies of scale;
- The transfer of work from the public to the private sector will advantage the developers/construction firms and smaller building companies. However, this will also have a negative impact on wages and conditions;
- GfG will create new opportunities for construction and facilities management companies who will have created a local base from which to bid for council contracts.

## Changing the city's political geography

The political geography of the city could also undergo a transformation. Privatised urban villages in the West End coupled with changes in housing tenure in the East End are likely to lead to changes in political affiliation and voting patterns. Furthermore, the trend towards corporatisation of the city will have an accompanying impact on the city's politics. If the city council also decided to establish a Business Improvement District (a US policy which allows business to takeover many council services in the city centre which is being copied by Labour and introduced in the new Local Government Bill) then a large swathe of the city stretching from the West End across the city centre to the East End could be under significant corporate control. This will speed-up up the corporatisation of the city as discussed in more detail in Chapter 5.

## Chapter 4

# Consultants move in on Newcastle

## Newcastle opens the door to consultants

Newcastle City Council has frequently used management consultants but this has been on a scale no greater than other comparable local authorities. However, as we described in Chapter 1, the city council has recently commenced a financial strategic partnership with PricewaterhouseCoopers and is planning similar long-term partnerships for construction related services, engineering and highways and possibly repairs and maintenance.

PricewaterhouseCoopers "were invited to submit a proposal under the financial partnership arrangement" to prepare a 'Business Plan for Delivering an Urban Renaissance for Scotswood and West Benwell'. This is a crucial part of the Going for Growth strategy in the West End. It demonstrates the insidious nature of partnerships whereby consultants and contractors can gain lucrative and prestigious commissions.

The preparation of a business plan, including a social impact study, should be bread and butter work for Financial Services, Community and Housing and Economic Development in Newcastle given the long term GfG strategy and the need for similar studies over the next two decades.

The capacity building component of this work is highly questionable and there is no evidence that it has been structured or factored into the work programme.

## Different types of consultancy

The big four firms of auditors and consultants in Britain – PricewaterhouseCoopers, KPMG, Deloitte Touche and Ernst & Young – usually combine several functions such as auditors, management consultants, financial, tax and legal advisers and 'executive search'/recruitment agencies. They provide these services to both public and private sectors. Despite the fact that there are conflicts of interest in performing auditing and management consultancy functions for the same client, these were systematically ignored until the financial collapse of Enron, WorldCom and other major firms.

The city council's use of consultants falls into three categories:

- Strategic long term partnerships centred on carrying out specific projects which the city council does not have the capacity to provide or involves the outsourcing of council work.
- Advice for PFI projects – financial, legal, management and technical support and advice for each project, usually obtained from separate firms.
- Traditional management and technical consultancy, for example, carrying out service reviews and restructuring proposals. The city council frequently has the ability and capacity to carry out this work but chooses to use external consultants. The in-house ITRS project will need to use ICT consultants for training, technical advice and some aspects of change management. This will need to be justified and closely monitored.

Some other local authorities are using consultants to undertake Best Value reviews and options appraisals, market analysis, consultation with potential private contractors and assisting in the procurement process. This leads to consultants playing the role of poachers and gamekeepers at the same time.

The ex-chief executive of the city council, Kevin Lavery, previously worked with, and was head-hunted by, a subsidiary of consultants PriceWaterhouseCoopers. He left to join Jarvis plc, the rail contractor and PFI schools operator.

## Cost of consultants

Council expenditure on financial, legal and technical advice and fees will be substantial. For every £100m of capital projects at least £4m will be spent on advisers fees. Many PFI contracts incur higher fees (Justice Forum, 2002).

The city council could get locked into high cost strategic partnership contracts – consultants and advisers usually charge a minimum of £1,000 per day. An increasing proportion of the city council's budget will be committed to non-renegotiable contracts leaving any budget cuts to be borne by council staff.

## The changing role of consultants in public services

Management and technical consultants have sought to establish long term contracts with private sector firms under the guise of strategic planning. Many of the large transnationals have contracts with consultancy firms which requires the placement of consultants in firms comparable to being a full-time employee of the firm. This is highly profitable work for consultancy firms. They now want the same type of contracts in the public sector.

But strategic partnerships with consultants have major implications for local government:

- They undertake core work previously carried out by council officers; the concept that they only carry out additional work over and above the current capacity of the council is very difficult to control. Once established, firms have a vested interest in expanding the scope of the contract and to establish an increasing degree of 'dependency' within the council.
- Long-term, multi-project commissions in place of previous short-term one-off commissions means that consultants become embedded within the city council.
- The wider scope of their work means that they have much greater opportunity to impose private sector and commercial values at the expense of a public service ethos.
- Having transnational consultancy firms operating at the heart of the city council raises major issues about accountability, public service ethos, conflicts of interest and potential corruption. Work will be allocated jointly by officers and consultants who will have a seat at the decision-making table (see Chapter 5).
- The effects of consultants creaming-off all the profitable, innovative and high profile work leaving the routine work for city council staff inevitably means that experienced staff will leave thus further reducing the capacity of the city council to control consultants and develop in-house capacity.
- Consultants are likely to reduce the capacity of the city council because capacity building through partnerships is rarely achieved. Instead, councils become more dependent on consultants who acquire the city's intellectual capital at no cost (see Chapter 5).
- There is a danger that consultants may become the 'face' of the city council in their dealings with internal and external users on behalf of the client. A 'class' divide could develop between the in-house service and consultants due to differences in the type and importance of the work undertaken.
- Consultants become, in effect, agents and advocates for mainstreaming the government's modernisation strategy in Newcastle with increasing emphasis on procurement and business values within the city council.

Management and technical consultants are rapidly expanding the range of 'consultancy', for example, many firms claim expertise in construction, engineering, facilities management, property and asset management and education. As the range of services subjected to privatisation and marketisation widens they diversify mainly by acquisition of smaller consultancy firms and by 'attracting' senior managers from the public sector.

## These firms are NOT:

- **Independent** – they are transnational partnerships or firms which are primarily auditors, tax advisers and consultants to the private sector – the very firms bidding for council contracts.
- **Neutral** – they are commercial firms and are only sympathetic to public service values to the extent that the public sector is part of their 'market'.
- **Accountable** – most are not even accountable to shareholders because they are private partnerships. They operate in a non-participative style and have very limited experience or commitment to involving tenants, services users, staff and trade unions.

Furthermore,

- The quality of work is often questionable. Contracts are won by partners but the work is frequently carried out by junior staff.
- They are generally uncritical of the government's modernisation strategy – these are the same firms that enthusiastically implemented Thatcherism for nearly two decades.

(see Management Consultants: A Best Value Handbook, Centre for Public Services, 1999 for a detailed analysis and guidance)

## Chapter 5

# The corporatisation of the city: the challenge to democratic accountability and local control

Privatisation and marketisation have consequences well beyond the sale and transfer of physical assets and services. This chapter first assesses how democratic accountability is being eroded by privatisation and marketisation. It then examines the broader consequences of the corporatisation of the city – how the increasing domination and power of business organisations and values leads to the privatisation of the many facets of the city's public realm.

### Erosion of democratic accountability

The erosion of direct democratic accountability takes many forms:

**Lack of political decision-making in privatisation and marketisation:** Creeping, encroaching privatisation and marketisation without political debate or democratic accountability will cause fundamental change in the structure and capacity of local government and will affect all services and functions. A significant theme in the 2001 White Paper *Strong Leadership, Quality Public Services* (DTLR, 2001) was the renewal of democratic legitimacy. It is clear that by putting major areas of local public services out of the reach of elected members, privatisation will weaken democratic legitimacy.

**Cabinet government and centralisation of policy-making:** Cabinet government has given control to a small group of elected members and disempowered and marginalised the majority. The limited effect of scrutiny – 'after the event' and the difficulty in applying lessons in most public bodies without a clear commitment to being a 'learning organisation' with resources and systems for effective monitoring and evaluation of policies and projects. Without this 'scrutiny' is feeble and has limited effectiveness.

**More unelected and unaccountable quangos and trusts:** The transfer of council housing, leisure services and residential care homes to trusts, housing associations and arms length companies parades a superficial level of involvement which is a smoke screen to hide decreased accountability and involvement. Representative democracy is not increased because Board members are legally required to put the interests of the company before any other interest. Board members lose a degree of political independence to lobby and campaign.

**Partnership boards:** Performance reports are often put to the Cabinet or to special Partnership boards rather than the whole Council, meaning that scrutiny and the power of all elected members is reduced. Privatised services often have no community or staff representation on their governance structures. For instance, private firms can virtually 'buy' a fully refurbished state school for £2m through the City Academy programme and are under no obligation to include members of the LEA as governors;

**Contracts and the procurement process:** 'Commercial confidentiality' limits the scrutiny of both elected members and the general public. Contracts with the private sector are legally binding and often long-term. The new form of Strategic Service Delivery Partnership is

usually 10-15 years and PFI projects are often 25-30 years. This means that the council will be stuck with a deal over the long-term even if a majority of elected members are no longer in favour. In the case of Strategic Partnerships deals could be binding for two complete electoral cycles, and in the case of PFI, for five or even six.

**Use of consultants reporting only to managers:** Responsibility for public services being transferred to private managers rather than council officers with direct accountability to elected members.

**Lack of user and staff participation in policy making process:** 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.

Privatisation and marketisation also changes the social relations between service users, between users and staff and between users and non-or potential users. A more conflicted-based culture emerges with areas competing for scarce resources, management focused on achieving targets whilst users are often more concerned about the process of service delivery.

Participation has increased in schools and regeneration projects. However, it 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 targets 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.

**E-democracy limited to voting methods:** The focus on extending where or how people can vote is merely using ICT to legitimate the existing electoral system at a time of increased alienation.

**Reduced resources for community involvement:** The strength of trade union and community organisations is becoming an even bigger factor. Where branches are well organised and with strong strategic leadership, the more likely it is 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.

However, there is very little community capacity building following two decades of cuts and closures of community development budgets and projects. The city council did make a relatively small resource to enable Scotswood and Benwell community organisations to develop an alternative plan for the West End Going for Growth area but this represented a tiny fraction of the overall cost of the project.

**Policies and projects not subjected to comprehensive social, economic and environmental impact analysis:** Key policy decisions have to date not been subjected to comprehensive impact assessment. Belatedly, PwC are carrying out a social audit as part of the Business Plan for the West End GfG area but this is linked more to assessing population



and income options rather than assessing the impact of proposals on existing residents and the local economy. The council has already cleared vast tracts of Scotswood with little social and economic impact assessment.

The erosion of democratic accountability and undermining of representative democracy will inevitably lead to an increase in corruption, fracturing accountability irrespective of the disclosure regulations. The more privatised it becomes the less likely that there will be stringent regulations or that they will be enforced.

## Corporatisation of the city

Privatisation and marketisation leads to the increasing domination and power of business organisations and values which in turn results in the privatisation of many facets of the city's public realm. It is not confined to physical assets such as land and buildings and council services but extends across the public realm or domain of the city.

**Public life:** decision making affecting the planning, design and delivery of public services will increasingly be made by business and so-called independent members of Boards, Trusts and quangos. Most will be unelected and unaccountable yet will be spending large amounts of council and taxpayers money. More and more City events become reliant on commercial sponsorship.

**Public policy making process dominated by the procurement process:** who plans, designs and delivers services will be decided through the procurement process, usually shrouded in 'commercial confidentiality', lack of transparency and disclosure and contracts frequently negotiated between officers, lawyers and advisers behind closed doors.

**Transfer of the public sector's intellectual capital – the knowledge of the city and how it works – to business interests:** This vital information, built up over the years by the city council, is being freely transferred to the private sector. It will lead to a role reversal whereby the city council will become dependent on the private sector. It will have longer-term cost implications for the city council as they will be forced to pay for the 'return' of this knowledge through increased management and technical consultancy. Public information and databases may also become the responsibility of the private sector with the likelihood of user charging being introduced.

**Public and collective development opportunities are captured and exploited by the private sector:** Opportunities for renewal and improvement of areas, the provision of public facilities, the creation of new services are marginalised because business interests ensure the primacy of private gain over public benefit.

**Public and community needs become subservient to private interest:** Social and community needs are made secondary to the needs of business. Growth and wealth creation become dominant forces together with the acceptance of the 'trickle down' theory in which economic benefits at the top eventually filter through to those on low income, hardly a strategy for redistribution. Social and community need becomes less a collective responsibility and more that of the individuals concerned. Private sector interests come to prioritise investment decisions. Business has increasing influence in interpreting social needs.

**Increasing part of the city becomes private space:** An increasing part of the city will be become private through the creation of gated communities or privatised urban villages, the curtailment of public, leisure, recreational and civic spaces and the increasing corporatisation of public life. More city spaces are patrolled and controlled by private security guards rather than democratically accountable council staff and police.

**Process of service delivery becomes privatised:** The focus of performance on outcomes and outputs, coupled with complaints systems if things go wrong, means that the methods,

processes and procedures in the way that services are delivered become the private responsibility of contractors and consultants.

**Erosion of public service ethos and principles and replaced by business values:** The values and principles of public service (described in Chapter 8) will gradually be replaced by commercial values such as profitability, economic efficiency and charging market rates for services.

**Privatisation of the political realm:** Wider business representation on committees, task forces, working parties, service reviews and scrutiny panels will increase the power of business and trade lobby groups to influence public policy process.

**Public resources:** Privatisation of much of the city's natural resources has already occurred but the private sector wants to minimise responsibility for cleanliness of the air and the River Tyne and for environmental sustainability.

**Privatisation of citizenship:** This takes a number of forms. Firstly, participation is limited to expressing views in opinion polls and market research exercises. Secondly, representative democracy is increasingly watered down by the illusion of participation by giving selected individuals the status of membership of boards and companies. Thirdly, 'business in the community' becomes more pervasive in that support and technical aid for community initiatives is increasingly only accessible via private business charitable funding and provision of 'in-kind' support such as providing managers and 'experts' to advise community organisations. Fourthly, expressing dissent and opposition is increasingly curtailed because public spaces are increasing under private ownership, control and surveillance thus limiting the opportunity and space for political protest and campaigning activity.

**Privatisation of the city's culture:** How public policy is formulated; the role of civil, community and trade union organisations in civic institutions; public access – for example, to open space and digital city services; in fact, the entire public domain is part of Newcastle's culture. Who maintains and improves the city and how they are treated is also part of that culture. Newcastle, jointly with Gateshead, is bidding to be European Capital of Culture in 2008. It is an "opportunity to celebrate our distinctive identity" (council website) but it is in danger of damaging an important part of its culture.

**Weakening of public institutions:** Reducing capacity of the council and a weakening of public institutions will create a spiral of decline with staff leaving, more outsourcing and partnerships, putting private firms in a even more powerful position to dictate policy.

### Parallel privatisation of assets, services and government

The reaction of Elected Members and officers to this analysis of the corporatisation of the city is likely to be criticism that this is scare-mongering and that there is no intention of extending privatisation and marketisation in the ways suggested.

But privatisation and marketisation is not confined or contained by individual policy decisions. Once the city council embarks on a course of privatisation and marketisation of assets and services this generates a parallel privatisation of government (Whitfield, 2001). This will inevitably lead to privatisation of the public realm or domain in the way described above.

## Chapter 6

# The implications of privatisation and marketisation of public services

### Service failure and the locking-in of private influence

There has been a string of high profile failures in contracts (particularly in ICT) within the private sector. This has led the Public Accounts Committee to issue strong advice on the use of private contractors. However, privatisation often entangles private companies in the very fabric of the public sector resulting in even poorly performing contracts being renewed. For instance, the Public Accounts Committee also reported in August 2002 that the renewal of the Inland Revenue's National Insurance Records System and a ICT strategic partnership currently held by Accenture and EDS may be renewed without competition because the set up costs and learning process required of a competitor would prevent fair competition. The contracts are expected to be valued at over £4bn (Select Committee on Public Accounts August 2002).

*How soon will it be before the same arguments are being made about large Strategic Partnerships in local government?*

Privatisation undermines the quality of public service provision because:

- Private firms are first and foremost interested in profit. As a profit seeking motive is substituted for public service as the key guiding principle of privatised services the quality of services is bound to suffer;
- Cutting quality is the first of three ways in which the private sector can hope to make a profit out of public service provision. Evidence from hospital cleaning contracts has been one of the most high profile examples of this (*The Guardian* April 11<sup>th</sup> 2001);
- Because privatised services often have a higher staff turnover than in-house council contracts there are often quality problems arising from inexperienced and poorly trained staff.

*Is the pursuit of profit likely to drive up quality in our public services?*

### The local community

Privatisation has a number of negative impacts on the local community:

- Service disruptions as a result of transfer and contract failure and reductions in the quality of services all impact most on vulnerable sections of society. Care home closures as a result of failed privatisation through commissioning have devastating impacts on older people. Failed IT contracts in revenues and benefits impact on the least affluent in society. Schools built strictly to contract under PFI have had unsuitable equipment and poor standards of construction (4Ps October 2001). Dirty hospitals as a result of cost cutting in cleaning contracts lead to high rates of hospital based infections, impacting most on the sick, young and infirm;
- The majority of low paid local government and ancillary staff in other areas of the public sector that have been privatised are women. Increasing job insecurity and cutting wages in these services thus disproportionately impacts upon women. Women are already less likely than men to have adequate pension provision or access to career development and training opportunities. Privatisation is only likely to exacerbate these problems;

## Sample of partnership and private finance failures

Department/contract Contractor Contract failure and cost increases

Department/contract	Contractor	Contract failure and cost increases
Department of Workand Pensions	SchlumbergerSema	IT system for medical assessment of incapacity and disability – delays costing taxpayer £40m per annum. Over 25,000 disabled people called unnecessarily for examination each year: 17,000 turned away from scheduled examination because of deliberate over-booking.
Lord Chancellors Department	Fujitsu Services (formerly ICL)	£183m LIBRA contract awarded in 1998 to electronically link magistrates courts but costs rose 74% to £319m within three years. Contract renegotiated in 2000 but the case management, accounting and admin system software abandoned in July 2002. Fujitsu paid £232m for standard hardware/software.
Office of the e-Envoy	Compaq	£36m contract but company allowed to proceed in part despite questions over technical solution and value for money. £5m of work done when Office decided to manage the project in-house which was delivered on-time for £15.6m with use of various IT firms.
National Insurance	Andersen Consulting (now Accenture)	Delays and renegotiation of the contract. £53m extra cost to taxpayers – Andersen paid £4.1m financial penalties. 172,000 potential cases of underpayment of pensions which required over £43m in compensation payments.
Inland Revenue	EDS	Since 1994 the cost of the Inland Revenue's strategic partnership contract soared from £1,033m to £2,426m, a 135% increase in just six years.
Passport Office	Siemens	£120m contract for digital scanning, waiting times tripled. £12m extra costs incurred by agency – Siemens had to pay £2.45m. Processing times reached 50 days in July 1999. Operating in only 2 out of 6 offices by 1999 start date.
Immigration and Nationality	Siemens	£100m computing contract. Large backlog: 76,000 asylum cases and 100,000 nationality cases. Contractor penalised £4.5m. In 2001 the Home Offices decided to abandon final phase – Casework Application IT document imaging system and recruited 600 new staff to deal with backlog.

*Sources: Select Committee on Public Accounts, various reports 2000-02; Computer Weekly (various issues)*

- Reducing the terms and conditions of public sector staff into lower paid, more casualised service not only has implications for individual women workers, but also for their families, many of whom include children and elderly dependants;
- Privatisation also fundamentally alters the social relationship between the community and public services. The welfare state and local public services were built on a strong democratic link between society and the public sector. This was an important social relationship;
- It is a long established fact that disenchantment with the ability of ordinary people to influence their government, or disgruntlement with the quality of local public services, creates fertile ground for political extremism. The extreme right have a history of being able to manipulate this sort of alienation for their own advantage. This has been demonstrated recently in continental Europe and also in parts of Yorkshire and Lancashire over the last two years. By undermining democracy and the community's voice in local decisions about very visible public services that matter to people – local schools, care home provision, hospitals, social services, benefits services – privatisation threatens to open up the ideal working space for right wing extremists who will have no qualms about manipulating disenchantment for their own ends.

*Does promoting economic insecurity and casualisation, consumerist attitudes to democracy, undermining local services and facilitating disenchantment with the political system really deliver community well being?*

## The local economy

Privatisation has negative effects on the local economy because:

- Rationalisation of staff and the cutting wages and other terms and conditions, as well as increasing job insecurity, means that many staff, who usually live in the local community will have less money to spend in the local economy;
- Evidence shows that every four local authority jobs supports a further job in the local economy. Cuts in staffing will reduce overall employment at this ratio;
- Private firms take a certain percentage of any contract in profits. Since they are unlikely to be based in the local economy this means that the proportion of the value of the contract that is profit will be lost to the local economy. Some are also multinational companies who will not even pay tax in this country (The Guardian, 23 July 2002). This means that privatisation reduces the beneficial input of public spending on the local economy;
- As the trading model takes hold, there is a significant threat that a regional, national and even international dimension will develop. It is feasible that rationalisation in the form of regional business centres – which are explicitly at the heart of many Strategic Service Delivery Partnerships – will effectively privatise whole packages of services across an entire region. While it is initially promised that these jobs (although less of them because of economies of scale and the application of new labour saving technology) will be kept at least within the region there is no reason why they could not be done at a distance from anywhere in the country. Indeed, many private firms such as: American Express, British Airways, Harrods, Debenhams, Top Shop, Dorothy Perkins, Burton, Monsoon RSA and Axa Sun Life are outsourcing call centre operations to India (The Guardian, 9 March 2001).

*Does all this promote prosperity in the local economy?*

## Public sector costs

The justification for privatisation projects is often that they will cut costs. However, evidence has shown that this is not necessarily the case:

- The costs associated with establishing a contract in the first place are vast. They usually represent 3-5% of the total contract value. These costs are made up of consultancy fees, legal advice and officer time, and are rarely added to the price of the contract in establishing the overall cost;
- Tendering under CCT was originally claimed to produce 20%-25% savings. However, these claims were discredited when the Conservative government's own research showed that savings were between 6% and 8.5% (DoE, 1993 and 1997). Equal Opportunities Commission research concluded that there were no savings and the government had subsidised CCT when the full public sector costs were taken into account (Escott and Whitfield, 1995).
- Many privatisation projects include an element of asset transfer to the private sector which is also often left unaccounted for in proclamations of the total cost of the project. However, the loss of assets is just as much a cost to the public sector as is the annual cost of service delivery;
- Many privatisation projects have a tendency to overrun initial cost estimations meaning that either service quality has to be cut or the cost to the public sector will be increased. This is the third way that the private sector can make a profit from delivering public services, by driving up the cost over time;
- The gradual loss of in-house capacity alongside the concentration of economic power among only a small handful of private firms who profit from privatisation means that over the long-term the public sector will become dependant upon only a few private companies. This will leave them free to lever up the price of public service provision. In some cases private firms have bid for contracts at unfeasibly low prices, treating them as 'loss leaders' in the same way as budget supermarkets treat tins of baked beans. They can do this because they and their financiers know that there are huge profits to be made over the longer term;
- Where costs are reduced this is usually as a result of cuts to staffing and/or the quality of the service;
- Reductions in staffing costs through cutting wages, terms and conditions of staff as well as reducing the numbers of staff, all have an impact on the revenue of the state, both locally and nationally. Without a corresponding increase in employment in the local economy not only will revenues fall but the demand for services will rise making the cost implications for the public sector doubly negative;
- This is particularly so in the long-term as increasing casualisation often leads to individuals being less likely to have adequate pension provision leading to greater reliance on national and local government sourced provision in the future;
- Contracting-out to the private sector also involves other less tangible costs to the public sector such as a loss of capacity. Skills and experience lost through transfer and increased turnover mean that local authorities will be less able to take this role back in-house if the contract fails or simply when it comes to an end. They will also be less able to effectively manage the contract during its lifetime. This may mean that over the long-term a small number of private contractors will be in a position to dominate policymaking.

*When the full cost of privatisation is taken into account, is it still value for money?*

## The treatment of staff

- Cutting the costs of staffing is the second major way that private companies can seek efficiencies and thus profits from the public sector. Services may in some cases become more efficient and more effective but this will be at the cost of the employees that deliver our public services, often already in poorly paid jobs;
- While the terms and conditions of transferred staff are usually protected under the Transfer of Undertakings Protection of Employees (TUPE) legislation, this protection is limited and new starters often receive less favourable terms and conditions. This is the 'two-tier workforce' and over time there will be a levelling down of terms and conditions as contractors 'harmonise' contracts across their workforce. A recent UNISON survey into Best Value and the two-tier workforce indicated that as many as 62% of contracts surveyed included worse basic pay for new starters than for transferred staff. It is not only basic pay which is hit. Extra payments, such as anti-social hours payments, sick pay or annual leave entitlements are also often offered on a less favourable basis to new starters. The same survey indicated that as many as 73% of contractors offer less favourable annual leave to new starters. Finally, and most worryingly, new starters often have less job security than transferred employees do. (UNISON, January 2002);
- 'Two-Tier' workforces are divisive and create tension and low morale in the workplace;
- Replacing experienced staff with less qualified and experienced people, and reductions in staffing to increase 'efficiency', leave more work to be done by remaining staff, leading to increased workplace stress, rates of absenteeism and turnover;
- The impact of transfer also has important equalities implications. Private contractors tend to have less well established and developed equal opportunities policies and structures and loopholes in the legislation mean that some statutory obligations that public bodies have to discharge with regard to equalities do not pass on to contractors.

*What will be the position of staff once they are simply another barrier to narrowly defined 'cost-cutting' efficiency? Will this help to nurture talent and motivate staff to deliver quality public services or demoralise an already poorly paid and hard working section of the workforce?*

## Trade union organising and representation

Privatisation policies fracture trade union organisation and representation because:

- Access to information about new starters is often denied;
- Turnover on privatised contracts is often much higher, meaning that recruitment efforts need to be more concentrated;
- Many private firms have a less favourable attitude to trade unions than is normal in the public sector with some displaying an overtly anti-union bias leading to lower levels of membership and activism;
- Conditions are sometimes attached to trade union recognition, which mean that branches regularly have to maintain different bargaining and consultation units for privatised contracts. Only members employed on the contract can represent the membership in discussions with management;
- The contracting process itself involves a lot of resources, so there is less time to spend on other routine organising duties;
- The split between staff on privatised contracts and those left in the public sector helps to dissipate a single workplace consciousness and thus fractures local campaigning;

- The loss of public sector ethos contributes to a private sector 'feel' to the workplace which is not conducive to trade union organising. Staff employed on long-term contracts with private contractors, or new staff who have never known the public sector environment, may gradually feel more connected to the contractor than to the public sector. This will especially be so where staff work on a range of contracts which may include other private sector work;

In the summer 2002 Local Government pay dispute, many union members who work on privatised contracts were ineligible for balloting. These members had to cross their colleagues' picket lines. This is a graphic example of fractured solidarity and shows what the future of trade union organising in virtual local government could look like, with local branch resources split between a range of different employers with different negotiating and consultation machinery. As the enabling / contract state gains ground so the vision of dissipated and unconnected workers becomes more of a reality. Indeed, the ultimate fracturing of solidarity could occur as staff effectively compete against each other for the same contracts. As the trading model takes hold this could even undermine trade union cohesion by introducing a competitive dynamic to the local government labour market where one set of workers in one area of the country are prepared to undercut their former colleagues in another area to safeguard their own jobs.

*How can trade unions maintain solidarity in the face of internal competition for fewer jobs?*

## Risk

Risk management is a buzz phrase in both the private and public sectors, and the transfer of risk to the private sector is held up as a major justification for privatisation policies. However, privatisation has little beneficial impact on the risk profile of the public sector because:

- The public sector retains the ultimate responsibility for ensuring that services are still provided. If the contract fails, the public still have to foot the bill for replacement services. It is difficult to see how the risk profile is reduced;
- Privatisation contracts often include a financial penalty for poor performance which is intended to ensure that risk is transferred. However, in practice this is often not used because it is felt that incurring penalties will harm the contractors' ability to remedy performance failures. In this instance the risk is borne squarely by the public, who regularly subsidise contract failures and poor performance;
- In PFI projects, private contractors make large price adjustments for taking on risk. However, after the initial construction phase they are able to re-finance the project to take advantage of lower risk-related interest rates from the capital markets. The public sector though still pays the same annual charge. This means that private contractors create a double benefit to themselves out of risk but do not pass this on to the public purse.

*When contract failures are subsidised by the public sector, who really carries the risk?*

## The Virtual Council and Virtual Democracy

The virtual council is fast becoming a reality. In the enabling model of local Government, the Council, and by extension elected members, will concentrate on strategy but will not directly provide or control the management of services or functions.

This means:

- Elected members will have less power to influence change and meet local needs because services will be under the control of a private contractor as part of a long-term legally binding contract;
- Fewer elected members may be needed as the workload diminishes and officers have a more dominant role;
- Elected members may increasingly focus on handling complaints and queries rather than setting policy because once a series of important services are placed in a long-term contract the decision making role of the council is significantly reduced for the life of the contract;

*What will be left for elected members to do once the majority of any council's services are placed in long-term contracts with the private sector?*

## Chapter 7

# The European and global context

### Introduction

Private companies have made fortunes from privatisation in the UK. This experience has been mirrored in only a handful of other states which are at the forefront of privatisation but has been enough for PwC to account for more than \$5bn worth of deals in the year 2000 alone (UNISON, June 2002). However, this amount pails into insignificance at the potential revenues that might be available from worldwide privatisation policies. For instance the global education market is estimated to be more than \$2trillion every year (Knowledge Quest, 2002).

Two things stand in the way of these potentially enormous markets:

- Public rather than private provision (where there is no market because the state is the sole provider of services);
- Barriers to 'trade' (where opportunities for the private sector may exist but these are limited by domestic regulations on foreign firms).

Private firms and their lobby groups are pressuring governments to eliminate these barriers in the form of regional and global trade liberalisation which redefines services as commercial products and through global development policy. New Labour has continued to be at the heart of pushing for global trade liberalisation which effectively leads to privatisation through creating a market in public services. The UK is:

- Used as an example for the export of privatisation policies;
- At the forefront of levering in privatisation in the European Union;
- A leading advocate and supporter of liberalisation, marketisation and privatisation through the World Trade Organisation;
- A key architect of the re-articulation of global development policy behind a third way approach which presents privatisation and liberalisation as poverty reduction and empowerment globally.

### The European Union and regional liberalisation and expansion

The European Union intends to fully liberalise and integrate markets for goods, capital, labour and services within its borders. While resistant to some of the political and institutional aspects of these policies the UK has always been a key supporter and advocate for internal EU liberalisation and marketisation. Liberalisation of public services means the opening up of competition between a variety of suppliers for the provision of public sector contracts and thus creates a market for public services. An important part of this is the setting of policies which encourage privatisation, such as limits on public expenditure. This has already been established in the 'Euro-zone' in the form of the Stability and Growth Pact which limits the amount of public debt that a government can build up. It is at the root of accusations of Enron-style off-balance sheet financing, whereby money borrowed from the private sector, for instance in PFI deals, does not count as public sector borrowing even though it must be paid back with tax payers money.

The UK, for its part, has its own strict rules on public borrowing which lead to claims that 'Its PFI or Bust' (Monbiot January 22<sup>nd</sup> 2002). The government has been busy marketing the Private Finance Initiative and other forms of privatisation which in UK firms have a great deal of experience and would thus presumably be able to effectively exploit EU markets for privatised services.

## The General Agreement on Trade in Services

A major policy tool in creating the necessary global market for public services is global trade liberalisation. Trade liberalisation is advanced through negotiations in the World Trade Organisation (WTO). The WTO's remit is to:

- Promote free trade in traditional manufactured goods; and
- Expand the scope of trade to include new areas, such as services.

Services trade is primarily liberalised and marketised through the General Agreement on Trade in Services (GATS). This agreement and constant attempts to expand its coverage have attracted much publicity and the attention of trade unions, pro-democracy and anti-poverty campaigners because vital public services such as health and education could potentially be liberalised with the effect of creating public sector markets for private companies.

There are four aspects of trade in the GATS agreement:

- **Mode One: Cross Border Supply** – This is the provision of public services from one country to another. For instance benefit enquiries could be outsourced to a call centre in India and provided across borders back to the UK.
- **Mode Two: Consumption Abroad** – This is where consumers or their property travel to another country to obtain a service. UK nationals travelling abroad to have an operation paid for by the NHS would be an example of this.
- **Mode Three: Commercial Presence** – This is where a service provider (public or private) would set up in another country. An example of this might be an American education company setting up in a UK city to provide training paid for by government grants.
- **Mode Four: Presence of Natural Persons** – This consists of teachers, doctors, nurses, care workers and other professionals travelling to another country to 'supply' a service (WTO: 1995).

Article 1.4 of the agreement appears to exempt public services from liberalisation. However, this only applies if services are

"supplied neither on a commercial basis, nor in competition with one or more service providers" (WTO: 1995).

Legal analysis has shown that because most public services already involve a mix of public and private provision and often an element of competition, it is insufficient to automatically exclude them from liberalisation (Ministry of Employment and Investment, BC: 2001; Shybrman: 2001).

The WTO and some national governments (including the UK) have claimed that public services can be exempted from liberalisation under the agreement. However, this requires each member state to explicitly exclude each separate public service, using a specially designated code, in its 'schedule' of commitments. To do this would be extremely time consuming, expensive and would require a great deal of political commitment to protecting public services from the global market. It also ignores the fact that exemptions are temporary and the purpose of the agreement is to engage in progressive liberalisation in ever more sectors. It would also require governments to ignore the demands of transnational companies and business lobby groups, which would, in turn, require significant popular pressure to achieve.

The UK government has constantly maintained its commitment to trade liberalisation and even suggests that this is a pro-development stance (see development below). Moreover, in terms of enforcing liberalisation and privatisation the GATS agreement would be too late in many cases to make much difference to the UK because it has already privatised many

services. Instead its relevance here would largely be to make privatisation irreversible because commitments made under the GATS are final. It may make a return to in-house provision legally impossible.

## The global development agenda

The UK is at the forefront of the global development consensus. Gordon Brown, Tony Blair and Clare Short have led the way in arguing for debt and poverty reduction in the developing world. While their campaigning is intended to drive International Monetary Fund (IMF), World Bank and global development policy forwards, the thrust of their approach, in true-to-form third way style, is entirely consistent with simply rebranding the existing global development consensus. This approach, advocated and implemented through international institutions like the IMF and World Bank, uses 'modernising' and progressive language to recast contemporary development policy as 'pro-poor' (DIFID: 2000; World Bank: 1999). This consensus is centred around four core principles:

- **Debt relief** – is a response to the growing tide of global criticism over the immoral thirty years debt crisis faced by developing countries;
- **Poverty reduction** – has come to be the major goal of global development policy and is an important corollary of debt reduction. In return for debt relief developing countries are asked to promise to pursue 'pro-poor' policies such as committing a set amount of GDP to health and education;
- **Liberalisation** – external trade liberalisation is advocated and required of developing countries through development policies and also through the unofficial tying of these to the next wave of discussions in the WTO which have the Orwellian title of the 'Development Round';
- **Domestic reform** – an important companion to debt relief, poverty reduction and liberalisation, domestic reform is intended to lock a country in to a particular path of development. On the one hand this involves the development of 'good governance' which is meant to promote democracy and respect for human rights. On the other hand it is meant to advance a secure investment environment. Strengthening the rule of law, property rights and minimal and consistent regulations is said to increase the likelihood of attracting foreign investors, who can feel sure that their investment is safe. However, this type of 'locking-in' is not benign and is often said to 'have to hurt':

"A reforming government that wishes to distinguish itself from a phoney reformer must undertake reforms which are sufficiently deep, swift and painful that the phoney reformer would find them too difficult to imitate" (Collier 1998).

At first glance these policies seem progressive and a step forward from the infamous 'Structural Adjustment Plans' of the 1980s. However, when considered more closely a perfect third way modernising logic appears:

- The development of a minimal and enabling state with democratically elected governments to be given responsibility only for enabling the private sector to undertake service provision;
- The making of markets for the very same corporate interests that have benefited from UK privatisation policies by channelling debt relief to create markets in health, education and utilities.

## Conclusion

The UK is at the forefront of a global project to extend privatisation to every country in the world. This is being progressed within the EU and outside it in the form of negotiations within the World Trade Organisation and through the global development framework implemented by the World Bank and the IMF. While this will mean enforced liberalisation and privatisation, the UK is already ahead of the game and here the effect will be to 'lock-in' policies already in place.

## Chapter 8

# *An alternative modernisation strategy for Newcastle and nationally*

The Alternative Modernisation Strategy encompasses a new vision of government at central, regional, local and community levels. It should be centred on a radical rethinking of democratic accountability with the involvement of users, communities, staff and trade unions; new legislation and regulations which empower and resource public bodies and local government to act in the public and community interest; a new blueprint for a new public service management coupled with organisational reform of public agencies and responsibilities; a social justice strategy for poverty reduction and equalities; and a plan to rapidly enhance environmental sustainability.

There is considerable scope and capacity for improvement in public services. However there must be a clear and unequivocal commitment to public provision and an end to the ideological attack on the concept of direct provision plus increased public resources for capacity building.

The GMB launched a Public Service Improvements for the People programme in June 2002 which contains four NHS demands on cleaning up dirty hospitals, increasing staffing and security in Accident and Emergency units, launching an individual appointments system in every out patient clinic and opening operating theatres for increased hours. The programme has six demands for local authorities: increasing caretakers and security staff on housing estates, increasing recycling, improving resources for residential homes, resourcing a free home care service for the old and disabled, refurbishing libraries with IT suites and recreating parks and sports grounds with new equipment, planting and adequate staffing.

There is a need for policy alternatives for each sector such as health, education and transport. However, it is equally important that an alternative modernisation strategy sets out the radical changes needed in the way that services are planned, organised, funded, delivered and monitored. The following ten-point plan is applicable across the public sector.

### Principles of public service

The following are principles which should apply to all public services irrespective of whether they are delivered at local, regional or national level. These principles are vitally important because they reflect the key characteristics of public provision and service.

- **Selflessness** (motivated by service rather than by profit, commitment and degree of altruism and attraction to serve the public);
- **Integrity** (commitment to the organisation's values and objectives);
- **Objectivity** (impartial judgement and assessment and clarity in communication);
- **Accountability** (acceptance of legitimacy of the political institutions and processes, serving collective and community needs);
- **Participation and involvement** (a commitment to user, civil society and employee/trade union involvement in design, planning and policy making processes);
- **Openness and disclosure** (transparency and responsiveness);
- **Honesty** (highest standards of probity and conduct);

- **Leadership** (high standards and fiscal responsibility);
- **Equality** (respecting cultural diversity and a commitment to justice and fairness);
- **Competence** (using skills and experience for the public good with a commitment to training and service improvement);
- **Universalism** (unless specifically targeted, public and welfare services should be available for all);
- **Advocacy to eliminate victimisation and discrimination and to identify and mitigate adverse impacts;**
- **Quality employment** (good terms and conditions, representation and training and development); and
- **Quality service to users and potential users.**

### Ten point alternative modernisation strategy:

The alternative modernisation strategy has ten elements which are summarised below. Each has a section on the termination of current policies and new policies which give examples of the changes required.

1. Increased public investment
2. Revitalisation of public services
3. Refocus on social justice and social needs
4. Radical democratisation and accountability
5. New public service management
6. Re-regulation of markets
7. Regeneration and regional development
8. Quality employment and a better skilled workforce
9. E-citizenship
10. Environmental sustainability

### 1. Increased public investment

#### Termination of current policies

- PFI to be terminated immediately;
- the Strategic Service-Delivery Partnerships (SSPs) taskforce to be abolished;

#### New policies

- Increase public sector capital spending programmes in local government services including social services;
- Give public bodies freedom to borrow within broad parameters;
- Adopt the General Government Financial Deficit (GGFD) in line with European practice;
- Examine the potential for bonds and other means of increasing the scope of public investment
- Local authorities should also be encouraged to sell underused or unwanted assets such as land and property and be able to spend 100% of proceeds after debt repayments.

Every £1 billion of additional public investment per annum will fund:

- 50 new and refurbished schools
- 5 district hospitals
- 1,000 new and refurbished council houses
- 20 new social care centres
- 20 new libraries and learning centres
- 10 new sports and leisure facilities
- 20 health centres
- 5,000 new computers and training for staff

Every £1bn of public investment provides an extra £50m for investment compared to private sector funding (Chantry & Vellacott). This would finance a new district hospital.

## 2. Revitalisation of public services

### Termination of current policies

- Immediately encourage all public bodies to stop all transfers and privatisation;
- Terminate requirements for competitive tendering and local government requirement to develop markets;

### New policies

- Power of general competence to enable local authorities to finance, promote, provide, trade and take wide-ranging action in the local economy;
- Mainstream innovation rather than plethora of pilots;
- Turn the rhetoric into reality by changing the power of local government to promote community well-being into a duty backed by additional resources;
- Manifestos drawn up for each service outlining improvement plan;
- Public ownership and control;

Example

#### Stand up for Council Housing Manifesto

1. Quality investment and renewal
2. Fast, efficient, good quality repairs and maintenance
3. Effective and responsive management
4. Integrated community services for all
5. Affordable rents
6. Getting more for your money
7. Security of tenure
8. Improved democratic accountability and tenant involvement
9. Community based and designed regeneration and development
10. Community well-being and social justice
11. Quality jobs, local labour and training
12. Involvement in planning and design
13. Tenants benefit from development of new information and communication systems

## 3. Refocus on social justice, social needs and redistribution

### Termination of current policies

- Replacement of equality guidance by statutory duty;

### New policies

- Application of Social Justice Planning and Auditing requiring economic, social, equality, health and environmental impact assessment of all policies, projects and programmes;
- Introduce on social needs analysis into planning and policy-making processes;
- Introduce public duty covering all equality groups;
- Genuine mainstreaming of equity and sustainability across all public organisations;
- Increase resources for more frequent and comprehensive collection and publication of social and economic data;

## 4. Radical democratisation and accountability

### Termination of current policies

- Abolish the cabinet system in local government;
- Abolish quangos and democratise others by making boards accountable to local government and representative of a wide range of community interests;
- Drastically reduce business representation on public bodies;

### New policies

- Devolution of decision making to area committees and structures
- Regional democratic governance
- Improve scrutiny role with much greater emphasis on monitoring and evaluation
- Resources for capacity building for community, trade union and other civil society organisations
- Involvement of users, community organisations, employees and trade unions in planning, policy and project development and change management process.
- Integrate impact assessment into policy making process
- E-citizenship and e-democracy harnessing ICT for social and community benefit, making Digital City a practical reality in social justice
- New controls over use of consultants and contractors and making them accountable to service users as well as more stringent accountability to client and Elected Members.

## 5. New public service management

### Termination of current policies

- Abolition of procurement and market analysis in Best Value options appraisal;
- The Best Value requirement for 2% per annum savings and league tables should be abolished immediately;
- Abolish inspection regimes;



## New policies

Rebuild state capacity to intervene and deliver and to reduce reliance on consultants:

Introduce a new public management system to replace performance management, supported by a national training programme and university public management courses. New public service management will have ten elements:

- user/community and frontline staff/trade union involvement
- democratic accountability and communications
- monitoring and evaluation and learning environment
- innovation, redesign and capacity building
  - researching social and economic needs
- social justice planning and auditing
- quality systems
- quality employment and training
- corporate values, vision and public service principles
- public sector networks, coalitions and partnerships

### New Public Service Management will be centred on:

- the effectiveness of services, investment and the process of provision, *not just on results*;
- participatory governance, *not mere consultation*;
- participatory management *inclusive of frontline staff and trade unions*;
- commitment to the improvement of in-house services by redesign and valuing staff, *not by outsourcing, competitive tendering or making markets*;
- accountability to users, civil society and labour, *not merely to business*;
- implementation of equalities, social justice and environmental sustainability as an integral part of public service provision, *not as lip service to promote corporate image*;
- integrated management and organisational structures, *not divisive separation of purchaser and provider functions*.

## 6. Re-regulation of markets

### Termination of current policies

- Commissioning role terminated for education and social care;
- Abolition of tax advantages for Trust status;
- Abolition of requirement for market analysis and consultation with private contractors in Best Value process;
- Abolish joint government/business lobby groups established solely to promote GATS and liberalisation;

### New policies

- New regulatory regimes for rail, bus, private residential homes and other sectors to ensure social needs, health and safety, community benefits and quality jobs are addressed which should be subject to monitoring and evaluation, rigorous regulation and where necessary, price controls;

- Government to demand exclusion of public sector from the GATS regulations, nor should they propose any public services for marketisation or liberalisation;
- Oppose further liberalisation in European Union;

## 7. Regeneration and regional development

### Termination of current policies

- Limited funding of narrowly defined regeneration areas;
- Narrowly defined regional performance targets;

### New policies

- Increase public investment resources in regeneration areas;
- Increase council housing content;
- Increase scope for joined up government by concentrating all regeneration responsibilities with regional government;
- Active labour market and training agencies to operate under regional democratic control;
- Local tax raising powers to meet local needs and aspirations to give degree of fiscal independence;
- Capacity building resources for training and development to participate which supplement and do not compete with public services;
- Support for innovative and experimental community services;
- Encourage innovative community provision which is additional to public provision;

### Increasing the capacity of local government

The principles and values of public service will never be fully achieved without increasing the capacity of government. Capacity is the ability to organise, to plan, to invest, to manage, to co-ordinate and to produce or deliver. It is the institutional and organisational ability not only to implement national policies and allocate resources and have the ability to transform public services according to local democratic decisions to meet people's needs, priorities and aspirations and to enhance the public domain and culture of the city.

The UN has called for the strengthening of the state: reforms must be home-grown and made to fit real needs; making democracy meaningful; building the essential competence for an intelligent, democratic state; reinforcing core public service values. These apply equally to local and national government.

Modernisation should increase capacity, know how and the range of skills to:

- Identify and assess social needs, particularly those of equality groups;
- Enhance democratic accountability and devolution;
- Design, plan, implement, monitor and evaluate policies, projects and programmes;
- Consult and negotiate to articulate, promote and defend the public interest;
- Involve service users and staff in the planning, management and operation of services;
- Invest public resources to improve facilities, skills, employment and economic performance;
- Create a strong supportive centre to coordinate the diverse range of local organisations;

(Whitfield, 2001 and United Nations, 2001)

## 8. Quality employment and a better skilled workforce

### Termination of current policies

- Restrictions on imposing employment conditions in public service contracts;
- Limitations imposed by trade union industrial action laws;

### New policies

- Better training and education in public management and methods of staff and trade union involvement;
- Broaden TUPE to extend to length of the contract, include pensions, new staff and non-transfer of staff.
- Fair employment practices including fair wages clauses;

## 9. E-citizenship

### Termination of current policies

- Narrow policy focus on voting methods in e-democracy;

### New policies

- New funding regime for innovative e-citizenship projects;
- National programme of ICT training and capacity building for civil society, community and trade union organisations ;

## 10. Environmental sustainability

### New policies

- New requirements to mainstream environmental sustainability in all policies, projects and programmes.
- More stringent environmental monitoring with penalties for non-compliance.
- Training and education programmes.
- Mandatory sustainability built into all new housing.

## Achieving the alternative modernisation strategy

There are fundamental flaws in Labour's Third Way modernisation policies. However, they are unlikely to change policy unless public, community and trade union opposition is intensified and consolidated. This should include:

**Campaigning for democratic accountability, governance and involvement to increase the power of labour and civil society:** This should include demanding the democratisation of international, national and local government, public bodies and quangos to improve accountability, transparency and public management. Improved governance is essential to achieve sustainable human development.

**Strengthening the opposition to marketisation, privatisation and partnership:** Opposition to strategic service-delivery partnerships and PPPs must be intensified since they have enormous impact on the accountability, quality, employment, organisation and provision of public services, the social and physical infrastructure and regeneration process. The strategy should have 5 parts:

- \* Making the case for public investment, public ownership and in-house service provision as a key part of an alternative modernisation strategy.
- \* Exposing the longer term consequences of PFI/PPP, particularly the consequences when a large part of Britain's social and welfare infrastructure is in private ownership.
- \* Continuing research into the design, cost, employment and refinancing of PFI/PPP.
- \* Formation of local Public Service Alliances of trade unions, user organisations, tenants and community groups.
- \* National organising and action – trade unions have a key role in forging and supporting a national coalition of local Public Service Alliances mobilising to build political support.

**Organising and campaigning against the World Trade Organisation's negotiations to restructure the role of government.** This should focus on GATS, the multilateral agreements on intellectual property rights (TRIPS), trade related investment (TRIMS), government procurement (AGP) and investment regulations relating to the stalled Multilateral Agreement on Investment (MAI). Alternative international agreements should enhance nation state welfare systems, international collaboration to improve planning and access, share good practice, create social partnerships and improve working conditions.

**Constantly pressing for increased public investment:** More imaginative use of borrowing mechanisms such as bonds, quasi-public corporations and pension fund investment, must be conditional on meeting social use criteria and be subjected to social justice planning and auditing. The taxation=public spending=quality of public services and the welfare state=value of the social wage linkage must be at the core of these demands.

**Exposing the consequences and contradictions** of neo-liberal modernisation, the third way and the private provision of public goods. Continually challenge business hegemony, vested interests and the corporate-welfare complex and demand new controls over capital with re-regulation, rigorous monitoring and evaluation.

**Strengthening the organisation and formation of alliances and coalitions between labour and civil society locally, nationally and internationally.** This should include organising the chain of production of public services which will increasingly extend from in-house provision to home-working to voluntary organisations and the social economy to local, national and/or international locations of private firms. More broad-based movements for economic and social justice beyond the workplace and workers rights will be essential. Trade unions have a vital role in organising, representing, bargaining, educating, training, monitoring and participating in labour and civil society in an era of increasing insecurity.

**Improving understanding of the global economy and research/investigative skills** to analyse the key trends and developments, investigate the activities of multinationals, expose local power structures and develop analytical skills to articulate needs and alternatives. Life-long learning should reskill and empower people for involvement in civil society and trade unions, not just for employment and education.

**Combining industrial, civil and community action** internationally, nationally and locally. In addition to independent action, the emphasis must be on *linking* workplace and community action, *coordinating* strategies and creating opportunities to broaden the base through national and international alliances. Trade unions must give more active support to non-workplace issues and campaigns.

**Developing and promoting a distinctive public management** based on public service values, principles and best practice for the production and provision of public goods. It is essential to differentiate public management from the commercial and voluntary sectors, particularly by putting public service ethos, codes of conduct and quality systems into practice.

These principles and values must continue to distinguish vibrant and innovative public services from markets and profiteering, despite the constraints and limitations imposed by capitalism. They indicate the possibility of a better quality of life and a more equitable, progressive and sustainable civilisation than that dictated by markets and the capitalist economy and suggest the potential of a truly socialist alternative. They will always be worth organising and campaigning for.

**Challenge the values and rationale of the capitalist economy:** This should continually contest the narrow economic and competitive model of modernisation and demonstrating the relevance and viability of an alternative modernisation strategy.

## *Appendix*

### **Newcastle City Council: Labour Group Resolution**

#### **Labour Group 15 October 2001**

"This Labour Group reaffirms its commitment to public services delivered by public employees as its preferred option for the Best Value services for the people of Newcastle.

Our aim is to achieve this through improved 'in-house' services, not privatisation.

However, we must comply with Labour government legislation which requires us to examine alternative to 'in-house' provision and to consult the users of services.

Best value requires us to look at each case on its merit. We should only adopt alternative methods of delivery where all of the following conditions are met.

- Full Labour group agrees.
- A full 'in-house' option has been prepared and there are still significant improvements to the service which cannot be achieved 'in-house'.
- Where they bring substantial investment to the city, which would not be available otherwise.
- Secures better services for all residents of the city and achieves value for money.
- Protects the terms and conditions of service of staff, and Trade Union recognition.

Group calls on the Government to lift the restrictions on Council direct service departments carrying out work for other local authorities and clients, and resolves to consider joint operations with other councils.

Group further agrees to support a campaign to persuade government to move away from the privatisation agenda, subject to group agreeing a way forward, and as part of that campaign seek to ensure government funding and spending flexibility rules apply equally to all options including the 'in-house' bid, and to ensure fair comparison."

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