The End of Privatisation

David Boyle, Lindsay Mackie and Andrew Simms

a new weather institute publication

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The End of Privatisation

Profit in the time of covid

New Weather pamphlet #3

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1
Introduction

"If it succeeds... it will go a long way in cementing the position of the private-sector companies in the public-sector supply chain. Some of the naysayers recognise this, which is why they will take every opportunity to undermine us."

Rupert Soames, CEO of Serco about the company's continued expansion in the public sector

Thanks partly to the coronavirus pandemic, there is some degree of clarity emerging from the long, confused and painful Brexit saga being suffered by the UK. The kind of economy which will direct the economic and social future of our country looks to be either a heavily de-regulated market economy or a system in which private corporations are still dominant, but heavily dependent on public support. This may be over-simplified, and partly dependent on the Covid-19aftermath, but it is a useful pointer to the fact that our system will in any event undergo radical change as the Brexit process continues.

The authors want neither of these stereotypes which rely far too much on size, centralisation, and the demolition or suppression of effective local and regional organisations. They are marked by the absence of creative thinking about humane, environmentally sound and effective policies and structures which put people and planet at the forefront.

In 2016, we published a pamphlet, *The Absent Corporation*, in which we argued that the modern global corporation requires it to sideline customers in favour both of its top management and its remote shareholders. We said that major corporations are now so large, and so monopolistic, that their business model is one of takeover at the top, cutting of services to customers at the bottom, and insulation from any kind of public accountability.

In this pamphlet, we look at another aspect of these global giants – their overwhelming presence in the provision of public services. Privatisation and outsourcing have become code words: they signify the de-regulated, cash-deprived state. They indicate the existence of a particular kind of political system. But, as we argue here, this may well be the time when the privatisation era ends. With it would come the end of 'small state' politics, though this seems an uncertain outcome even of the present times (Autumn2020).

Before we turn to the substantive argument against privatisation, a perfect example of the deficiencies of privatising the public sphere presented itself at the height of the UK coronavirus crisis.

It turned out that, in the race to provide the adequate testing for the presence of Covid-19, which the British people were increasingly pressing for, the government first thought fit to put its business in the way of the accounting firm Deloitte. The firm was still reeling from a

2019 £4.2m fine over its incompetence in not spotting the finagling of another outsourcing giant, Serco, for falsely claiming government funds for overseeing the tagging of non-existent prisoners.

It did not do a whole lot better with virus testing. It was asked to operate a 'flagship' testing facility, surreally set up at Chessington World of Adventures in Surrey. After appalling lapses – of test results never being received, phone calls unable to get through because Deloitte had published the wrong number – they also stuck by ancient obstructionist policies when it told people being tested that it could not release results to their organisations – hospitals for example – but only to the individuals being tested.

When the disaster of preventable deaths in residential homes became too pressing to ignore, the government realized, in part, its mistake and, in a U-turn of epic proportion, handed over part of the work, the key testing regime in care homes, to the public sector. The care minister, Helen Whately, acknowledged that testing of care home residents and staff needs to be "more joined up". Under the new approach, public health directors employed by local councils would take lead responsibility for arranging the testing of some 400,000 care home residents and 500,000 staff, in discussion with directors of adult social services, local NHS bodies and regional directors of Public Health England.

Critically, the local public health directors would decide which homes should have priority in the testing programme, which was at the time still working up to a capacity of 30,000 tests a day for the sector.[1]

However, on 6 June 2020 it was decided that this onset of good sense on the government's part would not be expanded to the whole testing system. It was announced that SERCO had won the £45 m contract to oversee the Covid-19 contact tracing programme. This despite, for instance, having been fined £1m for failures in its contract to provide accommodation for asylum seekers.

More criticism of the government's centralised approach to testing and tracing came from the independent SAGE report, chaired by the former scientific adviser to the government, Sir David King. His plea for contact tracing set out a publicly organised plan, "based in top-tier local authorities in England and health boards in Scotland and Wales, their composition should be locally determined, drawing from a range of expertise, especially amongst local Directors of Public Health, field epidemiologists, EHOs, GPs, local NHS laboratories, NHS 111, test centres, plus volunteers if required. In England, strong public health regional leadership of the system, in conjunction with NHS England should be established reporting directly to the Chief Medical Officer."

With remarkable calm, the report suggested that "given the importance of rapid testing of potential cases, the 50 drive-in test centres need to be better integrated with local NHS capacity and directed to support local contact tracing, as well as strategically targeting most at-risk groups."

In other words, an ideologically-driven decision to farm out testing to commercial, inexperienced interests (SERCO, Deloitte, G4S), bypassing the public health network which exists, was leading to an ineffectual system.

The final icing on this cake was the revelation that Deloitte had simply been given its contract to run several testing sites, without any tender, under a piece of little known 2015 legislation which allowed the Department of Health and Social Care to do so.

The privatisation of the public sphere was founded on some major deceptions. It was always far more ideological than practical. In truth, the state was always present even at the height of the enthusiasm for privatising state services, as guarantor of continuity and as bank of last resort should the project fail - and the failures came thick and fast. The coronavirus crisis has cruelly highlighted its dreadful deficiencies.

Colin Crouch, the academic who has written extensively on the growth of the corporate model, describes the privatisation era – in the UK roughly from the early 1980s to the crash – as “a gigantic experiment in seeing how far the market can go”. The answer is now available: the corporate market has been welcomed into areas for which it is entirely unsuited. These include the utilities - monopoly of resources like water can’t allow for competition, the market’s favourite tool - probably education, health and social care, and possibly also the railways.

The economist Mariana Mazzucato in her book *The*

Value of Everything, talks of reviving the concept of 'public value'. She distinguishes this from the economic concept of 'public goods' which she neatly describes as 'goods whose production benefits everyone and which hence require public provision since they are under produced by the private sector'. She points out, however, that this concept is used to hobble government activity as investors, rather than 'help government to think creatively about how it produces value in the economy'. Reviving public value as socially and economically would create a recognisable alternative to market values.

She also cites Karl Polanyi in *The Great Transformation* who argued that far from being inevitable, markets resulted from deliberate policymaking. 'The road to the free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism...'

Our assertion is that we must take the plunge and admit that privatisation, and its ill-behaved children, PFI, PPP, and other numerous models of outsourcing public services, has failed. We need another model. We don't mean wholesale re-nationalisation by a centralised state. The state or public realm – Whitehall, local authorities, the penal system, the justice system, housing bodies, the NHS – cannot re-emerge as a simple central controller. Size is a malign factor in the failure of our current model. At the end of this pamphlet we optimistically suggest some models for the better organisation of our public services.

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Who pulled the plug? That much was never clear but, at the end of 2018, Carillion, the proud outsourcing specialist, was no more. More than 20,000 jobs had been lost in the UK, two unfinished hospitals, one unfinished road scheme and a great deal more. There was a time, as we approached Christmas 2018, that it looked as though we would be about to tell a similar story about its outsourcing cousin, Interserve, though it have since pulled through. For the time being.

The contention of this pamphlet is that the collapse of Carillion was an important turning point in our understanding of how to manage a public sector economy. The title gives away our position, that this also marks – and without coincidence – the end of the privatisation era.

We assert this not for reasons of doctrinaire ideological purity, but for very practical reasons: because of the contradictions that existed in the idea from the very start. It means, for example, that we need first to go back to the start to look for these.

2
What was privatisation for?

Let us ignore the pre-history of outsourcing – David Ricardo's doctrine of comparative advantage in the 1820s. Also the pre-history of privatisation, a term coined in the 1930s as 're-privatisation' in Nazi Germany to explain how state assets were being redistributed to party supporters. Perhaps also the pre-pre-history of both – the sell-off of the nation's monastic public service infrastructure by Thomas Cromwell, on behalf of Henry VIII in the 1530s.

No, we need to go back only 35 years, to 1984, when a crisis in the public telephone network of British Telecom (then Post Office Telecommunications) was apparently solved by selling off the company to the public as individuals. The term had been borrowed by the great management writer Peter Drucker in 1969, proposing that governments use the talent in other sectors to deliver some of their objectives. "Government is a poor manager .... It has no choice but to be bureaucratic," he wrote.

That was the basic idea that was taken up by Conservative thinkers in the 1970s. Sir Keith Joseph's

Centre for Policy Studies produced a pamphlet in 1975 which set out the case: "There is now abundant evidence that state enterprises in the UK have not served well either their customers, or their employees, or the taxpayer, for when the state owns, nobody owns and when nobody owns, nobody cares." It was a powerful proposition.

In the event, when Margaret Thatcher came to power four years later, she had other things on her mind. There was some tiptoeing towards privatisation – the sale of Cable & Wireless and British Aerospace in 1981 – but it wasn't until after the Falklands war and her 1983 election victory that she grasped the sheer power of the privatisation idea. The privatisation of British Telecom was a popular move. As many as 2.3m people brought shares.

Three years later, the Treasury had earned £24 billion from privatisation, and the sale of British Gas provided four per cent of public spending for 1986/7. The idea of privatising state industries soon spread to France and the USA and Canada. Even Cuba and China were testing it out.

The merchant bank Rothschilds had set up a special unit to organise privatisations, under the future Conservative frontbencher John Redwood, and Conservative theorists were muttering darkly about selling off the Atomic Energy Authority and the BBC. In fact, selling nuclear power stations was the thin end of the wedge. No amount of spin could disguise the fact that they weren't economic.

The original impetus to sell BT was partly to find private investment for telecoms and partly because of Drucker's original idea that private companies were more efficient. By 1985, that was just one of the benefits – it was also supposed to help employees get a stake in the business, provide wider share ownership and reduce the role of the public sector. All those happened, though one of Redwood's team – another future Conservative star Oliver Letwin – said that actually there was very little evidence for the idea that privatised companies were more efficient.[2]

A quick glance at the private health corporations of the USA is enough to cast doubt on any idea of savings through privatisation – their health system costs 17.9 per cent of GDP, while the public British system costs half that (9.8%), partly because a quarter of health spending in the USA goes on the bureaucracy of billing, negotiation and payments. Even so, there was a logic about the idea that added up. Privatising public services would break those bureaucratic straitjackets, and get a new entrepreneurial energy about the place. They would focus on customers. Things would happen. There would be enterprise and imagination.

But that didn't happen. The early privatisations led to dramatic increases in effectiveness but, after that, things slowed down. Private corporate giants turned out to be as inflexible and hopelessly unproductive (at least as far as the customers were concerned) as the public corporate giants: they just provided considerably fewer jobs. Often the costs remained much the same. Most privatised services are as sclerotic, inhuman and unresponsive as their predecessors were.

The Conservative theorist Ferdinand Mount realised this as early as 1987. “It is becoming increasingly clear that the regulators have no teeth and the operators no conscience,” he wrote, and so it proved.[3] In fact, the privatised operators were determined to become as much like governments as they could, whether it was the bus operator Stagecoach pulling out of Malawi and Kenya because they couldn’t have a monopoly any more, or Railtrack running a unit of 25 staff just to battle with the Rail Regulator.

The first local contracting out on any scale was the rubbish collection in Wandsworth. Within six months, the council was enforcing penalty clauses for poor service, but they gave the same company the contract for cutting the municipal grass because there wasn’t anyone else. The same thing happened. Soon the European privatised utilities – E.on, RWE, EDF, GDF and Tractebel – had become huge institutions, delivering services right across and the world.

By the 1990s, the American waste company WMX Technologies was running the rubbish collection in Wirral, water in Wessex and the Derby Royal Infirmary. The electricity in Buenos Aires was being delivered by the UK National Grid and its water by Anglian Water and the French company Lyonnaise des Eaux.

A decade later, and the supposedly efficient private utilities are largely in the grip of the same illusions about efficiency as the public sector, with phalanxes of call centres, targets and standards, and are as inflexible as any nationalised industry. “We are committed to a market economy at the national level, and a non-market, centrally planned, hierarchically managed economy within most corporations,” wrote the *Observer* columnist Simon Caulkin.[4]

As for the railways, this process has almost become a caricature. There are just three massive transport companies considered to reach the threshold of holding one of the massive delivery contracts. The biggest of these, Southern managed by Govia Thameslink, earns just 3 per cent of the ticket sales they take and are stuck in an inflexible contract with the government which rendered them unable to react effectively when it was clear after 2016 that they could no longer run the trains with the staff they had.

So Peter Drucker was wrong. As it turned out, big companies and big contracts tend to become bureaucratic too. The point wasn’t that private was better than public, it was that small was better than big, because small allowed for the human element. Ownership wasn’t important, at least in its strict sense. Even so, it was Drucker who provided the clue. Anyone can be an entrepreneur if the organisation is structured to encourage them. “The most entrepreneurial, innovative people behave like the worst time-serving bureaucrat or power-hungry politician six months after they have taken over the management of a public service institution,” he wrote.[5] And again, so it proved.

The problem was that what privatisation quickly became – a method by which public treasuries could earn or save money – was in practice diametrically opposed to the original spirit of privatisation, about releasing human ingenuity and drive. Why? Because the attention of those driving the process had wandered away from the key question: what had made the old nationalised industries sclerotic, and what was likely to make them less so.

This is an easier question to answer three decades on, and we will return to it later: it is scale. Big organisations tend to be sclerotic and small ones are more able to stay flexible and customer focused. It has little to do with who owns them after all, or – if it does – it isn't solved simply by a fire sale.

In this respect, Drucker was right. The ideal of flexiblilty, innovation and entrepreneurial spirit went out the window because those in charge of managing privatisations came to believe their main purpose was financial.

The sad demise of the reputation of the UK railway sector, which demonstrates more than any other that privatised services were actually as unresponsive, inflexible and tied umbilically to Treasury rules as any state enterprise, makes the case.

But for those of us fascinated by the subject, this was something of a paradox. It damaged the reputation of privatisation by injecting public cynicism, but it did not bring it to an end. The next section takes the story on: and because the purpose of privatisation turned out to be about money, the whole idea became unaffordable.

In 2010, when the coalition government took power, privatisation as an ideal, received a bit of a boost. Austerity – the perceived need to cut 'bloated' public spending and reduce the deficit – required public spending to be slashed, with cruel and often fatal consequences for the British poor. But quite a lot of services still had to be provided – social care, child care chief among them. Battered local authorities turned in greater numbers to private providers who promised value for money and, importantly, removed the need for administrative costs from the local authority.

The Institute for Fiscal Studies (IFS) studied the plight of local authorities in 2019. Its report found the steepest cuts in council spending had come in areas such as planning, development and housing services, with reductions of more than 50 per cent. The amount spent on culture and leisure, as well as areas such as highways and transport, has been cut by more than 40 per cent. Cllr Richard Watts, who chairs the Local Government Association's resources board, said councils in England would face an overall funding gap of £8bn by 2025. According to the LGA, councils will have lost almost 60p in the £1 from the central government for local services in the decade to 2020.

"As this report highlights, pressures continue to grow in children's services, adult social care, and efforts to tackle homelessness," Watts said. "This is leaving increasingly less money for councils to fund other vital services, such as the maintenance of parks, certain bus services, cultural activities and council tax support for those in financial difficulty to try and plug growing funding gaps."

The IFS report showed the cuts since 2010 had been larger in poorer parts of the country, echoing existing research that has shown northern councils and urban areas have been hardest hit. It said spending per head in the most deprived fifth of councils had fallen from 1.52 times that of the least deprived areas in 2009-10 to 1.25 times in 2017-18.[6]

In truth, privatisation was always about the money. Austerity was too but didn't bother to promise efficiency. But what had been promised by Margaret Thatcher and her privatising successors, including New Labour, was that savings effected by 'cutting inefficiency' would in some way benefit the customers of the new form of service. This did not materialise. What happened was that savings were made by, for example, outsourcing, through cutting staff numbers and cutting the 'slack' which allowed for a decent response to so unexpected eventuality. So a business will take higher risks than the publicly run service it is replacing. Back staff will be cut. Maintenance will be cut. Trains are routinely cancelled because the 'slack' or redundant capacity no longer exists.

The fatal consequences of this lack of 'slack' have of course been revealed in the government and NHS response to the coronavirus.

One of the unanticipated results of George Osborne's ruthless pursuit of austerity emerged when covid-19 testing became a hot political potato. In March contact tracing was fast abandoned when the Government realized that 10 years of cutting of public services had resulted in too few public laboratories to carry out significant numbers of tests.

So this was not a failure only attributable to government incompetence in 2020. It was directly attributable to the slashing of the numbers of regional and local laboratories, the centralisation of services and the cutback in funding.

> 'Historic factors have also shaped the UK's current testing capacity. Over the past 20 years, the number of laboratories and testing facilities has shrunk. The public health laboratory service, a network of local and regional laboratories that was established as part of the NHS in 1946 to respond to the threat of bacteriological warfare, was subsumed by the health protection agency in 2003. Many of the laboratories in the old network were shut down, taken over by local hospitals or merged into a smaller number of regional laboratories.'[7]

The PFI contractual framework provided a secure outlet for the funds of large banks and financial institutions in the United States, Britain, Europe, India, and Japan; and also a highly lucrative role for international consultants, suppliers and contractors.

A more basic error in the model of outsourcing, privatising or franchising public services to the private sector has been identified by the economic historian

Avner Offer in his paper *Patient and Impatient Capital.*[8]

He says that financial markets always work to a different model than public and social bodies. They cannot meet. The financial time horizon and the project time horizon clash. “The time horizon model undermines the standard argument for market superiority,” he writes. “It turns Hayek on his head: it is financial markets that require certainty, whereas social and public agencies manage in its absence.”

3
The great failure

By the time Interserve ran into trouble just before Christmas 2018, following three major plunges in the value of their shares – two of them in the summer – both their creditors and government ministers were determined that they would not face another Carillion.

You can see why. Interserve runs hospitals and other major projects, including energy to waste. It runs probation service contracts for the Department of Justice. And it employs exactly twice as many people in the UK than Carillion did at its point of collapse.

The rumours were followed by nearly a year of controversy, starting with their pretax loss of £111m and eventual sale to a group of lenders, leading to 16,000 small investors losing their investment. Although the company continues to trade, and to bid for government contracts, reports emerged by the end of 2019 that it would probably be broken up.[9]

Looking back, it may have been the departure of Carillion boss Richard Howson, faced with a serious profits warning, in July 2017, that marked the moment the outsourcing sector began finally to unravel. That was the moment when Interserve began its path downwards. It was also, outrageously, the moment when Carillion lavished over £700m on their shareholders, when they were struggling under increasing debt burdens in their 19 year history.[10]

During the year, Interserve's debts more than doubled to £80m. But that was child's play compared with what was happening to the infrastructure specialist Kier, where debts more than tripled – from £186m to £624m between June and October. They earned £3bn a year, three quarters of which came from the UK government, which ought in theory to make the company safe but, in fact, the reverse was the case. By the autumn, their suppliers and subcontractors were beginning to refuse work from them, afraid they would not be paid. Leading academics began to explain that the whole sector was in long-term decline.

The immediate reports about both Carillion and Interserve emphasised their immediate problems – Interserve's purchase of Initial Rentokil's office cleaning business in 2013 or Carillion's difficulty with the lighting in the Midlands Metropolitan Hospital which they were building in Sandwell. Both had agreed rescue packages with investors about six months before their final – or near terminal difficulties – and neither was enough.

But there were bigger issues that lay behind all of those, without which they could have ridden out unscathed. This was the terminal decline of outsourcing because of changes in the way central and local government were thinking – and because of austerity. Local authorities were expected to find savings worth up to 40 per cent of their budgets, and the outsourcing specialists were both the beneficiaries of this – but also the most impacted.

They dealt with the pressure by manipulating the way they delivered target data to ministers, by defining their responsibilities and achievements ever more tightly – by using the power of Goodhart's Law (that a measure used as a control ceases to be accurate).[11] This was neither dishonest nor gaming, in its usual sense. It is what tends to happen when managers bring financial pressure to bear on frontline staff – especially in an institution that stands or falls according to their ability to provide acceptable target data. The managers turn a blind eye and the ministers – who are entirely credulous when it comes to figures – lap it up.

The side-effect of this has been that those cases which do not get the attention of the outsourcers, because they are more difficult or there is an inconvenient boundary ambiguity of some kind, wander around the public sector raising costs for everyone else.[12] One of the peculiar effects of outsourcing has been a unexpected rise in costs in the public sector as a whole, which makes cost reductions that much more difficult.

Out of this cost pressure, the wider vicious circle developed. They sought bigger and bigger contracts, hoping to cut costs via economies of scale but which simply spread costs elsewhere in the system, while reducing the slice of money that it was possible to earn per intervention. Soon the outsourcers were forced to take on increasing numbers of contracts to earn a similar amount of money. The shift to payment by results contracts made even those returns less reliable.

The story was still the same – efficiency savings! But the reality was the same too – public services were being delivered badly, particularly in prisons, transport and in education where imaginative and humane innovation was becoming scarce. Users were being cruelly short changed. How can it be, Colin Crouch wondered, that a company can deliver both missile defence systems and childcare to the public?[13]

His answer lies in the enormous lobbying power of big corporations, but also in the demeaned status of the user as a mere consumer, with few rights over the services they are meant to receive. And the model had stopped working for the corporations themselves.

In summary, they were seeing bigger contracts, higher revenue, but lower profits – and sometimes no profits at all.

**

A word here about the regulators. In fact, more words than this pamphlet can afford should be devoted to the largely complicit role regulators have played in the oversight of the market economy in public services. Regulation was meant to be the safeguard, the protection for the consumer of this new form of public service.

A slight glitch to the plan occurred when it became clear that users of some services – for instance rubbish collection – had no power at all in the regulation of their services as the contract was not between them and the refuse disposal business but rather between the local authority and the private company. We users had been demoted to bystanders without even the power to see the contracts, which were subject to commercial confidentiality.

When a regulator does use their powers to chastise and improve an industry, the caterwauling becomes intense. When Jonson Cox, who used to head up Anglian Water, became chief executive of the regulator OFWAT, he used his poacher turned gamekeeper status to try to get the water industry to work primarily for its customers rather than its shareholders.

The reaction from the industry was illuminating. Despite examples such as Thames Water executives pocking bonuses amounting to £800k, amid threats of job losses, the water companies complained to the Government that the OFWAT role had become "politicised".[14]

The regulator had apparently stunned the industry in July, when it rejected all but three leading suppliers' business plans for 2020-2025, in a bid to clean up what Ofwat thought was an inadequate service. It demanded water companies pay their debts faster, become more efficient and treat customers better. It was due to publish its final ruling as this pamphlet goes to press. Enraged blue-chip investors such as Allianz, Singapore sovereign wealth fund GIC, Deutsche Bank and IFM Investors met with Treasury officials on 14 October to complain that Ofwat was reacting too strongly to political pressure.

Reports also claimed that the industry would deluge the Competition and Markets Authority with appeals against OFWAT's outrageous attempts to get consumers a better water service, with at least five companies considering going to the competition regulator.

The problem here is that investors have overseen a litany of scandals such as sewage spills and water leaks, while taking big dividends, paying minimal corporation tax and piling debt onto companies. The responsibilities of maintenance, responding to uncertainty and improving the supply of water to customers appear to have escaped the notice of the big investors who are calling for the regulators head.

But the writing was already on the wall. At the same time as the outsourcers were looking for economies of scale, the public sector was turning against big contracts. Around a third of Conservative local authorities, and 42 per cent of Labour ones, brought services back in-house during 2017, according to research by the Association for Public Sector Excellence.[15]

The same was also true for central government which was becoming frustrated by the big contracts for IT which seemed to provide such poor value for money. Why should government computers take ten minutes to turn on when you could buy one in any supermarket that could turn on instantly, they asked themselves? Chancellor Philip Hammond announced the end of PFI contracting in October 2019.

Local government outsourcing hit a peak of £708m in 2012/13 but fell back to £535m in 2015/16, according to GlobalData research. Capita was forced to shrink its IT contract with Birmingham Council by £10m in 2017. In 2015, the drivers registration authority DVLA ended a contract with IBM and Fujitsu for IT services. They trained their own staff and they built an online application themselves in just seven weeks. In 2018, the Ministry of Justice created a new company to take over nearly 1,000 prison cleaning and maintenance workers from Carillion.[16]

The result of all this, as you might expect, is that the largest government outsourcers have "bankrupt" business models and worryingly weak balance sheets, according to a firm used by Whitehall departments to vet private sector bidders for outsourcing contracts. Company Watch said that the biggest outsourcers have financial profiles that are "strikingly similar" to Carillion in the years before it collapsed. "The market is essentially bankrupt," said Jo Kettner, chief executive of Company Watch.[17]

Her team found that intangible assets — mainly goodwill — were the largest item on the balance sheets of Capita and Serco, and almost the largest for Interserve and Mitie. Also that the four companies' profits were hit by "exceptional items" — such as restructuring costs, exiting businesses or penalties — at such a frequent rate that it made them "unexceptional".[18]

The trouble was that the search for any new contracts allowed the outsourcers to write up substantial profits in the early years — a process that seemed to have encouraged reckless bidding. They could always say that, if there were losses, they could always renegotiate more favourable terms — a process known as “land and expand”.[19]

There were various implications that became apparent from this. It meant, for example, that value for money was even more reduced. The *Financial Times* reported that government outsourcing had become markedly less competitive over the past three years, with close to one quarter of public sector contracts, ranging from security to welfare services, awarded to sole bidders in 2018.[20] The proportion of public sector contracts awarded without a competitive tender rose from 15 per cent in 2016 to 22 per cent in 2017 and then 23 per cent in 2018.

Second, it meant that outsourcers were forced to fall back on their core skills, the major one of which is the gentle massaging of data. On the day that Working Links announced it was going into administration, a report by the probation watchdog called for “urgent remedial action” on one of their contracts, covering Dorset, Devon and Cornwall. Inspectors warned that “professional ethics [had been] compromised and immutable lines crossed” because of cost pressures. Their most serious finding was that over-worked staff had avoided giving offenders the highest red risk rating because they did not have the resources to undertake the level of contact and supervision this required.[21]

Taken together, it is clear that what looked like a bonanza for the corporations, and a way out for governments desperate not to be seen adding to some notional deficit, has failed to deliver in the long term -for users and shareholders alike. Though we must not overlook the pickings which so enriched shareholders and senior managers at the beginning of the process. Outsourcing and privatisation have been driven out because they are longer affordable. At a time when the public finances are under strain, they can no longer afford the additional costs of profit for shareholders – or the costs of subcontracting from the outsourcing giants to the minnows that know how to do it. Yet public policy had yet to recognise or accept that the party is over.

So it is time to take stock. We argue here that the era of privatisation, and to some extent also outsourcing, is now quietly approaching its demise, although less quietly when its failures directly undermine vital services. We argue that this is happening, not because it ought to (though it probably should) or for obscure moral qualms about it (though we would share some of them), but for good hard-nosed utilitarian reasons, mainly of cost:

1. It has become unaffordable to add on an element of profit down the chain of operators, given that the cost reductions are now widespread.
2. The operators have been allowed to consolidate so much that there is now little competition in the service sector.
3. The specialist outsourcers in particular appear now to achieve their cost reductions by so squeezing their tickbox definitions that they spread costs elsewhere around the system.

4. The privatisation idea has failed to do what it was supposed to do – extract contractors from the dead hand of centralised Treasury control.

There remains one element only of traditional privatisation which can potentially save money for governments, in an era of ultra-low interest rates. It allows them potentially to shuffle off responsibility for public sector pensions.

We accept that these are responsibilities which are not carried by the private sector and it is beyond the scope of this short pamphlet to look in more detail at this phenomenon. But privatisation, with all its multiple failures and inefficiencies, and its whole super-structure of costs and ideology, could not possibly survive just as a backdoor way to reduce public sector pensions.

The other compulsion for the continuation of privatisation has been in education, through the serious and possibly deliberate underfunding of state education. This makes it almost impossible – at least since the ending of the last major programme of grants for school buildings - for ambitious schools, which want to develop more sixth form space or to demolish leaking pre-fab classrooms, to do so in the state system – especially if they happen to be (as one of the authors of this pamphlet is) in Sussex. Schools are owed considerable sums by the local authorities; it isn't surprising they look elsewhere.

The trouble is that the way the academy schools system has developed has – like other privatised solutions in other sectors – given local schools or parents very little control. They hand over a portion of their funding to their academy trust, many of which are controlled by financiers with strange ideas about iPads and education by numbers. All too often the most experienced teachers are made redundant, and so are the heads, replaced by people without education qualifications who watch over the online education of the children.

This is known as 'evidence based' education. In fact, the evidence suggests that nothing is as important as the human quality of the teachers – which is why New York state has ended teacher evaluation by test scores.[22]

Clearly, some kind of better solution is required between state or centralized control and the domination by wealthy men peddling outdated or wrong-headed education theories.

The next chapter looks at some options.

4
Where can we go from here?

The NHS blogger Roy Lilley is no fan of privatisation these days: he described “the remnants of contracting and competition, the detritus of political interference that litters the landscape of care that causes the problems”.[23] He recently mused about what would happen if an effective and efficient service like the RNLI, staffed and managed within the voluntary sector, was suddenly to be nationalised.

The answer is that it would become subject to a range of centralised, barely relevant and debilitating targets, followed by earnings and so-called efficiency targets too. The lifeboat stations would be sold off to Serco, if it still exists by this time, and before long voluntary sector funding would have dried up.

In short, what was a highly effective service would soon be as broken and bust as the others, its staff and volunteers sidelined as civil servants decided from London which stations would be merged and which ones simply closed.

We use this example to say that simply reversing privatisation is not a reasonable or practical option. Nationalisation is too like privatisation in all that is most important for that to restore our services to effectiveness.

The best example of this is probably Southern Railways which, thanks to its near collapse in 2016, is regarded as one of the worst examples of privatisation. You only have to travel around Europe by rail to see this debate clearly. Most European trains are not just on time, they are also comfortable, well-designed. And, they are also designed for human beings, unlike the new Southern and Thameslink trains, which look as if they have been designed to be hosed down inside after use.[24]

The days when Laurence Olivier caught the Brighton Belle, and ate kippers all the way home after an opening night, are definitely gone. You can no longer even buy a cup of tea on Southern trains. Never mind the incessant lateness, the constant breakdowns, the sheer incompetence – it was the technocratic transformation of human trains to trucks that really upset customers.

During and after the crisis, we kept on being asked why. Why was it so bad in Sussex compared to continental rail travel? But the answer really has nothing to do with nationalisation, or integration come to that. It was bad because of two of the peculiarities of the Govia franchise (including Southern) which better explain what went wrong. The first was the dysfunctional contract, whereby Govia only gets 3 per cent of the takings, and nothing they can do will make them more of a profit.

The second is that – because of the contract – the dead hand of the Treasury is hugely influential. This is ironic, because under both the current system, and the nationalised solution, our trains are run more or less directly by Treasury mandarins. Don't let us pretend that anything about the current system has much to do with genuine privatisation, as originally understood, in any sense of the word. In short, nationalisation is also a huge threat to humane public services, because it means in effect direct control by the Treasury. Inflexible, technocratic, inhumane, they provide precisely the oversight that privatisation was designed to end – and yet it hasn't.

So what can we do instead as we feel our way towards what comes after privatisation? Here are our suggestions.

1. **Go mutual.**

Every big idea in the management of public services suffers because, like generals, they are designed to solve the last problem or the previous battle. Certainly, what is missing in the current crop of privatised services is that sense of a stake by the users, that makes services effective. The only solution here is likely to be some form of mutualisation, either ownership by the staff – which has worked particularly well in healthcare in Grimsby, among other places.[25] Or it needs to bundle up the ownership in such a way that they include the users too. The John Lewis model seems particularly appropriate, and there are now so many mutuals operating in the UK along similar lines that they are worth £36 billion between them.

Nor is it just co-ops, it is networks of co-ops. The Spanish giant mutual Mondragon is the model of an alternative, prospering global company. This framework of business culture has been structured based on a common culture derived from the ten basic co-operative principles, in which Mondragon is rooted: open admission, democratic organisation, the sovereignty of labour, instrumental and subordinate nature of capital, participatory management, payment solidarity, inter-cooperation, social transformation, universality and education.[20]

This philosophy is complemented by four corporate values: *Co-operation*, acting as owners and protagonists; *Participation*, which takes shape as a commitment to management; *Social Responsibility*, by means of the distribution of wealth based on solidarity; and *Innovation*, focusing on constant renewal in all areas. Mondragon keeps to its founding tenets and remains successful after nearly eight decades – their ideas adapted by places like Cleveland, Ohio, Ground Zero of the sub-prime crash.

2. Make ownership real

Ownership which is simply a piece of paper, a legal business, will probably be sold on or, failing that, forgotten. That was the mistake the mutual building societies made in the 1980s – the ownership element became ossified, before they were taken over by carpetbaggers in search of cash and sold off. They barely exist now. They had never invested in proper communication or in anything that might have provided a genuine sense of ownership by their customers and members.

3. **Co-produce them.**

We don't believe people feel like owners unless they are actively involved in the delivery of services, without which – as the Nobel economics prizewinner Elinor Ostrom said – you can't run effective services anyway.[26] That is the essence of the co-production movement. It means that every public service outpost needs to remake and rebuild the capacity of the neighbourhood around it, reaching out to support people to do the work that is needed to provide resilience and earlier recovery. Of course, this also means that people need the time to engage, and other innovations such as shorter working hours and access to universal basic incomes and services would help enable that.

But, this is what future services look like, whether you call them a preventive infrastructure, or 'social prescribing'.[27] This is also what will eventually reduce costs back to manageable levels. Privatised services tend to increase costs, by spreading them elsewhere in the system; co-produced services tend to reduce them.

4. **Integrate, but down to a human scale**

Part of the current confusion about services and the policies around them is because we are moving from organisations that believe in economies of scale towards organisations that understand that these are rapidly overtaken by *dis*economies of scale. We therefore need to keep our service outposts local, rooted and human.

That means no tickbox style management and no targets either. It means signing up to a model of services that isn't just human-scale, but which explicitly uses the benefits of local connection and commitment (see above). But it will need to do this explicitly without undermining or fragmenting the unity of the service.

Our proposal is that the ownership is legally with local people, but that every service outpost must contract with the centre for integration, rather than the other way around, as current rules imply. This makes the centre the servant in this relationship, and it means that outposts will commit to keeping certain standards to each other and to the network.

We believe this will release imagination and support for services among users, their families and their neighbours. Rather as John Kennedy *almost* said in his famous 1961 inauguration address: don't ask what the NHS can do for you – or schools, or the police – ask what you can do for the NHS.

Here is the difference between the old privatisation and our new approach. The dilapidation of our housing stock under the old privatisation meant handing public housing over to private contractors, the new alternative means encouraging the power and energy of people, and a combination of creativity, gentrification and DIY – which is actually what has been happening over the past generation. It means unleashing the same force, and same combination, which has revitalised Britain's inner city primary schools – hundreds of thousands of imaginative and interfering parents taking responsibility.

It means what Karl Popper called “setting free the critical powers of man”.

5
Postscript

So why, given that this pamphlet shows that privatisation is no longer a solution to anything much, has the UK government fallen back on such tried-tested-and-failed idea for such a critical moment in our history? Is it just about history repeating itself as farce, or is something else going on?

Because the UK government has chosen to outsource the vast majority of its public health responsibilities to global corporations which have no local expertise, no health expertise and no structural capacity to respond quickly to the development of an unknown virus.

We don't know how much public money of the £10bn allowed for the Covid-19 battle has gone to the firms below. The NHS budget for 2019-20 is £134 bn – so, if the government had wanted to prepare the NHS for this and other pandemics, it would have given the money directly to public agencies, local authorities, hospitals, universities and UK laboratories, which still – even after 10 years of malevolent austerity – maintain a public network of expertise and co-operation.

Instead, this has happened. Covid contracts awarded to firms like Deloitte, Serco, Palantir (a US data mining company) Unipart, Clipper, G4S, Sodexo, Randox, Amazon cannot be examined for value, but were handed out without tender, have connections to government cronies (Randox). This company was given a £133m contract in March to provide community testing-in July less than half its tests were returned within 24 hours, the official target. Serco and Sitel were awarded contracts valued at £108m to support the government's test and trace strategy.

By the beginning of September 2020, 90 per cent of tests failed to hit the 24 hour turnaround time- without which tracing becomes much less effective. Baroness Harding, who heads the test and trace programme, "refuted" its failure. She used to run the frankly malevolent phone company TalkTalk.

The opacity of contracts awarded is mind boggling. Contracts are worth between £25m and £120m but no public or Parliamentary scrutiny is possible.

The truth is that our second spike of this vicious, barely understood virus, is going to spread precisely because of government ministers clinging to this ancient ideology - not because of 'increased demand' or 'technical difficulties', or even the party-going habits of the young. It will not be a surprise to anyone reading this pamphlet to find just how much these secret contracts failed – the outsourcing specialists have narrowed their expertise down to providing the inaccurate data the government ministers crave. That is why they will continue to underperform.

Whether it is sheer laziness or fear that leads them to fall back on friends in this way, the Conservative government has been the enabler of an economic system which was invented precisely to row back from post war liberal democracy and regain private control of the economy. They trumpeted, in Thatcherite fashion, that privatisation, with its devious and snotty sibling, outsourcing, would be more efficient than public ownership. It would save money! Things would be gleaming!

No one even tries, not even Johnson, to say that now. Because it is clearly understood that our economic system now exists to shovel public money into the private sector, and in particular to the higher echelons of management and dividend holders. Everything is subsumed by this driving imperative.

The truth is that this virus has advanced to the advocates of total privatisation of the NHS a golden opportunity. The British Medical Association has referred to the "acceleration of aggressive outsourcing to private firms" during the pandemic.

Paul Nurse, Nobel Laureate and head of the Crick Institute, said this:

> "I also think we need more clarity about how decisions are made. For example, testing for coronavirus was absolutely critical. What they decided to do was produce very big labs to do it, not thinking that this

> would take many months to get it to work efficiently. Whereas they could have developed it locally and contributed something immediately. All the testing capacity basically did nothing during the big infection phase. That was very bad policy and implemented badly, but we didn't see the discussions behind those decisions."

The key and single fact behind the queues, the waits, the inability of the government to reach an 80 per cent success rate in test and trace - the bar below which tracing simply does not work to prevent the virus spreading - is that, despite the years of evidence against the idea, the UK government remains in thrall to finance, corporations and their money.

This is the system that has to be changed. It is time for the economic pendulum to swing back from private to public interest, not for ideological reasons but, for example, because it is better at saving lives and looking after people. Otherwise waiting for test results, and driving long distances even to get a test, will be small inconveniences compared to what lies in wait. The debacle of testing has proved to be a final test for privatisation itself, and the results returned show that it has failed and different approaches are now needed.

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