The Real Cost of Privatisation
Privatisation is the scourge of modern political economy. It has been an integral part of the neoliberal project that has dominated government policy across the globe for more than three decades. It is part of driving the market deep into spheres of society previously insulated from business. It is centrally about private firms, their owners and senior managers profiting from services that should be provided publicly and on the basis of need.

This Trade Union Co-ordinating Group publication is an expert and timely balance sheet on the privatisation experience in Britain. It shows conclusively why privatisation is wrong:

- **Privatisation makes public services worse** – what people get under privatisation is a worse service.
- **Privatisation costs working people more** – fares and charges, along with subsidies from the public purse, mean working people now pay much more for services we need.
- **Privatisation is a huge racket** – business makes billions by siphoning off profits.
- **Privatisation hits investment** – funds that could be invested to continuously improve the quantity and quality of public services are wasted by privateers and keeping spivs in luxury.
- **Privatisation is bad for safety** – both for the public and for the workers in that industry.
- **Privatisation is bad for workers** – it means fewer jobs, more stress on those left doing the job, and worse pay and conditions.
- **Privatisation is bad for the environment** – it obstructs integration and planning, makes cutting carbon emissions harder, and pollutes without paying for the clear-up.

Privatisation is an irrational way to run public services, if they are meant to meet social needs. It cuts against the collective, cooperative way in which production should be organised.

As trade unionists we are against privatisation, but we are not just anti-privatisation. We have a positive alternative to privatisation: public ownership and democratic control.

We do not advocate a return to the worst aspects of the old, bureaucratic nationalised industries, like the British Rail sandwich. Lessons can be learned from those experiences, but what we want is properly funded public services that really do meet the needs of users. That means giving the workers in those industries as well as the people who use them a real and meaningful voice in running those services.

Public ownership with democratic (including workers’) control would be a more efficient way to run public services. It would make them safer and more attuned to needs, more environmentally-friendly and clearly much better places to work.

We hope the labour movement will discuss the examples in this publication, learn from these experiences and stiffen our resolve to scrap privatisation and fight for our public services.

**by Matt Wrack**
FBU general secretary
Introduction

The privatisation agenda – which has now been with us for three decades – started as part of Thatcherism’s poisonous embrace of the free market and was largely continued and extended under New Labour under the cloak of public-private partnerships (PPP) and outsourcing. But the pace and scale of the current austerity-driven assault on our public services is without precedent, as parasitical corporate interests colonise and destroy the fabric of the post-war settlement that saw such historic advances as the formation of the National Health Service and the consolidation of the welfare state on the basis provided by the Beveridge Report.

Where once we had public services which were democratically accountable, funded through a fair taxation system and available to all, we now have a ‘shadow state’, run by private managements accountable only to their wealthy shareholders, who cream-off the profits while the taxpayer bears the risk. The financialisation of society, which saw such catastrophic consequences when the banking system collapsed under the weight of corporate greed – requiring an enormous bailout from public funds for which we are still paying – is now polluting the very heart of services which were once run for our common benefit.

The Financial Times has reported that the “value of government contracts handed to the private sector has doubled in four years to £20bn”,¹ rising from £9.6bn in 2008 to £20.4bn in 2012. But, if this already sounds like a vast amount of public money, research by analysts Seymour Pierce “has identified 1,789 outsourcing opportunities worth £84bn in the government pipeline”,² estimating that by 2014-15 the total value of contracts outsourced from the public sector will have reached a staggering £101bn, meaning that the taxpayer is subsidising profits to a degree to which Thatcher could have only dreamed. Meanwhile, the taxpayer is exposed to over £300bn of debts built up under the Private Finance Initiative (PFI).³ Not only have the fund managers made a killing at the expense of the public, but they’ve been allowed to get away without paying tax on it, since 75% of the stake sold in PFI projects – which has generated such a cash windfall for rich investors – has been squirreled
away in offshore tax havens.

But – those in favour of privatisation counter – surely the private sector is better at delivering services more efficiently? Really? What about:

- G4S’s abject failure to deliver fully on its contract to provide Olympic security – despite repeated promises that everything was fine – meaning that the government had to step in to avert a major national embarrassment in front of the whole world.

- the collapse of private equity outfit Southern Cross, which meant that around 30,000 elderly and vulnerable people in the care homes it owned were suddenly faced with the threat of having nowhere to be looked after – an incident which MPs have warned could well happen again.

- the catastrophic mismanagement of essential railway tracks that saw Railtrack throw the entire rail network into utter chaos before going into liquidation, forcing the government to ride to the rescue by setting up Network Rail in recognition that profits and rail safety are a lethal mix.

- the similarly disastrous consequences of the PPP on London Underground, which again saw the work taken back “in-house” after enormous expense for the taxpayer and inconvenience for the travelling public.

The examples of private sector incompetence are legion. Where services are publicly run, their performance is accountable to people who are democratically elected, and information can be sought via questions in Parliament, Freedom of Information (FoI) requests, or through the National Audit Office. But once outsourced to private hands, such information is screened from the public with the catch-all get-out of “commercial confidentiality”. This makes it much harder to identify and monitor exactly which corporate interests and murky financial arrangements are now leeching cash from contracts to run public services, see what effect this is having on the range and quality of services provided – or to find out exactly how the pay and conditions of the workforce have been hit.

The coalition government has hardly even tried to keep its real ambition secret and – despite weasel words about “diversity”, “choice”, or “opening up services” to a “range of providers” – it is perfectly evident (for example from the “Open Public Services” White Paper of 2012) that every department is being told to look for ways of breaking up and fragmenting existing public services to allow a route-in for profit making companies: “we are determined to open up the provision of the public services...replacing top-down monopolies with open networks in which diverse and innovative providers compete”.

Departments and local authorities are having their budgets slashed, and being told they have no choice but to confine themselves increasingly to buying-in services from external providers. The language is carefully non-specific, allowing them to conceal their intentions behind the window-dressing language of mutuals, charities or social enterprises which David Cameron claimed were part of his vision of a “Big Society”. This talk about “mutual” forms of ownership is designed to make it appear that workers have a real stake in a company’s success, but in reality they are being offered no control over decisions in what remain outfits designed for private investors to make a profit. Supporters of “opening up” public services are fully aware that the extensive access to complex legal and accounting
services required by the procurement process will effectively limit the field to all but giant outsourcing interests like Serco or Capita – multinational companies earning billions from such activities worldwide. The language of mutualisation is often a Trojan horse used to overcome public opposition to straightforward privatisation.

The real cost of privatisation of our public services can’t be measured only in terms of wasted finances. The real cost is the damage inflicted on society as a whole and in particular on the lives of those who use the service (i.e. the public), together with the public sector workers who provide the service. When private companies are incentivised to squeeze out the maximum profit from their involvement in government contracts, this can only come from reducing “costs” (which means cutting jobs, wages, pensions, levels of investment or health and safety practices), and by reducing the level of service offered to the public, sometimes scrapping altogether non-profitable services.

Although it is true that the existing public sector workforce will for the most part have their pay and conditions protected through existing legislation if they are transferred directly over to a private sector employer, this does not apply to newly recruited workers. This creates a two-tier workforce which – over time – effectively undermines the pay and job security of those who may have devoted years, even decades, of service to the public sector. By fragmenting the system into a much more complex and dislocated pattern of employers and contracts, outsourcing also means that workers are less able to stand together on a national basis to negotiate a better deal from the employer via their trade unions.

As we will see, the onslaught of privatisation now being undertaken operates only in the interests of rich investors out to make a quick profit, benefitting neither the service user (such as train passengers, hospital patients, parents with children at a school), the millions of dedicated professionals like nurses and teachers who work in providing them, nor the ordinary taxpayer.

The remaining chapters offer an overview of the range and scale of the role being given to profit-making companies in running public services. What follows applies primarily to England (with important differences with the other nations opening up given devolution of power and responsibility over some key public services) and is certainly not exhaustive. Similarly, there is no attempt to document the full scale or impact of the cuts, which are addressed only insofar as they act as a driver towards privatisation.
National Health Service

“We are about to see a phase of unprecedented chaos in our health services. People will die thanks to the government’s decision to focus on competition rather than quality in healthcare.”
RICHARD HORTON, editor, The Lancet

49% of work in NHS hospitals can now be reserved for the treatment of private patients

The National Health Service was founded on the basis that healthcare should be universally available to all as a right; what matters is our need, not our ability to pay. By pooling our risk and our resources we are all better off as a society – healthcare is a common public good, not a commodity to be bought and sold. It is a vision that has made the NHS one of the best-loved institutions in the country. Contrast this to the health system in the USA, where access to medical services depends on your ability to pay privately, and where millions have gone without essential treatments because they can’t afford the massive costs of private medical insurance. A private system puts patients and professionals into competition with each other. It creates a few winners, but lots of losers.

Well before the coalition’s Health and Social Care Act of 2012 – unquestionably the most serious attack on the founding principles of the NHS since it was set up – policymakers from both major parties over two decades or more have deliberately sought to restructure the NHS along market lines and produce opportunities for private companies to muscle in. A key step in the direction of privatisation was New Labour’s decision to encourage NHS hospitals to set themselves up as “Foundation Trusts”, based on a model where the management of a hospital is responsible for its own budget and with the freedom to make its own commercial decisions.

These trusts are regulated not by the Department of Health, but by Monitor, a new regulator concerned with encouraging the trusts to deliver a healthy surplus – with the emphasis on the financial bottom-line prioritised over clinical demand. Formally, foundation hospitals are not – at least initially – managed privately, or responsible to shareholders, although in reality trust directors could basically operate like the directors of any private company. This was a major step towards the fragmentation of the NHS into competing units, removing democratic accountability, giving them a private sector-like
freedom with the accompanying threat that failing trusts would be allowed to go under.

Even before the financial crisis, a number of hospital trusts were getting into serious financial difficulties. We had been told that the Private Finance Initiative (PFI) was an ingenious way for the government to secure extra investment from the private sector to get major infrastructure projects built – like new hospitals, for instance. But of course the incentive for private financial interests to get involved was the possibility of making a healthy profit. In fact they made a killing at the expense of the taxpayer. Take, for example, the case of the Norwich and Norfolk Hospital, where big financial interests like Barclays, Serco and Innisfree took out a £115m windfall by refinancing the holding company managing the contract, extending the period over which repayments would be made and enabling them to “cash out” early.

The disastrous financial legacy of PFI has left NHS trusts across the country with black holes in their budgets, with nearly one in five in financial difficulties. But the consequences of bailing them out will be paid by the public, not the financiers who have trousered the money. Take the South London NHS Trust, which has a total debt of over £200m and was losing £1.3m every week until it was taken into special administration by Jeremy Hunt. Where will the government find the money to write off the PFI debts that are hanging like an albatross around the neck of local health services? Their plan is to “restructure” local services by undermining the quality of provision at a neighbouring trust, meaning that the highly popular and financially secure Lewisham Hospital will see its accident and emergency and maternity units closed, to be replaced with downgraded and inadequate facilities, in the teeth of determined opposition from local health professionals and the wider community. Little wonder, since patients will be faced with a journey to a hospital in another borough, taking an hour and 40 minutes using three buses.

An inkling of the direction which Labour’s marketisation reforms had opened up could be seen in the case of Hinchingbrooke Hospital in Cambridge, where the management of the whole hospital was put out to competitive tender in 2007. The 10 year contract to run the hospital was eventually won by Circle, a profit-making “social enterprise” (in fact a controlling stake is owned by a group of City financiers) which already ran a number of private clinics, but had no real previous experience of running such complex services as A&E departments. We were told this was a good deal for the taxpayer because the private sector would be shouldering the risk. In reality, Circle’s exposure was limited to just £7m, or 0.7% of the NHS funds it will manage over the term of the contract, whereas it stands to make a substantial windfall if surpluses are generated. A hospital managed by a company with such incentives is likely to find the traditional priorities of the NHS subverted, with clinical need taking a back seat to cost efficiency, leading to rationing of access to treatments. Though Labour continued to deny this was “privatisation”, since the ownership of the hospital (and the majority of the financial risks involved) stayed with the public, the “direction of travel” was clear for all to see. Little wonder the leading private healthcare companies could barely contain their delight at the precedent this set.

But if Labour had begun to introduce the key foundations of a marketised system, accommodating profit-making companies as providers of “NHS” treatments and treating patients as customers purchasing a commodity on the open market, the Tory reforms drawn up by Andrew Lansley could be seen as the moment that the NHS as we have known it is brought to an end. The Health and Social Care Act repeals the core statutory duty of the Secretary of State to “provide or secure a comprehensive health service” provided free at the point of need. Without this legal duty, what the NHS offers can be reduced and charges
imposed, without the public being able to hold anyone democratically accountable for it.\textsuperscript{11} Despite having promised in their manifesto there would be “no top-down reorganisation” of the NHS under a Conservative government, the coalition has embarked on the biggest ever restructuring of the health service. Its “reforms” are estimated to cost in excess of £3bn, which could otherwise have gone into patient care, alongside a demand for a further £20bn in “efficiency savings” despite the organisational turmoil.

On top of this comes the escalation in administrative and legal costs that will follow from the increasing fragmentation and complexity of the system. In the US system, $1 out of every $3 spent goes on administration.\textsuperscript{12} It is a myth that private provision and commissioning will mean more efficiency. We need only look at the waste and incompetence shown throughout by successive contractors on the NHS IT system upgrade – originally planned to cost £3.2bn within a timeframe of 3 years, which later spiralled to £12bn over a decade and ended up being scrapped as costs were getting out of control.

Under the new system, all hospitals in England will be taken out of Department of Health control and are intended to have become independently managed “Foundation Trusts” by 2014, whilst Primary Care Trusts (PCTs) will be abolished and replaced by 211 Clinical Commissioning Groups (CCGs). These groups, neither elected nor accountable, will spend about £65bn of the NHS’s £95bn yearly budget, and employ around two out of every three staff employed in commissioning,\textsuperscript{13} overseen by the new NHS Commissioning Board. Critically, NHS hospitals will now be allowed to earn nearly half (49\%) of their income from the treatment of private patients, giving incentives to expand private treatments.

Lansley claims that the reforms are “clinically-led” and that the new CCGs give power to GPs, who are in the best position to take responsibility for commissioning because they know what’s in the best interests of patients. But just as pilots fly planes without having to engineer their design and construction, so most GPs have barely enough time to attend to their patients, and in any case lack the technical knowledge to concern themselves with contractual details, invoicing and data processing. This is no doubt among the reasons that both their key professional bodies – the Royal College of General Practitioners and the British Medical Association – opposed the proposals.

In fact we know that CCGs will, and indeed already are, contracting out these responsibilities to external bodies offering “commissioning support services”, which will all have become private companies by 2016.\textsuperscript{14} To the further outrage of many GPs, CCGs have been warned not to let the details of such commercial arrangements “leak out”, with some even inserting gagging clauses to prevent GPs speaking publicly without the prior permission of the CCG board. Hardly the much-vaunted “independence” for GPs to act as the patients’ champions! While such secrecy makes it difficult to know for certain, management consultancies PricewaterhouseCoopers, KPMG and Capita are already reported to be working with 100, 50 and 40 CCGs respectively.\textsuperscript{15} Since parliament passed the Act, the government has moved to introduce secondary legislation which enshrines the bias towards the private sector with less opportunity for public scrutiny. The regulations which govern Section 75 of the act – the section relating to competition policy – effectively put CCGs under a legal duty to open up services to private tender, unless they can prove that the NHS is the only potential provider.

But worse still, the GPs who sit on the CCG boards might well have a direct conflict of interest, given that a recent British Medical Journal study found that one in three GPs who are running the new bodies also have a financial stake in a private company involved in the healthcare sector. These firms already make money by providing NHS services like
diagnostics, elective (non-urgent) surgery and out-of-hours cover. Some GPs serve as senior directors of such companies and others hold shares in the likes of Circle Health or Harmoni, which make millions from NHS work. This will inevitably undermine patient confidence, as it will be difficult to tell if GPs are advising on strictly medical grounds or commercial ones.

Ultimately, if private companies wish to maximise the dividends to their shareholders (a legal requirement), they must raise profits by cutting costs – which means fewer workers, paid less, and patients finding that more and more treatments are no longer available on the NHS and so having to go without or – if they can afford it – paying a premium to be treated privately. UNISON reports that “between August 2011 and November 2012, 8,273 people left the NHS and were not replaced, including more than 7,000 nurses. This is especially worrying given that health workers already fear that staffing levels on wards are not sufficient to deliver safe, dignified, compassionate care”. The new CCGs will be required only to meet patients’ “reasonable requirements” – there is a great deal of discretion involved in what this means.

Already we have seen PCTs under pressure to cut costs restrict the availability of treatment for conditions which, though painful and even disabling, aren’t life-threatening – such as hip replacements or cataract operations. Croydon PCT drew up a list of 34 such treatments which would be restricted or withdrawn altogether, on the grounds that in mild cases the benefits were “minimal”. Further, as health analyst Prof Colin Leys explains:

“Other [services] that are supposed to be available... are increasingly being denied in practice. Some GPs have been restricted to making four referrals per week, regardless of how many patients in need of a referral they may see. Other GP referrals are intercepted and denied before they reach a hospital specialist. This is being done, explicitly to save money, by privately-run ‘referral gateways’. One of the first was in west London, where the giant US health insurer UnitedHealth has been given the job of vetting, and in some cases overturning, GPs’ judgments.

One west London patient, who had been referred for a replacement after her knee collapsed, was told by the referral gateway to have physiotherapy and painkillers instead. It took more than £1,000 worth of private x-rays and surgeons’ opinions for her to finally prove that she needed a knee replacement and get it done on the NHS. Many patients are less fortunate, or determined. For them, NHS treatment is not free. They must pay to get it privately, if they can. If not, they don’t get treated.”

NHS – RIP?

9 http://www.guardian.co.uk/society/2006/may/03/hospitals.privatefinance
12 http://falseeconomy.org.uk/files/campaignguide03.pdf
13 http://www.guardian.co.uk/commentisfree/2012/dec/11/clinical-commissioning-groups-private-sector
14 http://www.guardian.co.uk/commentisfree/2012/dec/11/clinical-commissioning-groups-private-sector
15 http://www.union.org.uk/asspresspack/pressrelease_view.asp?id=3023
16 http://www.guardian.co.uk/society/2013/mar/14/gps-clinical-commissioning-groups-private
17 http://www.union.org.uk/asspresspack/pressrelease_view.asp?id=3023
18 http://www.redpepper.org.uk/the-end-of-the-nhs-as-we-know-it/
WHO SHOULD BE RESPONSIBLE FOR OUR SCHOOLS? SHOULD IT BE TRAINED AND DEDICATED TEACHING PROFESSIONALS WORKING TO DELIVER A STRATEGIC PLAN OVERSEEN BY DEMOCRATICALLY ACCOUNTABLE LOCAL EDUCATION AUTHORITIES (LEAs)? OR WOULD IT BE BETTER TO HAND SCHOOLS OVER TO PRIVATE SPONSORS WHOSE “EXPERTISE” MIGHT BE LIMITED TO MAKING PROFITS FROM SELLING CARpets, USED CARS OR MEAT PIES?

UNLIKE A CLASSIC PRIVATISATION, SUCH AS THE PLAN TO SELL OFF THE ROYAL MAIL, THE PROPOSAL TO EFFECTIVELY PRIVATISE THE WHOLE OF PRIMARY AND SECONDARY EDUCATION IN BRITAIN IS PROCEEDING RAPIDLY BUT BY STEALTH. MINISTERS CLAIM THAT ACADEMIES ARE ABOUT OFFERING “CHOICE” TO INDIVIDUAL SCHOOLS BY OFFERING THE “OPTION” OF PARTNERING UP WITH A PRIVATE SPONSOR, WHICH THEN GAINS CONTROL OVER THE ENTIRE BUDGET DIRECTLY FROM THE GOVERNMENT ON THE BASIS OF THE SHARE THAT “MAINTAINED” SCHOOLS RECEIVE FROM THE LEA. ORIGINALLY, ACADEMIES WERE INTRODUCED AS AN OPTION FOR A LIMITED NUMBER OF “FAILING” SCHOOLS IN DEPRIVED INNER-CITY AREAS, BUT SINCE HE BECAME SECRETARY OF STATE FOR EDUCATION, MICHAEL GOVE HAS ALLOWED PRIVATE SPONSORS TO “CHERRY PICK” THE BEST PERFORMING STATE SCHOOLS.

GOVE HAS ALSO DECIDED THAT SCHOOLS WHICH SCHOOLS INSPECTOR OFSTED DEEMS TO BE FAILING CAN BE FORCED INTO BECOMING ACADEMIES AGAINST THE WISHES OF TEACHERS, PARENTS AND THE LOCAL COMMUNITY. IT IS CLEAR THAT THE “PERMISSIVE” RHETORIC MASKS A CONCERTED ATTEMPT TO RESTRUCTURE THE ENTIRE PRIMARY AND SECONDARY EDUCATION SYSTEM BY HANDING OVER CONTROL OF OUR SCHOOLS DIRECTLY INTO PRIVATE HANDS. LATEST FIGURES SHOW THAT THERE ARE NOW CLOSE TO 1,642 SECONDARY ACADEMIES AND OVER 1,278 PRIMARY ACADEMIES, A NUMBER WHICH IS GROWING ALL THE TIME – ACADEMIES NOW EDUCATE MORE THAN ONE IN FOUR OF THE 7.3 MILLION STATE PUPILS.

AS YET, PRIVATE COMPANIES CAN’T PROFIT DIRECTLY FROM PROVIDING EDUCATION, BUT MANY ALREADY HAVE A MAJOR SHARE IN ANCILLARY SERVICES IN THE EDUCATION SECTOR, SUCH AS GROUNDS MAINTENANCE, PAYROLL SERVICES, IT SERVICES, AND (ESPECIALLY THROUGH PFI PROJECTS) IN THE CONSTRUCTION OF NEW BUILDINGS. THE GRACE ACADEMY IN SOLIHULL, FOR INSTANCE, PAID OUT CONTRACTS TOTTALLING £281,000 OVER TWO YEARS FOR PAYROLL AND MANAGEMENT SERVICES TO IM GROUP, A COMPANY OWNED BY THE ACADEMY’S SPONSOR, THE CAR DEALER AND PROPERTY DEVELOPER BOB EDMISTON. SUCH COMPANIES CAN AND DO PROFIT THROUGH LEA PROCUREMENT, BUT THIS IS
at least nominally accountable, unlike with academies where tendering can be influenced by the financial interests of the sponsor and take up a greater proportion of the school’s budget.

But this top-slicing of budgets is likely to be just the preliminary stage, allowing private companies to lever themselves into positions to influence the future direction of travel, including via lobbyists and think tanks. The New Schools Network (NSN), created with taxpayer funding by a former advisor to Gove, offers one such mechanism to direct schools towards “private partners”. But this is far from the only example. For example, Bain & Co consultant Paul Rogers was invited to sit on the DfE’s “progress and challenge committee” to advise on cuts, opening up the prospect that Bain could bid for contracts outsourced on the advice of one of its own bosses. Fellow board members include Tory donors like the venture capitalist John Nash – now Lord Nash – who was also appointed schools minister in January 2013, and is also founder and chairman of academy sponsor Future, which runs schools in London. School and private equity investor Theodore Agnew is advising Michael Gove. There is mounting evidence that right wing outriders such as the Adam Smith Institute, making an explicit case for the government to fully embrace “for profit” providers of state financed education, are setting an agenda which Gove and his department are deliberately working towards.

Details leaked to The Independent by Department of Education insiders suggest that Gove is actively considering making schools into “profit-making businesses using hedge funds and venture capitalists to raise money” and to allow “academy schools who control large sites to be able to sell off or sub-let former council-owned land, with the money used to rebuild or improve schools”. This would be a licence for asset-stripping and private companies cashing in on the value of land which formerly belonged to the public. We have already seen examples of this, with the Education Funding Agency requisitioning land owned by Islington Council without compensation, only to hand it over to commercial (ie. for-profit) company Bellevue Education Limited – a venture capitalist outfit based in Switzerland with a turnover of £3.7m – to create a “free school”.

Academies already enjoy the freedom to determine staff pay outside of national bargaining agreements. Whilst teachers transferred over to academies should have their pay and contractual terms covered under TUPE (Transfer of Undertakings [Protection of Employment]) regulations, this does not apply to new entrants – leading to a two-tier workforce and pressure to “level down”. The fragmentation of schools into competing units weakens the power of teachers to stand up for each other’s pay and conditions and, in some academies at least, the management has sought to keep unions out, denying their ability to organise and recruit onsite or enter into collective bargaining agreements. The motive behind Gove’s wider attacks on teachers’ pay, pensions and conditions becomes clear in this context, since a well-paid professional group acts as both a barrier to these reforms and a brake on the profit margins of the companies who want to run schools for profit.

But for people at the top, academy status can prove very lucrative. As ordinary teachers face a real-terms cut to their wages, academies are hiring more senior managers on bloated six-figure salaries. For instance, at the same time that his staff at Crest Academy in Neasden were on strike over staff redundancies, it emerged that Sir Bruce Liddington, former director-general of the sponsor E-Act, was on a staggering annual package of salary plus benefits totalling £300,000, qualifying him as the “highest paid person in education”! And the greed doesn’t stop there. Liddington resigned from the academy chain in April.
this year, E-Act having become the first sponsor to be given a financial “notice to improve” by the EFA, which reported: “Expenses claims and use of corporate credit cards indicate a culture involving prestige venues, large drinks bills, business lunches and first-class travel, all funded by public money.” It added that expense and card payments by senior managers had “occasionally stretched the concept of propriety and value for money. Controls have been lax and some payments have tended to extravagance.”

Far from acting to punish such greed, Gove has rewarded Liddington by hiring him as an education adviser with the Department for Education!

But what of the central case that academies drive up standards for pupils? There is no reliable independent evidence of this. Of course there are some excellent academies, although this is hardly surprising as they include schools whose predecessors were pre-approved for academy status because they were found “outstanding” in Ofsted reports when under LEA control. And again, we must be careful when analysing measures like exam results, since there is a real danger that these do not reflect the “value added” to the pupils by rising standards, but rather an increasingly restrictive selections policy. Indeed, while academies are still formally subject to centrally determined admissions criteria, they have more freedom to interpret and police their policy on admissions and exclusions. The fragmentation which results from thousands of individual schools each responsible for their own admissions policy means it is harder to regulate and enforce proper standards. The effect can mean an extra burden falls on the other neighbouring schools, while fewer resources are available for the LEA to provide special support, for example to those with special educational needs.

Academies are not obliged to teach the national curriculum, which has given rise to controversial cases, for instance with children being “presented” with creationism as an alternative to scientific understandings of evolution simply because the private sponsor
happens to be a born-again Christian. Mosaica Education Inc, which runs schools from the USA to United Arab Emirates, has a UK subsidiary which initiated the Aurora Academies Trust. Aurora runs four academy schools in Sussex – and receives £100,000 annually to buy in a “patented” global curriculum, which has been criticized by Ofsted for failing to be adequately adapted to the “local” requirements, ie. being suitable for use in British schools. But then standards aren’t always a strong point at schools run by Mosaica. Analysis by Arizona State University demonstrates that of the first 36 schools set up by the company, 27 have since been shut down by local authorities or have ended their association with the company. This record of failure hasn’t stopped the DfE awarding Aurora “lead sponsor” status, giving it influence over future policy and opportunities to take over more schools.

All these problems and more are also inherent in the creation of “free schools”, which are newly founded schools set up to drive competition with existing ones, even where surplus places currently exist. Free schools lack any democratic control and consideration for social cohesion or the viability of other schools in the area where they are touting for business. Teachers are not even required to have teaching qualifications before they are appointed! And despite the rhetoric about these schools being led by groups of parents, inevitably the level of technical detail required means that this is all but impossible without organisational support, which the private sector is already champing at the bit to provide. Little wonder, then, that a Times Educational Supplement analysis shows “Just five per cent of the 102 new free school proposals set to open in 2014 are led by parents”, yet “28 per cent are being established by multi-academy chains while 27 per cent are being set up by existing mainstream schools or academies”.

Evidence from Sweden suggests that private companies profit from their involvement in free schools by cutting corners on school budgets, for example by using unsuitable temporary classrooms, using inexperienced or under-qualified teachers, or not providing sports facilities. The flaws in the Swedish model were highlighted recently when for-profit education provider JB Education collapsed after the private equity firm that owned it refused to cover financial losses caused by falling student numbers, leaving the future of 10,000 pupils in limbo. With the roll out of academies and free schools being pushed so aggressively, this kind of chaos may be coming to a school near you soon.

19  http://www.guardian.co.uk/education/2013/apr/15/children-taught-academies-2-million
21  http://www.adamsmith.org/sites/default/files/resources/ASI_School_report_WEB.pdf
23  http://www.redpepper.org.uk/new-terms-for-teachers/
24  Times Education Supplement, 24.05.13
25  http://news.bbc.co.uk/1/hi/education/4896652.stm
27  http://www.tes.co.uk/article.aspx?storycode=6336273
Higher education

“[We fear] the transformation of self-governing communities of scholars into mega-businesses, staffed by a highly-paid executive class, who oversee the professors, or middle managers, who in turn rule over an ill-paid and often temporary or part-time proletariat of junior lecturers and research assistants, coping with an ever worsening staff-student ratio; …[and the idea] that universities, rather than collaborating on their common task, should compete with one another, and with private providers, to sell their services in a market, where students are seen, not as partners in a joint enterprise of learning and understanding, but as ‘consumers’, seeking the cheapest deals.”

PROF SIR KEITH THOMAS, All Souls College, Oxford University

Labour’s introduction of variable university tuition fees was a critical moment in the development of higher education in the UK, signaling a shift from a model of public support for university students – enabling access on the basis of merit rather than ability to pay – towards an increasing financial dependence on private income streams. As was argued at the time, this was the thin end of the wedge, as students would be turned into “consumers” shopping around for the best deal, with education becoming a commodity subject to price competition. Sure enough, soon after coming into power the coalition promptly raised the cap in order to treble fees, ensuring that for all but the very rich access to higher education would be available only if students incurred debts running into tens of thousands of pounds.

Student debt has become an asset class in itself. When the Student Loans Company was originally founded it was estimated that the cost of having it in the private sector would be “25 to 30% above the cost of keeping loans in the public sector over the lifetime of the portfolio”. But rather than leave this debt in the public sector where it can be serviced most efficiently, it has been turned into what has been described as “really just a kind of PFI financing which, over the long term, as student debt financing is ultimately securitised and spun off to private finance, will create a highly lucrative income stream, guaranteed by the state, but with private actors harvesting interest payments”. Students are now charged
commercial rates of interest, and tranches of the student-loan book are being sliced and diced for sale to big City interests.

Worse still, analysts have assessed that the government’s calculations of defaults on student debt are unreliable and optimistic. This means, as Bahram Bekhradnia, Director of the Higher Education Policy Institute puts it, “if the government spends too much on loans, it will need to recoup the money”. The government, or a future government, might choose to “cut other parts of the higher education budget, which includes research”, or it could “reduce subsidies to students and make them pay even more...[It] is “extremely irresponsible to pass this level of debt on to future governments against highly doubtful assumptions that it will be repaid”.32

But even before any further privatisation of the student loan book, the changes to the funding regime have seen a huge increase in payments to private sector providers of tertiary education. This amount trebled in 2012 alone, and already exceeds £100 million.33 23% of this windfall was netted by just one provider, Greenwich School of Management, owned by the private equity fund Sovereign Capital whose founder has advised the government on public sector “reform”.34 There are already indications that the expansion of private sector provision is undermining standards, with the government forced to admit an increase of a staggering 77% in the number of new courses approved without quality checks in 2011-12. The private London College UCK had 98 new courses waved through in a single day!35

BPP, a private provider of legal and business education, is already entitled to award degrees and has sought to expand by branding itself a “university college” and seeking full university status. Academics working for BPP are on inferior terms and conditions, do not have provision for research and scholarship included in their contracts, lack the guarantees of academic freedom which universities are required to adhere to, and must teach programmes that are not primarily under academic control. If such private providers are used to undermine university standards, this could become the norm across the sector.

Such “supply side reforms” to welcome new entrants are the external face of the marketisation drive, but other dangers are posed via the internal restructuring of the existing public universities. The funding cuts have already seen a 40% cut to their teaching budgets from central government by 2014, with the total withdrawal of the block grant for arts and humanities subjects. This threatens a return to the days when a liberal education was the privilege of a rich elite, with the rest being directed to the kind of vocational courses that are able to attract corporate sponsorship to offset costs. This policy has already seen whole academic departments – such as the highly rated department of philosophy at Middlesex University – forced to close, despite high rates of student applications, because they are seen as no longer financially viable.
University managements have also been encouraged to look at outsourcing a range of operations with the promise (currently on hold) of future VAT exemptions for private companies tendering for such contracts. Given the pressure on university budgets, such outsourcing is seen as a viable way of reducing staff costs by attacking the jobs, pay and conditions of the existing workforce. For example, Sussex University announced that it is to contract out its catering, estates and facilities and management departments, with 235 staff (more than 10% of the workforce) being transferred onto private contracts, resulting in high-profile protests on campus.

At present any overt privatisation of a university would be complicated by the limits imposed by corporate law around their charitable status and their legal constitution under the terms of a royal charter. Nevertheless, we are now beginning to witness attempts to bypass such constraints on charities in favour of more commercially oriented models which allow them to seek private investments. For example, the University of Central Lancashire (UCLAN) in Preston recently sought to change its corporate form to become a company limited by guarantee. The proposals, which have been withdrawn (at least for the time being) following UCU campaigning, would have seen the university remain within a charitable group structure, but it would have been easier for the university to slim down its governance structures and possibly regroup some or all of its assets into a for-profit subsidiary company. A recent UCU report outlines other incursions and attempted incursions from private providers into the UK’s colleges and universities.

Another charitably constituted company limited by guarantee, the private College of Law, was recently snapped up by Montagu Private Equity and – particularly as a more marketised system will see losers as well as winners – this could be replicated in the public sector, with the structural re-engineering of our universities putting our valuable assets at the mercy of private financiers.

We need only look at the US system to see the kind of inequalities and inefficiencies that the commodification of education entails. True, the elite institutions with their own private endowments can protect the “distinction” of their own brands and make access possible via competitive scholarship programmes. But the vision of popular, mass access to higher education is undermined by a system which turns the student into a consumer. Such a system incentivises high levels of spending on marketing to maximise initial recruits over concern for students completing courses successfully. In the run up to the new fees regime, the marketing spend of UK universities rocketed by 22%. Similarly, we know that the need to “keep the customer satisfied” leads to rampant grade inflation, with academic standards taking second place to “through-put” of profitable units. The ethos of the market is totally alien to the idea of the university as an institution which exists to promote education as a common public good.

28 http://www.lrb.co.uk/v33/n24/keith-thomas/universities-under-attack
29 http://www.guardian.co.uk/education/2008/jan/23/studentfinance.highereducation
30 http://www.lrb.co.uk/v35/n02/letters
31 http://www.timeshighereducation.co.uk/features/red-alert/421227.article
32 http://www.timeshighereducation.co.uk/features/red-alert/421227.article
33 http://www.ucu.org.uk/6394
34 http://www.ucu.org.uk/6394
35 http://www.ucu.org.uk/6164
36 BPP is owned by a subsidiary of the US education giant Apollo Inc, which also owns the University of Phoenix in the USA. Phoenix was recently put on notice by its accrediting body following a highly critical recent report.
37 A proposal currently under review: http://www.ucu.org.uk/6556
38 ‘Lost in Translation’ – The internal privatisation of our colleges and universities and the threat to the public interest. UCU May 2013
39 http://www.tcrecord.org/content.asp?contentid=16473
How reassured would you be to know that, in the event of your house going up in flames, a private company like G4S was now responsible for answering your emergency call, for the upkeep of the fire engines, the training of firefighters – perhaps even for tackling the blaze itself? Or that, if yourself or a loved one were ever to be involved in a major national incident like a terrorist attack, the fire and rescue services was now so fragmented between different providers and contractors that a full, rapid mobilisation was practically impossible? Such is the nightmare vision held out by a coalition government pursuing a strategy where cuts to fire service budgets are accompanied by a pressure to move in the direction of full privatisation.

A leaked letter from Tory minister Brandon Lewis to the Regulatory Reform Committee of MPs suggested changes in the law to enable all 46 of the country’s Fire and Rescue Services to “adopt alternative models for the delivery, under contract, for some or all of their services”\(^\text{40}\) a step which would mean that that the work of the fire brigades could be outsourced to private companies looking to make a profit. This would mean cuts to the range and quality of services provided – compromising public safety – and opportunities to cut the pay, conditions and pension entitlements of firefighters. Unsurprisingly, this drew furious opposition and Communities and Local Government Secretary Eric Pickles was forced to deny that the government intends to privatise the service, following pressure from the Fire Brigades Union and some Labour MPs.

But these are weasel words, since the government is still pushing hard the idea of opening up fire service provision to “mutualisation”, which can be couched in the worker-friendly language of “co-ops” and employee ownership on the John Lewis model. But in reality the “public service mutual” model of ownership being considered for Cleveland\(^\text{41}\) is effectively a Trojan horse for the private sector. It requires lifting restrictions protecting the public ownership, integrity and accountability of the service in favour of opening up a fragmented pattern where the service is run by “diverse providers”, code for the profit-making companies who will come in on the back of these proposals. This also represents an
attack on the ability of trade unions to represent their members in national pay bargaining, and threatens to undermine the existing pension scheme.

Efforts to transfer fire service assets and services from the public to the private sector have been underway for some years now. These experiments have already led to some disastrous results. For example, did you know that fire engines in London are now managed and maintained by the profit-making Babcock International Group plc, having previously been acquired by Sir Aubrey Thomas Brocklebank, 6th Baronet of Brocklebank, for just £2, together with an income stream from the taxpayer initially thought to be worth in excess of £200m over ten years? How did this happen? It’s our old friend PFI again. The Greater London Authority chose to flog the fire engines, along with a 20 year lease on the maintenance HQ, as part of a deal where a private company, AssetCo, would be contracted for the future maintenance of the fleet. However, when this company ran into financial difficulties and faced bankruptcy, it sold up its responsibilities under their PFI contract – along with London’s fire engines – for a bargain basement price. Elected politicians, the fire authority and firefighters were not informed of this transfer of ownership, and were powerless to determine whether this was in the interest of public safety. The market alone was to decide.

In the context of continuing savage cuts to the fire service budgets – which saw 1,500 fewer firefighters in 2011-12 alone, along with fire station closures and fewer fire engines and other appliances – local authorities are being pushed towards outsourcing key support services to the private sector. The government-commissioned “Knight Review” concentrates on “efficiencies”. But further cuts would undermine public safety by restructuring the service and axing jobs for retained firefighters – and such an overhaul could also have implications for greater reliance on procurement from the private sector. London was again driving down
this road under mayor Boris Johnson’s leadership of the GLA, with the contract for handling emergency calls having been put out to tender and awarded to Capita, before the plans fell through following the departure of Tory fire chief Brian Coleman last year. Effectively this would have put lives at risk by allowing shareholders of a company with little track record of handling emergency calls to squeeze profit from running the hi-tech Morden control centre, built using taxpayers money, and using equipment also provided by at public expense. Despite the initial setback, the government still hopes to extend this model across the country. Capita has also now taken over the national Fire Service College, which the Tories previously admitted was an “asset of national importance with a world class reputation” in the public sector. A recent critical report into the sell-off highlighted the financial and operational risks posed by transferring this key training facility into the form of a strategic public-private partnership (PPP). 20% of PPP contracts “have either been terminated, reduced in scope, or suffered significant operational and/or financial problems”, a rate even higher than PFIs! The damning findings of the European Services Strategy Unit also highlighted the detrimental impact on pension entitlements that will fall disproportionately on lower paid women and black/minority ethnic workers. It concluded:

“Given the outsourcing track record of relatively small savings, failed expansion or commercial activities of PPP strategic partnerships, the diversion of funding from frontline fire services, the high transaction and contract management and monitoring costs, it is highly questionable whether the LFEPA [London Fire and Emergency Planning Authority] will obtain value for money in a full cost and impact assessment.”

Moreover, it found that the procurement process was deeply flawed since “no service review was undertaken with staff involvement”, and it involved “no options appraisal, no business plan at the start of procurement and no proper oversight and scrutiny”. In other words, this was an ideologically-driven privatisation which does not stand up to closer scrutiny and represents a bad deal for the public. It would not be the first such exercise and is unlikely to be the last. So far, industrial and political action has limited the encroachment of privateers into the fire and rescue service. But there can be no complacency: there are plans to make significant inroads and the FBU will need its allies in the labour movement to resist.

---

44. [http://www.guardian.co.uk/uk/2013/mar/24/fire-brigades-protest-privatisation-999-calls](http://www.guardian.co.uk/uk/2013/mar/24/fire-brigades-protest-privatisation-999-calls)
Local government

It’s a strange form of “localism” that ends up with the majority of local services in the North London borough of Barnet being outsourced to a Capita office in Belfast. But then the rhetoric of “localism” and the “Big Society” is only intended to mask the reality that local government is being deliberately starved of cash. If local authorities are to set legal budgets, they have been left with little choice but to axe some services altogether and outsource as much as possible of what remains to the private sector. The Institute for Fiscal Studies predicts that local authorities will have seen their funds available to spend slashed by 40% in real terms by the end of 2018.51

Given the steep rise in demand for services like adult social care over the period resulting from the growth and increased longevity of the population, the money left over for other services like repairing roads or running libraries or leisure centres by 2020 will have been reduced by 90% in cash terms, according to the Local Government Association.52 Eric Pickles laughably argues that cuts to frontline services aren’t necessary, and that the required savings can be made by measures such as no longer having bottled mineral water at meetings, but the LGA calculates that a funding gap of £16.5bn will have opened up by 2019-20 if cuts continue on the current trends.53

In reality even leading Conservative councillors54 now admit that cuts on such a scale can only have a dire impact on public services. But it is not difficult to see who is benefiting. Analysts Seymour Pierce calculate that since 2008 (the year of the financial crash) the total value for the private sector of council contracts has increased by 140% to £12.9bn in 2012, accounting for 63% of all public sector outsourcing.55 In fact, according to YouGov research for Interserve, outsourced contracts already account for 26% of all council services, projected to rise to 32% by 2014-15.56

But some councils will go far further, with “councils who need to make greater than average savings (over 25 per cent efficiency savings) or have larger budgets (over £100 million) planning to outsource up to 60 per cent of all their services.”57 Most worryingly of all, 38% of the council executives interviewed thought “no service was unsuitable for outsourcing, including those previously sacrosanct such as children’s services and public
protection".\textsuperscript{58} Nothing is off-limits to private profiteers.

The most dramatic example of this fire-sale of local public services is the “One Barnet” model mentioned earlier. The idea was that the borough would become the first “no-frills” council, modeled on budget airlines such as Easyjet, where the council itself will offer the bare minimum – basically confining itself to commissioning and procurement – while the rest of the services are privatised \textit{en masse}, in contracts valued in excess of £1bn. The scheme goes far beyond sharing “back-office” operations and means the council will in effect no longer directly provide key frontline services.

The first such contract, the New Support Customer Services Organisation (NSCSO), is for back office services such as finance, revenues and benefits, estates, IT, HR and payroll, etc. It is estimated to be worth up to £750 million, and was awarded to Capita, meaning that approximately 520 Barnet Council employees will now have a new employer, and 57\% of staff face redundancy as local jobs are exported to Belfast, Blackburn, Bromley, Carlisle, Darwen, Sheffield, Banstead, Swindon or Southampton.\textsuperscript{59} Some localism!

A further contract for Development & Regulatory Services (DRS) – which covers trading standards and licensing, land charges, planning and development, building control and structures, environmental health, highways strategy and traffic, strategic planning and regeneration, and cemeteries and crematoria – is worth up to £290 million pounds and covers a further 300 employees. This contract is set to be put out to tender if attempts to have the first contract overturned by judicial review fail.

The “One Barnet” plans differ from standard outsourcing arrangements as the private company will have significant operational independence over how services are provided, as long it agrees to meet broadly defined outcomes. As detailed analysis of the plans
by the Association for Public Service Excellence (APSE) argues, the commissioning model assumes a very high level of technical competence when it comes to aspects of procurement such as the drafting and monitoring of contracts. The report points to the potentially “catastrophic risk of failure” given the critical nature of the services involved, and points to the poor recent record of Barnet Council in this regard, citing a highly critical Audit Commission report into the handling of security services contracted to the private company MetPro, which stated that “there is an absence of signed contracts and sound contract management generally across the council”.

Since the taxpayer is locked into 10 year contracts with the private providers, this also raises serious questions about the ability of the council to resume the direct provision of services should this risky experiment lead to catastrophe, since so much public sector capacity will have been lost by that stage. Should this “billion pound gamble” be lost, Barnet residents might be exposed to disastrously failing services or unexpected over-spends for a decade, from which the council could never fully recover.

Still, where some see a looming catastrophe, others see the chance of a profit. And this even includes some local authorities themselves, such as Kent County Council, which has developed a Commercial Division which sells a range of services “from pest control to fencing and criminal records checks” to other public bodies at a commercial rate. Its supporters argue it already has turnover of £400m and makes an annual profit of £7m and are seeking greater “commercial independence” from the government, which would see councils operating like private firms and further seeking to drive down costs by sacking workers and undermining existing pay and conditions. Still, if you can’t beat ‘em, join ‘em?
The government’s use of private sector organisations as intermediaries in the welfare system means that large profit-making corporations now stand to receive a large payout from the taxpayer for reducing people’s benefit entitlements. It has also led to serious distress for people who, through no fault of their own, need support because they have a disability or are having difficulty finding a job at a time of high unemployment.

**Work Programme**

Building on plans first introduced by James Purnell under the previous Labour government on the advice of Lord David Freud (now a Tory), the coalition government introduced the “Work Programme” scheme where private sector providers would be paid for finding work for people claiming Job Seekers Allowance (JSA) or else require them to undertake unpaid “work experience” placements, often for highly profitable private companies like Poundland or Asda. There is no guarantee of a job at the end of it – merely an interview – but throughout the individual is threatened with “sanctions” (ie. their benefit being stopped) should they withdraw.

Despite government rhetoric about involving the third sector through local voluntary organisations or social enterprises, the scale of the contracts involved mean that the field of prime contractors is overwhelmingly dominated by big private companies – they were awarded 35 out of the 40 contracts put out to tender, including such multiple beneficiaries of outsourcing such as G4S and Serco. The House of Commons Work and Pensions Select Committee was critical that the “payment by results” model means that these companies have been involved in so-called “creaming and parking”, or concentrating on the most readily-employable minority of individuals while effectively abandoning the rest as too difficult.

The most notorious Work Programme contractor was A4e, which was eventually stripped of its contract after a blaze of bad publicity. This was a company with a turnover...
of £230m, all of which was based on government contracts paid by the taxpayer. The company paid out £11m in dividends to just five shareholders in 2011, with 87% of this windfall going to the company’s Director Emma Harrison (£8.6m of taxpayers’ money in a single year). It paid out a further £4.7m in executive pay. The company was awarded a share of the £5bn Work Programme contracts despite its performance as a contractor for the previous “Pathways to Work” programme being heavily criticised by MPs (“abysmal” was the verdict of Margaret Hodge). A4e had succeeded in getting just 9% of claimants into paid work, compared to the government’s expectation of 30%. However, in tendering for the new Work Programme contracts, Whitehall officials were not able to take this disastrous performance into account, since other companies competing for the contract had no direct experience whatsoever in this field so relevant comparators were not available.

By contrast, the existing public sector staff in Jobcentre Plus – who have consistently outperformed private and voluntary sector comparators in getting people back to work – were barred from bidding for any contracts under the Work Programme!

The full extent of the A4e debacle would only emerge in 2012, with former employees claiming that the company “routinely fabricated results to get payments”, while claimants alike would complain of a culture of bullying and manifestly inadequate support.

**Work Capability Assessments**

Another beneficiary of government welfare contracts is Atos, a French multinational with annual revenue of 8.8bn euros, and which already enjoys a number of other lucrative government contracts for IT and healthcare services. Atos, which was awarded the contract in 2008, enjoys a near-monopoly status for the outsourced “Work Capability Assessments”, where people who have previously received Incapacity Benefit are reassessed for eligibility for the new Employment and Support Allowance, or found fit for work using an IT-based “tick-box” system. Atos received £112.4m in 2011-12 alone for carrying out 738,000 such assessments. Farcically, 31 of Atos’s 123 assessment centres lacked ground-floor access for wheelchair users, meaning that thousands of disabled people were physically unable to attend the assessments to which they had been summoned! But where assessments did take place, they frequently came to the wrong conclusions. 38% of its initial decisions were overturned on appeal, but as the Public Accounts Committee of MPs has concluded, such “poor decision making causes claimants considerable distress”, and the position appears to be getting worse, with Citizens Advice reporting an 83% increase in the number of people asking for support on appeals in the last year alone and saying the “process has a disproportionate impact on the most vulnerable claimants”.

MPs were also told that “1,300 people had died after being placed in the ‘work-related activity group’ for those currently too ill to be employed but expected to start preparing for an eventual return to work” while “2,200 died before the assessment process was completed”. This has involved cases where terminally ill people have been found “fit for work” and died before an appeal could be heard. In addition, 6% of doctors have experienced a patient who has attempted – or committed – suicide as a result of “undergoing, or fear of undergoing” the Atos tests.

MPs were also highly critical of the way that the DWP handled the outsourcing of the scheme, finding that the department does not know how much the high level of appeals is adding to its own administrative costs, and has failed to guarantee an effective competition for the contracts, being dependent on a single supplier for all the medical assessments...
The contract having only ever changed hands because of a company takeover. They also found “no evidence that the department was applying sufficient rigour or challenge to Atos” before offering the damning verdict that “we are concerned that the profitability of the contract may be disproportionate to the limited risks which the contractor bears”. While the contract is a guaranteed supply of easy money for Atos, there is no indication that its involvement is benefiting the taxpayer – but plenty of evidence that peoples’ lives are being made a misery.

These are just two of the most high-profile examples of the increased role of the private sector in the administration of welfare. The outsourcing of core civil service functions previously provided by DWP staff is now increasingly widespread. For example in 2011 the coalition announced that it would privatise the call centres responsible for handling claims for winter fuel payments (now run by Ventura) and reports of benefit fraud (handed over to Vertex), while in 2012 it announced that elements of online handling of Job Seekers Allowance (JSA) claims would be handed to Capita. This entails handing access to highly sensitive personal data to private companies, while also undermining the ability of public sector workers to be given alternative, non-telephony duties if they require “reasonable adjustment” to their roles, a statutory obligation for employers of disabled workers.

In early 2012 the government awarded year-long “trials” for two private companies – Sitel and Teleperformance – to run HMRC call centres handling tax credit enquiries. This meant that “on the basis of working a 35 hour week, a Teleperformance call centre advisor working on an HMRC contract will earn £14,500 per year or just over £900 a month to
answer complex tax queries. These workers will earn at least £3,300 less than their HMRC counterparts for doing the same job", while “Sitel call centre advisors in Bathgate will earn just £6.50 per hour for carrying out the same role”. But given the previous track-record of Teleperformance – a global giant in the outsourcing industry, which was the subject of a critical Mail on Sunday investigation into its use of poorly trained volunteers to staff an emergency medical hotline – we can hardly be confident of its ability to deliver accurate advice. Many “customers contacting Bathgate and Lilyhall will be from low paid, vulnerable backgrounds”, relying on HMRC contact centres “to help them calculate complex tax and benefit credit entitlements”. It is thus all the more essential that companies looking to squeeze big profits from delivering such services are not able to undermine the efficient and professional service currently delivered in the public sector.

The danger is all the more serious with the forthcoming consolidation of benefit payments into the single Universal Credit. There have already been reports that the DWP is set to offer six private companies – including G4S – a share in contracts worth £150m over four years. Meanwhile the contracts for the IT system responsible for handling this complex series of adjustments have included a deal with IBM (which already handles the department’s financial and HR applications) in a deal worth £525m, with the option to extend this for a further three years taking the total cost to £750m. Nevertheless, given the notorious record of failed IT procurement projects, it remains highly questionable whether the government will be able to ensure that the private contractors involved deliver on time and on-budget. MPs have already expressed fears that the project will turn out to be a fiasco reminiscent of the project to modernise the IT system in the NHS, which eventually had to be scrapped even though it had cost the taxpayer £12bn. Far from risk being borne by the private sector, it is the taxpayer who is expected to bear the costs of failure.

http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718i.pdf
http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718i.pdf
http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
http://onlineprotestagainstworkfare.wordpress.com/2012/03/13/a4e-from-a-clients-perspective/
http://www.net-en-us/about_us/default.htm
http://www.redpepper.org.uk/atos-tick-box-tyranny/
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/744/74403.htm
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/744/74403.htm
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/744/74403.htm
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/744/74403.htm
http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/744/74403.htm
http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
64 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718i.pdf
66 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718i.pdf
67 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
68 http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
69 http://www.guardian.co.uk/politics/2012/feb/09/a4e-welfare-to-work-contract
73 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
74 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
75 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
76 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
77 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
78 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
79 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
80 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
81 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
82 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
83 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
84 http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html
The idea that G4S – the organisation whose incompetence at providing Olympic security nearly led to catastrophe for the Olympics – should be rewarded by taking over a whole host of policing functions sounds like a joke. But this is becoming the scary reality of government plans to outsource what it terms “back office” functions in the police as a response to cuts in police budgets. In the West Midlands, 50 private security staff recruited by G4S now carry out criminal investigations for the CID department, replacing work previously done by police – “helping with house-to-house inquiries into burglaries, car crime and robbery, giving evidence in court” and undertaking what is being described as “sensitive high-profile cases under limited supervision”.85

Such outsourcing is now encompassing a series of services critical to the effectiveness of frontline policing – such as “scenes-of-crimes officers, call-takers and dispatchers, sex-offender managers, detention officers, front-office personnel, police community-support officers, drugs-referral workers, arrest-referral officers and firearms-licensing staff, and people who look after victims of crime”.86 Indeed, although the plans have since been withdrawn, the Chief Constables of West Midlands and Surrey were proposing to see “up to 90 per cent of all police work privatised with contracts worth £1.5bn over seven years, rising to a possible £3.5bn, depending on how many other forces get involved”.87 Essentially, apart from the power to arrest, all other aspects of police work would have been transferred out to private companies. Although the resulting outcry has seen the proposals taken back off the table for now, the direction of travel is clear – sacrificing public accountability for policing to companies whose legal duty is to maximise shareholder dividends.

Similarly, the decision to privatise forensic science testing and close down the national Forensic Science Service (FSS), which previously carried out 60% of all such work – leaving Britain as the only major developed nation without such a national service – “is leading to catastrophic failures” according to Professor Peter Gill, the pioneer of mass DNA profiling.88 Gill left the FSS in 2008, when it was already clear that the drive towards “commercialisation” of the service was seriously undermining the quality of its work. The leading private testing centre, LGC, was responsible for a series of high-profile mistakes,
including the contamination of samples in its labs. “In one rape case it led to a false finding linking an innocent man to the crime scene.”

A poll of forensic science experts for *New Scientist* magazine found that 92.3% of respondents thought the impact of the FSS closure on the criminal justice system would be negative, whilst more than three-quarters (76.4%) expected miscarriages of justice to increase under the new outsourced system.

The policing of the immigration system is another lucrative area for private companies. Capita was awarded a contract by the soon to be abolished UK Border Agency (UKBA) for a four-year IT contract aimed at removing up to 150,000 people who have overstayed their visas, worth £30m. However, it emerged that the “process management” for which Capita was so amply rewarded just amounted to using the UKBA’s own database to text, email or call those suspected of no longer having right to remain and updating the database, leading the chair of the Home Affairs Select Committee of MPs, Keith Vaz, to describe the contract as “money for old rope.”

Yet despite the very basic nature of the task, it emerged that Capita sent out thousands of text messages in error over the Christmas period to people who were here legally, telling them that they had to leave the country and no longer had right to remain. As a result of this incompetence, the Immigration Law Practitioners Association was inundated with calls from people in a state of “distress and confusion” after receiving the alarming messages. Similarly, Serco, which runs the immigration removal centres at Colnbrook and Yarl’s Wood, had a complaint referred to the General Medical Council for the inadequate standards of healthcare it provided, and was accused of violently assaulting women who had been
driven to stage a hunger strike to protest against the inhumane treatment they were receiving.94 Meanwhile, in July 2013 an inquest into the death of Jimmy Mubenga following an attempt to deport him back to Angola found that G4S security guards had “unlawfully killed” him by restraining him with unreasonable force, having previously shared “very racially offensive material” between themselves.95

Yet another tale of private sector incompetence in the justice system is that of the privatisation of court interpreters, following the Ministry of Justice’s decision to hand a five-year contract to Applied Language Solutions (since bought out by Capita), designed to save £15m a year.96 An inquiry by MPs found that ALS/Capita “paid lip service to the regulatory duties” it had signed up to deliver, and “did not have the capacity to cope with complaints or to implement basic vetting procedures.”97 In order to maximise its profits, the company undermined the pay and conditions of interpreters, with one telling the Guardian, “Interpreters were getting £30 an hour before, for a minimum of three hours, now they are offering them £16-£22, no travel for the first hour and petrol of 20p per mile. Interpreters are not going to work on these low rates and this is going to affect the quality of interpretation”.98 Up to 60% of professional interpreters began to boycott the new company, leading to court cases being abandoned at considerable expense because no translator turned up. In fact they managed to successfully provide translators in just 58% of cases when the target set by the government was 98%.99

In another case, an ALS interpreter mistranslated “beaten” as “bitten” and the judge had no choice but to order a retrial, costing up to £25,000.100 To highlight the inadequacy of the vetting process, one woman even managed to register her pet rabbit Jajo, who then “received emails from the firm welcoming him aboard as a translator – and inviting him to an online seminar to learn more about his role”!101

But this is just the tip of the iceberg. For example, the coalition now plans to transfer responsibility for the enforcement and collection of fines from magistrates courts from the HM Courts and Tribunals section of the civil service to profit-driven private companies, with the likelihood that these companies will “cherry pick” those cases which are easiest to collect, or rely increasingly heavily on the poorly regulated private bailiff industry, leading to harassment and anxiety for those least able to pay.102

---

86 http://www.mirror.co.uk/news/uk-news/privatisation-of-our-frontline-services-how-police-1385838
87 http://www.independent.co.uk/news/uk/crime/privatisation-is-a-catastrophe-warns-godfather-of-forensics-7606789.html
88 http://www.independent.co.uk/news/uk/crime/privatisation-is-a-catastrophe-warns-godfather-of-forensics-7606789.html
89 http://www.newscientist.com/article/mg21328514.600-forensic-failure-miscarriages-of-justice-will-occur.html
90 http://www.theguardian.co.uk/2010/mar/22/yarls-wood-doctors-investigation
91 http://www.corpwatch.org/article.php?id=15819
93 http://www.guardian.co.uk/uk-law/2012/mar/02/interpreters-courts-protest-privatised-contract
95 http://www.bbc.co.uk/news/uk-england-london-17709440
96 http://www.publications.parliament.uk/pa/cm201213/cmselect/cmjust/645/64503.htm
97 http://www.mirror.co.uk/news/uk-news/privatisation-of-our-frontline-services-how-police-1385838
98 http://www.theguardian.co.uk/uk/2010/mar/22/yarls-wood-doctors-investigation
99 http://www.interpreteraction.org/outourcinginterpreters/
100 http://www.bbc.co.uk/news/uk-england-london-17709440
101 http://www.kidderminstershuttle.co.uk/news/10201158.Court_staff_protest_against_privatisation_fears/
Ensuring that the public is kept safe from convicted criminals including murderers and rapists, and that prisons are run in a humane and orderly way, are tasks that require an exceptional degree of care. When the bungling G4S was awarded the contract to run Britain’s first ever private prison in the 1990s, HMP Wolds, even the then shadow home secretary Jack Straw said it would be “morally repugnant” to treat the incarceration of prisoners as a cash cow to milk for profits (though he would later abandon any such principled opposition in office). But today, according to Juliet Lyon of the Prison Reform Trust, Britain has “the most privatised prison system in Europe” with 12,872 prisoners or 15% of the prison population managed by just three companies – G4S, Serco and Sodexo. This even exceeds the USA, where privately run prisons account for around 9%.

Last year G4S was stripped of its contract for HMP Wolds following a critical inspection which found “clear weaknesses” including high levels of drug abuse, while a further three prisons which had also been tipped for privatisation (Coldingley, Durham and Onley) were also kept under public control as the government was forced to admit this was better value for money. This temporary setback caused consternation among the big three companies, as well as others such as Mitie and Inserve who fancied bidding for a piece of the pie. It had been expected that a further nine prisons a year would be privatised until 2015, under contracts worth £1.1bn annually. These privateers squealed that they had spent between six months and a year putting together bids (with all the cost this implies). This only serves to highlight how inefficient and costly is the whole process of tendering out services to private contractors, with official estimates of the total cost of tendering, market testing and transition to new management standing at £10.7m, public money which could otherwise be invested in effectively managing our prisons.

Yet the decision to retain four of the nine prisons in this year’s round still means a further five prisons are to be privatised (Castington, Acklinton, Moorland, Hatfield and Lindholme). Still worse, £450m worth of contracts to provide “ancillary services” to all 120 prisons in England and Wales will be outsourced, meaning that in the majority of our prisons only “core custodial functions” will be left in the public sector. Even this wasn’t enough to please the
right wing think-tank Reform, which published a report advocating the total privatisation of the prison service, citing crude and misleading figures which they claim show that levels of re-offending are lower in privately-run jails. Even Tory prisons minister Jeremy Wright attacked its “simplistic” analysis, which failed to take into account differences in categories of offenders, social and economic differences between probation areas, the contribution of differing local probation services and the effect of prisoners transferred between jails. In fact, in some areas statistics suggest that private sector prisons are doing considerably worse in terms of re-offending rates than their public sector counterparts. Likewise their claim that private services cost less per prisoner, which they attempt to justify using data from 1998, is also flawed and unreliable since it fails to take adequate differences in the category status of the respective prison populations which makes possible lower levels of security and hence staffing.

But let’s look at what we do know about private prisons. The Prison Reform Trust note that “they have held a higher percentage of their prisoners in overcrowded accommodation than public sector prisons every year for the past 14 years. In 2011-12 the private prisons average was 30.2%, compared to an average of 23.3% in the public sector.” Perhaps this is among the reasons why public sector prisons are five times more likely to perform well on assessment for safety than their private counterparts, a situation also exacerbated by the relative inexperience of private sector staff. Given the fact that in 2011 the average gross salary for a private sector prison officer was 23% less than the public sector equivalent’s, it is hardly surprising that the skill-level of privately-employed staff is correspondingly lower. In one incident in Birmingham Prison, managed by G4S, “prisoners were locked in their cells
for almost a day after a set of keys fitting every cell door went missing. The cost of fitting new locks to the cells, doors and gates was estimated to be £250,000.”

Even *The Economist* has recognised that prison privatisation creates “perverse incentives” to pile up profits rather than the operate in the public interest.

Not content to privatise the prisons, the government now seeks to profit from the labour of prisoners – using forced labour to undermine the jobs and pay of workers in the outside world. The Prison Industries Unit, which helped to provide inmates with experience of work to help with their rehabilitation, has now been rebranded as One3One Solutions (named after the total number of prisons) and expects to increase revenues to £130m by 2020. One3One has then been marketed to private companies who are offered “a workforce of motivated prisoners” capable of building “outstanding business relationships with you”. Companies involved in the scheme pay prisons the equivalent of around £2 an hour for prisoners’ labour, with only a fraction of that amount being passed onto the prisoners, who earn well below national minimum wage from being put to work inside. *The Independent* reported that companies involved include tool-hire firm Speedy Hire and Calpac, a food packaging company. Speed Hire is said to have

“reduced its workforce by 800 and closed 75 depots in 2010. It has since increased the size of its prison contract – to service the machines it hires out – by around 10 per cent, paying Erlestoke, Garth and Pentonville prisons £114,012 for the services of almost 100 prisoners during the 2010-11 financial year.”

while

“Calpac, a food packaging company, increased its contract with Kirkham prison from £34,321 in 2010 to £154,267. The company payroll showed that the highest-paid job is office manager – £40 for a 40-hour week. A ‘manual packing operative’ was paid just 55p an hour. The payroll shows that many of the prisoners work overtime, taking them up to 60 hours a week.”

Ken Clarke expressed delight with this scheme, and announced his intention to double the number of prisoners “employed” like this by 2020. But it is not only exploitative of prisoners but also uses their labour to undercut general levels of pay, bypassing the minimum wage. Morally repugnant indeed.
The probation service plays a vital role in helping offenders manage the transition between serving a custodial sentence and re-adapting to life in the outside world, helping to equip them with life-skills which mean they don’t return to criminality. The modern Probation Service in England and Wales was established over a century ago as a publicly owned and accountable body to fulfill precisely this purpose. But how is it performing? Well, last year it was awarded the British Quality Foundation Gold Award for Excellence, and all 35 Probation Trusts which together make-up the service were graded as offering “good” or “exceptional performance” by the National Offender Management Service.

The government fails to acknowledge that the prolific rate of reoffending only applies to those adults in the short term custodial community who are not seen by the Probation Service, as opposed to the 5.6% reduction in reoffending rates by those who they do supervise.

But these inconvenient facts have not stopped the Tory justice secretary Chris Grayling from arguing that a “rehabilitation revolution” is required to radically overhaul the system to bring down “shamefully high” rates of reoffending. Yet, as Grayling presumably knows, the high-levels of reoffending seen among adult prisoners who serve terms of 12 months or less has nothing whatever do with the standard of probation services, since the Probation Service has no statutory role in such cases. Instead, the proposals contained in the Offender Rehabilitation Bill to privatise up to 70% of the service are motivated by the ideological drive to open up markets from which the private sector can profit.

Among the aspects of probation to be contracted out to private companies, voluntary sector bodies or staff mutuals would be the running of unpaid “community payback” work programmes, electronic tagging and monitoring, running rehabilitation programmes and supervising some categories of offender on release from prison. Although for the time being the most serious cases will not be outsourced, nevertheless the new procurement process would cover work with 2,300 sex offenders, 3,200 gang members and 29,800 people convicted of violence against the person. 80% of further serious offences are committed by such “low or medium-risk offenders.” Any Olympic-scale disaster resulting from work...
awarded to G4S would thus have alarming implications for public safety.

Probation professionals are aware just what difficulties are likely to arise from introducing such fragmentation into the system and involving providers lacking the years of experience and particular skills that such sensitive work demands. The previous experience of outsourcing the provision of bail hostels to the private sector already stands as a dire warning of what could result. In 2007, ClearSprings was awarded the contract to provide 1,000 bail beds:

“The company had no previous experience of working with offenders, but had run caravan parks in Essex...The contract quickly ran into difficulties. The Ministry of Justice was soon inundated with complaints from MPs and members of the public about anti-social behaviour on the premises, further crimes and lack of supervision. In many areas local residents found out about the hostel only after it was opened and subsequently complained about rowdy behaviour or drug taking. There did not appear to be routine consultation with police, probation or local authorities about the siting of the hostels. Not surprisingly the contract was eventually taken away in 2010.”

Such an experience hardly lends confidence in the ability of private companies to supervise offenders. Similarly, there is little evidence that the increasingly widespread use of electronic tagging has been more effective in reducing levels of reoffending. But if we recall the incident where a prisoner escaped when bungling G4S security staff applied the monitoring device to his false leg, the claim that the private sector is better able to recruit staff with the necessary skills and experience to deliver better outcomes sounds
Much probation work requires multi-agency involvement and the systematic case-monitoring across relevant bodies allowing identification of where rapid intervention is necessary. Where these services are split up and divided out to a myriad of contractors, this is likely to significantly increase the barriers to such communication and delay response time. It also pays little heed to the dynamic nature of cases, where offenders initially deemed to pose low or medium levels of risk need to be rapidly treated as more serious. Andrew Hillas, Assistant Chief Officer of the London Probation Trust, has spoken of the “significant scope for confusion and chaos”\textsuperscript{123} entailed by the proposals, while Geoff Dobson of the Prison Reform Trust has warned that the new system “could be a bureaucratic nightmare, with public safety under threat”.\textsuperscript{124}

The complexity of the privatisation proposals is further complicated by the government’s introduction of a “payment by results” (PbR) model, where the contractor only receives payment if it meets certain performance targets. Despite the promise of a funding pool available to voluntary organisations, the reality is that this system will require very substantial amounts of start-up capital, and – given that the proposals rule out the Probation Service being able to tender for the work – this effectively ensures that probation will be dominated by big corporate providers like G4S or Serco. Further, as with A4e’s performance as a Work Programme contractor, a rushed PbR system can result in firms choosing to “cherry-pick” easier cases and manipulate performance data.

In any case, it will be hard for the public to access reliable information on the performance and value of private contractors, since procurement laws allow big companies to hide behind the cloak of commercial confidentiality. It becomes hard to access information which would identify where profits and share dividends are acquired as a result of lower investment, recruiting fewer staff and offloading less profitable work back to the public sector. Grayling himself acknowledges that privatisation will not lead to a “dramatic drop” in reoffending, and has yet to provide credible evidence for his assertion that it will lead to steady improvements.\textsuperscript{125} Instead, he is taking a giant risk with public safety which previous experience suggests could end in disaster.
Nowhere is the abject failure of privatisation more evident than in the case of the railways on mainland Britain. Even the government-appointed advisor Sir Roy McNulty had to acknowledge that the current system is around 40% less efficient than European comparators, most of which are wholly or predominantly publicly-owned. This is largely due to the degree of fragmentation that privatisation introduced. A complex structure separated responsibility for maintenance of the track (initially with private Railtrack shareholders, subsequently brought back under the control of the not-for-profit Network Rail) from the operation of passenger services (run by a variety of different train operating companies competing for a number of franchises), and using rolling stock which must be leased in turn from separate rolling stock operating companies (ROSCOs).

The recent chaos over the West Coast main line franchise – where Virgin was initially thought to have lost out to First Group before errors emerged in Whitehall calculations, costing the taxpayer at least £50m even before counting the knock-on costs of delays to investment and refunds to other franchise competitors – is just the latest example of inefficiencies which are now endemic across the industry. An effective rail system allows decisions to be made in the interests of the system as a whole. However the current involves a complex web of subcontractors and needless duplication of administrative, accounting and marketing functions, and fosters adversarial relations between competing bodies with differing priorities. Quite apart from the disruptive effect on performance and investment, it has also led to spiraling costs.

Far from having reducing levels of public subsidy – as supporters of privatisation promised – support from the taxpayer has more than doubled from £2.4bn (in the five years running up to privatisation, 1990-1 to 1994-5) to £5.4bn per year (from 2005-6 to 2009-10). If we strip away costs related to the scale of operations, analysts calculate that privatisation has cost at least £1.2bn every year even on a conservative estimate, amounting to a staggering £11.3-11.7bn on a cumulative basis. This figure is comprised of the costs of readying the system for privatisation (including huge under-valuing of the ROSCOs and transfer of liabilities to the taxpayer in order sell-off Network Rail); fragmentation costs,
including the operating margins of train operating company/ROSCO subcontractors; the extra cost of interest payments incurred though keeping Network Rail borrowing off the government balance sheet; and, of course, the considerable leakage out via dividend payments to the train operating company/ROSCO shareholders, which amounts to £434 million a year.

Having already been forced to pay more through their taxes, rail passengers have also suffered from a hike in fares as a result of privatisation. Rail fares have been increased above the level of inflation in each of the last ten years, meaning that “Britain has Europe’s highest commuter fares for both day returns and season tickets; and for the price of a completely restricted advance purchase ticket in Britain, a passenger could generally get a fully flexible ticket in other European countries.” Indeed, figures produced by the Hay Group suggest that for some low paid white-collar workers a season ticket now costs the equivalent of 23% of their gross salaries.

But don’t expect to get a seat in one of these commuter trains. For example, the 07.44 service from Henley-on-Thames into London – which costs £3,338 annually for a season ticket – runs at an average “load factor” of 180%! Train operating companies have little incentive to avoid such “cattle class” conditions if it threatens their profit margins. The government’s response to this conundrum is to introduce new “ultra-peak” fares, adding further complexity to an already confusing system of tariffs, and pricing out less affluent commuters.

Perhaps most seriously of all – for passengers and workers alike – has been the way in which commercial interests have been prepared to undermine safety standards in the pursuit of profit. Railtrack, the private company set up to oversee maintenance of the track,
signals and stations, is believed to have engaged over 2,000 separate subcontractors on the maintenance side alone, and consistently failed to respond to the demands of the rail regulator. The Hatfield rail crash in 2000, which resulted from critical fatigue causing the rails to crack, highlighted the widespread failure of Railtrack’s stewardship of rail infrastructure. The blanket speed restrictions and track maintenance programme belatedly rolled out after Hatfield caused significant disruption to the network for over a year, and the resulting public disquiet and regulatory intervention triggered a collapse in Railtrack’s share price, leading ultimately to the company going into administration. As former chief executive Gerald Corbett would frankly admit: “There is a tension between shareholder interests and public service obligations...the only way we can make profits is by not doing the things we should do to make the railways better.”

The rail infrastructure has since been brought back “in-house” under the management of the “not-for-profit” company Network Rail, which announced that it would no longer use private contractors for routine maintenance following the Potters Bar rail crash of 2002, for which Jarvis would eventually admit liability. So, too, following the failure of National Express to turn a profit and still deliver on the terms of its franchise, East Coast trains are now delivered by an arm of Directly Operated Railways, a company set up by the government to run the service in the public interest. But with the coalition planning to re-tender the franchise to the private sector it is evident that the public purse takes all the risk where the private sector flops, with the corporate shareholders left to pocket any profits.

It is therefore little wonder that opinion polls show support for taking the whole rail system back into public ownership running at around 70% (even up to 90% in some online polling). The public clearly believes that rail should be run accountably, and operate in the public interest, not to swell the bank balance of billionaire bosses like Richard Branson and his ilk.
The disastrous public-private partnership (PPP) experiment on London Underground – the brainchild of Gordon Brown and John Prescott – repeated in reverse the pattern of the national rail debacle, seeing the infrastructure fragmented into three contracts run by private operators while London Underground would retain operational responsibility for running passenger services. The complexity of these “innovative” arrangements meant that the scheme – planned on the basis of 30-year contracts – cost at least £450m just to set up.\(^\text{133}\)

The two winning contractors – Metronet and Tube Lines – were in effect not single companies but “special purpose vehicles” created by a consortium of corporate interests to ring-fence risk. Metronet shareholders included Balfour Beatty, EDF Energy and Bombardier, whilst Tube Lines combined Jarvis, Bechtel and Amey. The argument that they would guarantee increased investment and eliminate the need for public subsidy was always highly dubious. Sure enough, even by 2005 it was evident that the burden on the taxpayer of maintaining and upgrading the tube infrastructure rose to over £1bn more than under the model of direct government borrowing.\(^\text{134}\) Indeed, the argument that the PPP “transferred risk” to the private sector was soon refuted when it emerged that the government needed to underwrite all but 5% of the funds borrowed by these infrastructure companies (“infracos”).\(^\text{135}\) In effect, this meant a guarantee of risk-free profits for shareholders.

The scheme not only cost far more, but in practice delivered chaos to the network. Whereas the infracos benefited from saving money from closures at weekends, the operator faced passengers angry at cancellations and delays. The ongoing tensions between the “infracos” and London Underground as the operator would produce mammoth over-runs on essential upgrading, further exacerbating costs and frustration for passengers. Moreover, the likes of Jarvis and Balfour Beatty – who were responsible for endangering passenger safety on the national rail infrastructure – were able to profit from cutting corners on tube maintenance. Underground workers reported “derailments, falling maintenance levels, confusion and communications breakdown”.\(^\text{136}\)

When Metronet went into administration in 2007, the taxpayer was forced to ride to
the rescue with a loan of £1.7bn to keep the network from grinding to a total halt, with Transport for London (TfL) taking over track maintenance for two-thirds of the network. The National Audit Office estimated that the taxpayer had to fork out up to £451m extra to cover work Metronet had already been paid to complete before its collapse, concluding “its poor corporate governance and leadership meant that it could not manage its shareholder-dominated supply chain.”

In 2010 the PPP was finally wound down, with TfL buying out £310m of shares from Tube Lines, transferring all track maintenance back in-house. The part-privatisation of the tube network, which was meant to secure a world-class underground infrastructure over three decades, ended in total disaster inside just eight years.

### Roads

Given the disasters arising from private companies managing essential transport infrastructure, there’s every reason to worry about David Cameron’s plans to lease out responsibility for maintaining motorways and major trunk roads to private companies, which as Prof Tony Travers (LSE) suggests is based on “contracting out public services in exchange for a payment…just like PPP or PFI” but with the additional possibility of receiving shadow tolls (paid by the government according to the volume of traffic) or by allowing private firms to charge tolls directly where new roads are built or existing roads have been widened to include new lanes. As ever, hopelessly optimistic assessments of the potential benefits are being thrown around, with the think-tank Civitas even suggesting it would lead to a £100bn windfall for the Treasury. But the experience of PPP on the tube is hardly one to replicate on Britain’s road network. It could lead to increased congestion for those unable to afford tolls, and greater risk for the travelling public, the taxpayer and the environment.
**Buses**

Given the extortionate fares on the buses and the costs of keeping a car on the road, bus travel remains vital for around one in three householders who don’t own a car. Yet since the bus market was deregulated in 1987 – opening the way for the domination of the market by large private operators – fares have sky-rocketed. Analysts calculate that average bus fares increased by 60% in real terms from 1985 to 2010, and over 100% in the six English metropolitan areas. Nor has this process stopped. Last year alone hard-pressed bus passengers have been hit by a 6.5 per cent fare increase, over twice the rate of inflation, while 1,300 bus services have been reduced or cut since May 2010, largely as a result of cuts in public subsidy and local authority funding. The market is now so dominated by just five companies – Arriva, FirstGroup, Stagecoach, National Express and Go-Ahead Group – that passengers are held hostage to profit-hungry shareholders.

**Heavy Vehicle Testing**

Unions are concerned that VOSA, the government agency responsible for improving the roadworthiness standards of vehicles through a range of licensing, testing and enforcement services, is planning to privatise its national testing centre network to large corporate operators seeking to make money.

**Air Traffic**

Even though the government was forced to shelve for now its controversial proposals to privatise the government’s £500m stake in the National Air Traffic Control Services (NATS), the *Financial Times* reported last year that airlines are now looking to offload their 42% stake, which may mean the involvement of private equity funds seeking to profit from, and compromising, our safety in the skies.
Back in 2009 – before the phone hacking scandal threw Rupert Murdoch’s News Corporation on to the back foot – Murdoch’s son James issued an ominous attack on the BBC’s role as a taxpayer-funded public broadcaster. “The scale and scope of its current activities and future ambitions is chilling,”[^1] he warned in his MacTaggart lecture, arguing that it is responsible for “dumping free, state-sponsored news on the market”. This was widely seen as paving the way for a future Tory government to undermine the BBC’s ability to compete with its commercial rivals, and indeed, the licence fee settlement that was rushed through after the 2010 election meant accepting the need for cuts to its budget of 25% by 2013-14[^14].

“The BBC plans to make 57 per cent (£400 million) of the savings by improving productivity and 29 per cent (£205 million) by reducing the scope of its services. It does not plan to close any services and plans to maintain the quality of output wherever possible. The remaining savings will come from increasing its commercial income and through better management of working capital.”[^15] (emphasis added).

Evidence given to the Leveson inquiry into the press would show just how close were relations between ministers, special advisors and senior News Corporation executives at this time. The resulting settlement paved the way for the Delivering Quality First (sic) programme of cuts, which as we can see from the BBC Trust’s report quoted above, only pledges to maintain the quality and range of programming “where possible” given new financial constraints, and meant the loss of over 2,000 jobs across the corporation.[^16] This has led to ongoing industrial action and the interruption of broadcasts as BBC workers fight compulsory redundancies.

But as the report also shows, their intention is that the effect of the cuts is partly offset by maximising profits from the BBC’s commercial subsidiary, BBC Worldwide, which raised cash totalling £1.09bn in 2011-12[^17] through selling programmes to networks in...
other countries, as well as through publishing ventures and organising promotional tours. However, only a minority stake is now retained in ventures such as BBC Books (now majority owned by Random House Group)\textsuperscript{148}, BBC Children’s Books (now 75% owned by Penguin Books)\textsuperscript{149} and BBC Active learning resources (now majority owned by Pearson plc)\textsuperscript{150}.

The most concerning aspect of this renewed emphasis on commercialisation is the incursion of the profit motive into editorial and newsgathering priorities. Peter Horrocks, director of BBC Global News (which includes the World Service) reportedly told journalists that they would be required to come up with ideas “to strengthen our commercial focus and grow income” as part of their job appraisals.\textsuperscript{151} If a newsroom has to become entrepreneurial in this way, then the potential to sell on a story for profit takes priority over serving the public interest. This comes hard on the heels of last year’s scandal which saw the BBC forced to an issue apology for broadcasting documentaries on Malaysia whilst in receipt of £17m by the Malaysian government for “global strategic communications”, whilst also broadcasting material on Egypt made by FBC Media (UK), a PR firm working for the Mubarak regime.\textsuperscript{152} The new commercial imperative is likely to result in further such lapses, at a time when the BBC’s editorial standards have come under fire after the Jimmy Savile revelations.

Enemies of the BBC would be happy to see the back of a popular national broadcaster with a funding stream – the licence fee – that allows it to operate with a public service ethos rather than in line with commercial pressures. Yet the parasitical private sector has been steadily getting a hold within the current publicly-owned structure. For example the responsibility for administration and enforcement of the TV licence fee is already outsourced to a division of Capita.\textsuperscript{153} In the year following the licence fee settlement, the BBC paid £8.2
million to management consultants, including almost £3 million with Deloitte and £1.4 million with KPMG for assistance with “change management”\textsuperscript{154}. And the Savile scandal itself saw public money go to the PR firm Brunswick to help manage the corporation’s reputation, despite the fact that the BBC itself employs 147 PR staff!\textsuperscript{155}

Perhaps the clearest example is that of the “retransmission fees” which the BBC is obliged to pay commercial operators to have its channels carried on satellite and cable platforms. Millions of pounds of public money are funnelled directly to profitable private enterprises when in fact it should flow the other way. BBC channels are among the most watched channels on platforms like Sky’s satellite service, so having them on its platform is an asset to the company. If the US system applied in the UK, £96m a year would flow back to the BBC from commercial broadcasters\textsuperscript{156} – and could go back into making quality programmes and saving jobs, rather than being leached from the public purse. Even Tory media minister Ed Vaizey admits the arrangement is unfair and has called for the fees levied on the BBC to be scrapped, but has so far stopped short of regulation to stop them.\textsuperscript{157} For now, it is left to the goodwill of the private sector to give up a free cash handout from BBC via the taxpayer. Will this happen without getting something in return? Fat chance.
Conclusion

‘Austerity’ today is being used deliberately, across the board, to justify the acceleration of this transfer of public services into private hands. The ‘cuts’ which follow from Con-Dem policies are not going to be felt merely as unemployment. They will also come indirectly, as consumers pay higher prices to private companies for inferior services, in the inflation-eroded salaries of public servants, and in the poorer wages and pensions of private-sector employees.

The price of austerity will be a long-term decline in the standard of living of the majority of the population, and an acceleration of the now thirty-year-long experiment in transferring wealth from the poor and middle classes to the richest. By this measure...a powerful minority might consider this success rather than ‘failure’.

RICHARD DRAYTON, Rhodes Professor of Imperial History, King’s College London.

Has the drive to privatisation become so powerful that it is irreversible? Are we now to believe the truth of Thatcher’s famous claim that There Is No Alternative? New Labour accepted much of the ideology that the private sector was the key to “modernisation” in order to deliver services more efficiently and, although some of this confidence has now been undermined, continues to believe that austerity makes it necessary to “do better with less” and that cuts can’t be reversed. So the private sector’s increased role appears inescapable. The public, by contrast, are increasingly frustrated that few Westminster politicians will clearly argue essential services are best provided by being run in the public interest rather than private profit.

Yet if this is the agenda being driven aggressively from Westminster, the existence of the devolved assemblies means that we can begin to see some important differences opening up between the pace and extent of privatisation in England and that elsewhere in the UK. The Welsh Assembly has not gone down the route of Andrew Lansley’s destructive reorganisation of the NHS. The Scottish Parliament has held back from the debt-driven commodification of higher education brought about via the £9,000 per year university tuition fees introduced for English universities. Rail services in Northern Ireland are run by the state-owned company Translink, and there hasn’t been any splitting of responsibilities for track, passenger services, and rolling stock. Still, while there is barely any popular demand in the devolved nations to go down the English route, such services still need to be adequately resourced and austerity will be used to undermine the public sector and prevent their viability without private involvement.

For all this apparent inevitability, the arguments about the miraculous benefits of...
privatisation are already seriously discredited, given the litany of previous disasters at the hands of private companies. The public sector has ridden to the rescue time and again: rescuing the banks from the brink of collapse, stepping in when G4S nearly turned the London Olympics into a farce, running an efficient train service for passengers on the East Coast mainline when National Express hit the buffers – these are just some of the most obvious examples. In all these cases it was the private sector that failed, leading to enormous waste of resources, inefficiencies and extra burdens on the taxpayer. Happy to cream off the profits where they can, such companies are the first to offload their stake and transfer the risk back to the public when they hit hard times.

Spin doctors, normally so quick to quote opinion polls, are ignoring the evidence that surrounds them. Public support for renationalisation of the railways is overwhelming, which is only to be expected given the disastrous effects of privatisation which are there for all to see. Similarly, there is no popular demand for privatisation of the NHS which, for all the challenges it faces, remains a much-loved national institution. Even the Daily Telegraph was forced to report that a clear majority of voters thought that the coalition’s health reforms should be scrapped.159

Ultimately, privatisation is a politically-driven project, and enormous private resources go into funding think-tanks, commercial lobbying, policy networks and legal services in order to widen opportunities for the private sector to muscle in on state services, and shape the whole environment of decision-making. The increasing fragmentation of services involved, along with ever more complex financial engineering involved in the creation of special purpose vehicles (project-specific operating companies insulating investors from risk) means that it is hard to monitor and get a true picture of all the costs and commercial interests involved. But at the same time an increasingly anxious public – including those who see the effects of these changes on a daily basis at work or as service users – will be monitoring and raising awareness of what is going on.

As this awareness increases, campaigns uniting ever broader sections of the community are emerging. The recent protests like those in Lewisham, South London, which saw thousands of people protest against local hospital closures, could be just the start. Likewise, service workers and unions across the country from Newcastle to Islington have shown that their expertise can help them to win contracts with successful “in-house” bids to provide services for local councils. The government’s refusal to allow Directly Operated Railways staff to tender for the contract to run services on the East Coast shows that it fears their record of running the service efficiently on a “not-for-profit” basis could block its privatisation plans.

Ultimately we need to link up the various campaigns in defence of public services, bringing workers together with the communities who depend on them. If we were to contest the austerity demanded by the financial markets and the ideological plans that politicians pursue on behalf of their friends in the boardrooms of private companies, we could have properly funded services run not for the profits of the 1% but democratically, in the interests of all.

159 http://www.lrb.co.uk/v35/n02/letters
Further reading

Books

Melissa Benn, *School Wars: The Battle for Britain’s Education* (Verso, 2011)
Jacky Davis and Raymond Tallis, *NHS SOS* (Oneworld, 2013)
Colin Leys and Stuart Player, *The Plot against the NHS* (Merlin Press, 2011)
George Monbiot, *Captive State: The Corporate takeover of Britain* (Pan, 2001)
Hilary Wainwright with Matthew Little, *Public Service Reform...But not as we know it!* (Picnic, 2009)
*Changing Lives – an illustrated oral history of the 106 year old Probation Service*,
(NAPO, www.napo.org.uk)

Reports

Rebuilding Rail (Transport For Quality of Life, June 2012)
Free Schools: Beyond the Spin (NUT, www.teachers.org.uk)
Public Service or Portfolio investment (UCU, 2012, www.ucu.org.uk)
‘Lost in Translation’ – The internal privatisation of our colleges and universities and the threat
to the public interest (UCU, May 2013, www.ucu.org.uk)
PPP Wealth Machine (www.european-services-strategy.org.uk)

Joint Campaigns

www.nhscampaign.org
www.actionforrail.org
http://antiacademies.org.uk/

Detailed briefings and updates are also available via the websites of the Trade Union
Co-ordinating Group’s affiliate unions. Links can be found at www.tucg.org.uk

A variety of useful resources on a wide range of policy issues can also be found
at the Trade Union Policy Library of the Class think-tank: http://classonline.org.uk/library
The Trade Union Co-ordinating Group (TUCG) brings together ten national unions (BFAWU, FBU, NAPO, NUJ, NUT, PCS, POA, RMT, UCU and URTU) to co-ordinate campaigning activities in Parliament and beyond.

[www.tucg.org.uk](http://www.tucg.org.uk)

Bakers, Food and Allied Workers Union (BFAWU)
Fire Bridges Union (FBU)
Trade Union and Professional Association for Probation and Family Courts Staff (NAPO)
National Union of Journalists (NUJ)
National Union of Teachers (NUT)
Public and Commercial Services Union (PCS)
Prison Officers Association (POA)
Rail, Maritime and Transport Union (RMT)
University and College Union (UCU)
United Road Transport Union (URTU)