

The Gender Impact of CCT in Local Government

Research Paper

CALCULATION OF THE NATIONAL COSTS & SAVINGS OF CCT

This paper is produced as a supplement to the Full Report *The Gender Impact of CCT in Local Government*, researched by the Centre for Public Services and published by the Equal Opportunities Commission in March 1995.

CENTRE *for* PUBLIC SERVICES

Research • Strategy • Planning • Training

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A Research Paper prepared for the
Equal Opportunities Commission

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in Local Government**

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Contents

	Page
Summary	1
Introduction	2
Part 1. Calculation of the cost of unemployment and indirect costs on central and local government in the case study authorities	5
Part 2. Calculation of CCT national job losses	13
Part 3 Calculation of national costs of CCT	15
Part 4. Calculation of case study and national CCT savings	16
Part 5. The use of DSO profits	18
Part 6 Corporation Tax payments by private contractors	20
Part 7. Comparison of costs and savings	22
Part 8 Policy issues	25
References	

Summary

- Job losses of 12,587 in the four services in the 39 case study authorities are equivalent to 74,010 job losses in the four services nationally.
- The cost of unemployment combined with the loss of income resulting from job losses, cuts in hours, loss of the holiday retainer and lower wages has been calculated to be £41.2m in the four services in the 39 case study authorities.
- Gender differences are highly significant with changes in women's employment accounting for £32m or 77% of the cost of increased unemployment and loss of income to central government in the case study authorities.
- Cost savings in the four services in the case study authorities has been calculated to be £16.4m.
- A comparison of costs and savings in the case study authorities shows that savings of £16.4m have been outweighed by costs of £41.2m, a net cost of CCT of £24.9m in the case study authorities.
- **The net national cost of CCT in the four services is £126m.** This sum will in fact be larger if three other services subject to CCT (grounds maintenance, vehicle maintenance and street cleansing) are taken into account. These services have a much smaller proportion of part-time workers and hence the indirect cost to the government will be proportionately larger.
- The Government is in effect subsidising CCT. Local authorities make £124m 'savings' whilst central government is responsible for 97% of the £250.1m costs. This can be expressed in another way.

Every £1m of CCT 'savings' costs the Government and the public purse £2m.
- These are recurring costs. If these costs applied since the start of CCT in August 1989 the net cost over the 6 years to August 1995 will be **£755m** (based on 1993/94 prices).
- The transfer of surpluses from some Direct Service Organisations to local authority general funds is treated as if authorities were drawing on their balances and does not affect the level of Government grant. It is not additional income for local authorities. Corporation Tax payments by private contractors have only a marginal impact on Government income, amounting to a mere £0.44m in the case study authorities or £4.6m nationally.
- The extension of CCT to white collar services will lead to further costs if job losses and changes to hours, terms and conditions are on a similar scale to those experienced in the manual services. Although the distribution of job losses between women and men is likely to be about the same, the proportion of women's full-time jobs will be substantially greater.
- A more rigorous implementation of the Transfer of Undertakings Regulations (TUPE, which implemented the European Acquired Rights Directive), for example, requiring contractors to maintain staffing levels, pay and conditions throughout the contract period rather than for a few months, would reduce the public costs of CCT.
- The CCT regulations require local authorities to take 'savings' over a ten year period into account in the evaluation of tenders. However, this does not reflect economic reality. The regulations clearly need to be amended to either take into account other costs and savings or to simply focus on contract prices.
- Competitive tendering is not 'saving' public money which could either be invested in other services or used to reduce Government expenditure. Whilst public sector employment is reduced by contracting out and private sector employment increased, the latter is in effect being subsidised by the public purse. If there are no savings but substantial costs to CCT, then there can be few, if any, macro-economic benefits of this policy. There is no evidence, at least in the four manual services examined, that CCT is providing highly profitable opportunities for the private sector which may lead to benefits for the economy as a whole. Far from increasing consumer spending, CCT reduces it through lower earnings.

Introduction

The EOC research study and objectives

The research study investigated the extent of the impact of CCT on women's employment and pay, relative to men, in building cleaning, education catering, refuse collection and sports and leisure management and the effect of the community care legislation in residential care and home help services.

Compulsory Competitive Tendering (CCT) was first introduced by the Local Government Planning and Land Act 1980 which required local authorities to tender an increasing proportion of building repair, maintenance, highways and sewer work. The Local Government Act 1988 extended CCT to six other manual services (building cleaning, refuse collection, street cleansing, catering, grounds maintenance and vehicle maintenance). CCT came into effect in August 1989. Sports and leisure management was added to the list of services with effect from January 1991.

The main objectives of the research were:

- to highlight whether the impact of CCT has been different for women and men;
- to identify any changes which CCT has had on the terms and conditions of employment and pay of women and men;
- to examine the impact on women and men of market testing in community care;
- to identify the possible effect on women of the extension of CCT to white collar and professional services;
- to identify whether the application of TUPE regulations in contracting out in local government has had a differential impact on women and men.

Methodology

In order to provide as complete a picture as possible of the impact of CCT and community care legislation, a number of methodological

approaches were adopted for the research. Firstly, more than 190 in depth interviews were carried out with a range of key personnel in 39 case study local authorities in England, Wales and Scotland. Four private contractors were also interviewed. Secondly, a detailed questionnaire was prepared for each of the four CCT services and completed by managers in each of the authorities. Thirdly, a series of 15 discussion groups involving women workers from the five services and trade union representatives were carried out in the case study authorities. Fourthly, an analysis of the local labour market and economy was conducted in eight authorities. Finally, local government databases on CCT and community care, as well as published surveys and reports, were analysed to help provide the national context for the case study research.

The findings

The following is a very brief summary highlighting those findings which are most relevant to assessing the public costs of CCT.

Job losses: There was a loss of 12,587 jobs in four services in the case study authorities and an estimated 74,010 nationally. Female employment fell by 22 per cent and male employment by 12 per cent. Women accounted for 93 per cent of 'pre-contract' employment in these four services and for 96 per cent of the net job loss between 1988-89 and 1993-94. Since 91 per cent of employment in these services prior to the introduction of CCT was part-time, part-time workers accounted for most of the total decline in employment (95 per cent).

Loss of hours: Hours were reduced on average in building cleaning by 25 per cent and in education catering by 16 per cent with virtually all those affected being part-time workers. Some local authorities and most private contractors had a deliberate policy of employing part-time workers below the National Insurance minimum earnings threshold to avoid making both the employers and employees NI contributions.

Table 1: **Employment change in the case study authorities**

Service	Pre-contract	Post-contract	Actual change	% change
Building cleaning	34,370	24,342	-10,028	-29
Education catering	19,925	17,889	-2,045	-10
Refuse collection	2,691	2,083	-608	-23
Sports & leisure mangt	2,041	2,135	+94	+5
Total	59,027	46,440	-12,587	-21

Source: 71 CCT contracts in 39 case study authorities.

Increased use of temporary workers: In building cleaning and education catering temporary workers accounted for 17 and 16 per cent respectively of employment on average, compared to 9 per cent in refuse collection.

Multiple jobs: The reduction in hours in catering and cleaning has meant that more women have had to take on several jobs of a few hours each in order to try to maintain income levels. Local authorities were unable to provide accurate information on the extent of multiple jobs but estimates by managers ranged up to 25 per cent of catering and cleaning staff having more than one job with the authority.

Loss of holiday retainer: Many school cleaners and school meals staff are no longer paid throughout the year or receive a holiday retainer. They are paid for only about 39 weeks of term-time which represents a salary reduction of up to 25 per cent.

Black and ethnic minority workers: The employment of black people was very low in all but three of the case study authorities and had remained static since 1988-89. In spite of ethnic record keeping in 60 per cent of authorities, black workers are under-represented compared to their share of the population in both male and female dominated services.

Disabled workers: Both female and male disabled workers were poorly represented in the services studied. There is evidence that the number of disabled workers employed by local authorities decreased during the first round of CCT tendering.

Pay: CCT appears to have resulted in a three tier pay structure. Most authorities (78 per cent of contracts in the case studies) continue to pay National Joint Council rates, while some DSOs (13 per cent of case study contracts) have introduced a local rate. All nine privatised contracts, which represented 10 per cent of the case study contracts, paid lower than NJC rates.

There were a number of other important findings concerning increasing casualisation, the effects of the development of a contract culture, the role of equal opportunities officers in the CCT process, the effect on trade unions and other matters relating to the quality of employment.

A detailed description of the methodology, findings and policy implications can be found in the Full Report, *The Gender Impact of CCT in Local Government*, available from the Equal Opportunities Commission, Overseas House, Quay Street, Manchester M3 3HN. Price £19.95. A Summary Report is also available, free of charge, from the EOC.

The objectives of this research paper

The extent of cost savings and the public costs of CCT are very important issues, particularly given the research findings from the 39 case study authorities. It is also important to identify any variation in the distribution of savings and costs between women and men and between central and local government.

This paper sets out the methodology and sources of data. These are primarily from published Government sources. The focus is on public costs. The analysis transcends Government Departmental responsibilities and budgets. The implementation of CCT is the responsibility of the Department of the Environment but the fact that it also has a financial impact on the Departments of Employment, Social Security and Health must be taken into account. These are no more or less real costs than those borne by the Department of the Environment. This research paper uses this data to calculate the cost savings of CCT, the costs and loss of income to central and local government as a result of changes in job losses, reduced hours and cuts to terms and conditions. It also takes into account the impact of DSO surpluses and Corporation Tax payments resulting from increased work carried out by private contractors. Finally, it examines the net financial effect of CCT on the public purse.

Methodology

There are broadly two different types of financial impact as a consequence of job losses and reduced earnings following cuts in hours and/or terms and conditions. Firstly, there are increased costs resulting from the payment of unemployment and other benefits. Secondly, the government suffers a loss of income because fewer workers are paying income tax and National Insurance contributions. Lower consumer spending also results in less income from indirect taxation such as VAT.

The paper identifies the cost of unemployment and other related benefits such as housing benefit and council tax rebates, and the costs of administering these benefits. Other costs connected with unemployment such as training and other employment measures targeted at the unemployed, the cost of increased use of local authority services and health care costs are also taken into account. This gives a cost per unemployed claimant which is then applied to the net effect of job losses in the case study authorities taking into account that only a proportion will be eligible for unemployment benefit.

The broad methodology is shown in Chart 1 opposite.

In previous studies the loss of income to the

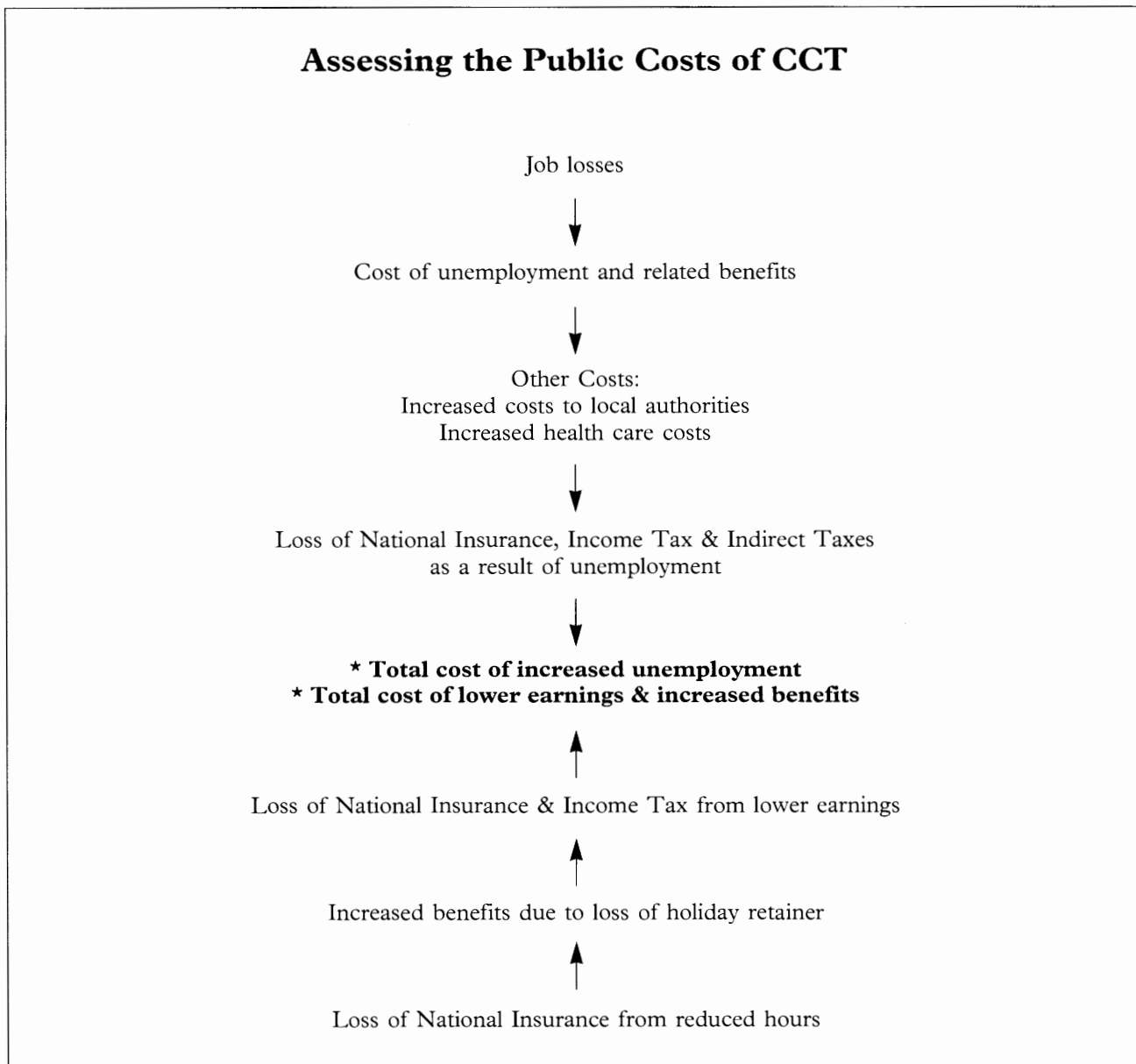
government has been calculated by determining the national costs and then applying this as a cost per unemployed claimant. However, we have adopted a more rigorous methodology based on calculating the loss of income to the government for a specific body of workers in the case study authorities. It has also been necessary not only to calculate the effect of job losses but also the financial consequences of cuts in working hours, the loss of holiday retainers, and reduced earnings as a result of lower wages. Costs have been calculated based on the earnings of women and men in building cleaning, education catering, refuse collection and sports and leisure management. This approach is complex but comprehensive in reflecting the consequences of changes in staffing, hours, and terms and conditions as a result of CCT. In short, the analysis is very CCT specific.

The cost analysis is focused on the net effect of changes as a result of CCT. Changes in the national level of unemployment do not invalidate

the analysis. The net stock of jobs would otherwise have been higher without the changes brought about by CCT.

Legal context

Although this paper identifies a series of public sector costs and loss of Government income directly related to CCT, it is not legally possible to take these into account in the evaluation of tenders. The Government has imposed regulations which mean that only the direct costs connected with the contract and the local authority can be taken into account (Statutory Instrument No 848, 1993). These regulations require local authorities to calculate the present value of any savings over a ten year period. Thus the focus is on potential 'savings' whilst deliberately ignoring, let alone quantifying, the costs which are associated with CCT. (Further detailed advice is available in: A Detailed Handbook on Tender Evaluation, Public Service Practice No 1, Centre for Public Services).



Part 1

Calculating the public cost of unemployment and indirect costs on central and local government in the case study authorities

Changes in employment affect the level of Government expenditure on unemployment and related benefits. They also result in changes in Government income such as Income Tax, National Insurance contributions and indirect taxation on consumer spending. This section identifies and quantifies the range of costs and loss of income as a result of the changes in employment including staffing levels, hours, terms and conditions, identified in the Full Report.

The analysis is based mainly on Government data, primarily from Social Security Departmental Report: The Government's Expenditure Plans 1994/95 to 1996/97 (Cm 2513, HMSO, 1994) and the Employment Department Group: The Government's Expenditure Plans 1994/95 to 1996/97 (Cm 2505, HMSO, 1994)

Data for 1993/94 has been used as the basis of the calculations which was also the period when the research was carried out. The calculation of costs is based on the number of registered unemployed.

The base figure is the October 1993 claimant unemployed count for Great Britain which was 2,690,800. This date was used because as a mid point in the 1993/94 financial year in the main research was carried out. The International Labour Organisation (ILO) unemployment measure from the Labour Force Survey in Autumn 1993 was 2,792,000 or 101,200 higher than the Government's registered unemployed count.

Cost of benefits, employment measures and other costs borne by central and local government

Cost of Benefits

Unemployed claimants received a total of £9,720m in 1993/94 (Social Security, Table 5, estimated outturn) in benefits including unemployment benefit, principal income related benefits and payments from the Social Fund to unemployed people and their families (see Table 4) but excluding housing benefit. This overall figure is supplied by the Government. It relates to benefits paid to registered claimants in connection with unemployment, but does not include Child Benefit because families would be entitled to this

irrespective of their employment status. The Government allocates child benefit paid to unemployed people to the family rather than by unemployment expenditure classification (para 26, Social Security).

The cost of men aged 60-64 receiving **Income Support** in return for not registering for work must also be included because, by not registering, they reduce the unemployment count. The GB figure total was 177,000 in 1992/93 (Table 7, Social Security) and they represent 10.6% of the total number of elderly in receipt of Income Support. The total cost of Income Support for the elderly is £4,045m (Table 1). Thus the cost of these benefits is £429m which must be added to the total cost of benefits to unemployed claimants, £9720m + £429m = £10,149m.

Income Support is an income related benefit which provides financial help for people who are not in paid work and whose income, from all sources, is below a minimum level set by Parliament. Income Support is paid for out of taxation. Those working up to an average of 16 hours a week may be eligible for Income Support. Those who are available for and actively seeking work are normally required to sign on at a Jobcentre. Income support is based on a personal allowance, a personal allowance for a child or young person, premium payments for groups of people (family, lone parents, the elderly, long term sick people, those with a disability and certain housing costs not met by housing benefit. Income Support also includes payment of mortgage interest for unemployed home owners although only limited financial support was available for the first 16 weeks of unemployment in 1993/94.

The cost of Housing Benefit which includes rent rebates, rent allowances and council tax rebates (Table 3, Social Security Annual Report, 1993/94 estimated outturn) was £10,631m.

Council Tax Benefit replaced the Community Charge (Poll Tax) from April 1993 as the means of paying for local services. Only householders have to pay it and there are eight different payment bands depending on the value of the property. Single people get a 25% discount. Council Tax Benefit is a Government scheme, operated by local authorities, to help people on low income pay their Council Tax. It applies to tenants and home owners, employed and unemployed and those on Income Support. The amount of benefit is based on income levels, the number and age of children and other adults in

the household. Benefit is paid by reducing the bill payable to the Council.

Using data from Tables 3 and 6 (Social Security), the cost of housing benefit and council tax rebates are shown in Table 2.

Table 2: Cost of housing benefit and council tax rebates

Benefit	No claiming 1993/93	Total cost 1993/94	Average cost per claimant
Rent Rebate	3,037,000	£4,921m	£1,620
Rent Allowance	1,290,000	£3,817m	£2,959
Council Tax Rebate	6,550,000	£1,810m	£276

Source: Social Security Departmental Report: The Government's Expenditure Plans 1994/95 to 1996/97, Cm 2513, HMSO, 1994.

Assuming 75% of unemployed claimants receive housing benefit (rent rebate/rent allowance) the cost will be (75% of 2,690,800 x average annual cost of £2019 based on the above table) = £4,075m. In addition, assuming 75% of claimants are in receipt of council tax rebate, the total cost of this will be (75% of 2,690,800 x £276) = £557m. The total cost of housing benefit and council tax rebates (£4,075m + £557m) = £4,632m

The total cost of income related benefits to the registered unemployed is thus £10,631m + £4,632m = £15,263m or £5,672 per registered claimant per annum based on the October 1993 unemployed claimant count of 2,690,800.

Cost of Administering Benefits

The cost of administering the relevant benefits is not included in total payments noted earlier. Administration costs vary according to the benefit and are identified by the type of benefit as shown in Table 3.

Table 3. Cost of Benefit Administration in 1993/94

	Average weekly administration* cost per beneficiary	Cost per annum per beneficiary
Unemployment Benefit	£7.40	£385
Income Support	£5.20	£270
Social Fund**	£1.95	£101
Housing Benefit	£1.15	£60
Council Tax Rebate	£0.55	£29

Source: Figure 29, Social Security Departmental Report: The Government's Expenditure Plans 1994/95 to 1996/97 (Cm 2513, HMSO, 1994)

* Includes central government and local authority costs

** not paid weekly but comparative figure

Unemployed claimants usually received more than one benefit. In 1992/93, 24% of the unemployed received only unemployment benefit, a further 4% received both UB and Income Support, and 72% received only Income Support (Table 7, Social Security). Based on Table 3 above, the annual cost of administration was £813m. To this must be added the cost of administration for housing benefit and council tax rebates for unemployed claimants (75% of 2,690,800 x £60 = £121m) plus (75% of 2,690,800 x £29 = £58m). This gives a total cost of £813m + £121m + £58m = £992m.

This is a higher figure than that obtained by using 'the administration costs as a percentage of benefit expenditure' which was 3.8% in 1993/94 (Social Security, Table 9) and applying this to the total cost of benefits (3.8% of £15,263m) = £580m. This is because the cost of administering benefits to the unemployed has a higher average cost than other benefits such as pensions, child benefit and other benefits or allowances.

The cost of administering benefits is thus (£992m divided by 2,690,800) = £369 per registered unemployed claimant per annum.

Cost of Employment & Training Schemes

Various government training and employment schemes have the effect of reducing the number of claimant unemployed and are, therefore, a direct cost of unemployment. This analysis has excluded the cost of Youth Training (YT) as it now has more of a training function (leaving aside the quality of training and employment substitution issues) and young unemployed people not on YT who do not receive benefit. The cost of sheltered employment and training schemes for the disabled have also been excluded. The general cost of the Placing and Advisory Service (total expenditure of £320.3m in 1993/94) has also been excluded although this service deals with both unemployed and employed people. However, the cost of specific programmes for the unemployed such as Job Clubs and Jobplan has been included and is detailed in Table 4.

Table 4. **Cost of Employment Measures**

Expenditure 1993/94 £m	
Employment Training & Employment Action	762.0
Job Search	4.7
Job Club	43.8
Job Interview	3.3
Work Trials	2.0
Jobplan	35.3
Restart	13.6
Workstart and other schemes	2.6
Community Action projects	31.5
Total	£898.8m

Source: Employment Department Group: The Government's Expenditure Plans 1994/95 to 1996/97 (Cm 2505, HMSO, 1994)

The cost of employment measures per unemployed claimant in 1993/94 was £334.

Cost of Redundancy Payments

Although employers are now responsible for redundancy payments, claims can be made to the Government's Redundancy Payments Service where the employer cannot pay due to insolvency or financial difficulty. Payments are made from the National Insurance Fund. This is clearly another cost of unemployment. Using GB data, expenditure including administration costs was £290m in 1993/94 (Table 11, Employment Department Group) or an average cost of £108 per claimant unemployed per annum.

Cost of Measures to Mitigate Unemployment & Job Creation

Measures to mitigate the effects of unemployment and the increased use of public services are further costs of unemployment which must be taken into account. Several local authorities in Britain have itemised the increased use and cost of social services, education and other services (summarised on pages 432/433, *The Welfare State*). For example, a detailed study in Manchester revealed cost/lost revenue of £520 per claimant unemployed per annum (1986 prices) or equivalent to £725 at 1993/94 prices. However, annual budget cuts in local authorities, particularly in those authorities which had funded projects and services for the unemployed, have led to a major reduction in overall expenditure in this area. We have therefore estimated the 1993/94 cost to be £350 per registered unemployed claimant. To this must be added the increased cost of false fire alarms which have been shown to be directly related to the rate of unemployment (S.Cameron, *Applied Economics*, No 19, 1987). A 1% per cent

increase in unemployment rate gave an increase of £17.5m in fire service costs in Great Britain (1981/82 prices) using CIPFA Fire Service Statistics, equivalent to about £30 per claimant unemployed at 1993/94 prices. It is difficult to estimate the actual cost and hence the £30 figure has been included as a notional figure. This gives a total cost per unemployed claimant of £380.

Increased Health Care Costs

Many research studies in Britain, the US and other countries have examined the effect of unemployment on physical and mental health, although there are recognised difficulties in separating the effects of unemployment from the effects of poverty, recession, housing and social conditions (summarised on pages 433-434, *The Welfare State*). Further evidence is available, for example, linking the loss of employment and mortality (*British Medical Journal*, 30 April 1994). Significant increased use of GP and hospital services leads to higher health care costs. The Government's Office of Health Economics has calculated that the extra cost of visits to GPs and pharmaceutical services is £40.1m (1992 prices based on 3m unemployed) plus £30.6m for the loss of prescription charges. The annual cost of £24 per unemployed claimant excludes the cost of the additional use of GP services by the families of the unemployed and free prescriptions to spouses (all those in receipt of benefits receive free NHS prescriptions, dental treatment and sight tests and help with the cost of glasses).

More significantly, it also excludes the cost of increased use of hospital in-patient or out-patient services by the unemployed. Increased mortality from lung cancer and ischaemic heart disease "will represent a considerable burden to the NHS." (Office of Health Economics, Briefing No 29, July 1993) For example, the average cost of a hospital acute case was £811 in 1990-91 and £72 per day for the mentally ill. (Department of Health, Annual Report, March 1994, Cm 2512)

The total additional cost of health care services to the unemployed has been estimated at £200 per person per annum over five years at 1990 prices (*The Welfare State*) or £220 at 1993/94 prices.

This gives a cost of unemployment and other related benefits and costs connected with unemployment of £7,083 per unemployed claimant (see Table 5).

Table 5: **Cost of benefits, employment measures and other public sector costs**

Cost item	£ (1993-94)
Cost of unemployment & housing benefits & council tax rebates	5,672
Cost of administrating benefits	369
Cost of employment and training schemes	334
Cost of redundancy payments	108
Cost of local authority measures to mitigate unemployment and job creation	380
Increased health care costs	220
Sub total	7,083

Loss of Jobs and Increased Cost of Unemployment in the Case Study Authorities

There was a net loss of 12,587 jobs in the four CCT services in the 39 case study authorities. Women working part-time accounted for most of the job lost and it can be assumed from their hours and pay that a proportion of these would have had earnings below the National Insurance Lower Earnings Limit and thus they would have been unable to claim unemployment benefit. Some staff left through retirement and voluntary early retirement. Some may have obtained other jobs but they may have displaced other people or kept someone else unemployed. The focus is on the net effect on jobs.

The Labour Force Survey ILO measure of unemployment identified 900,000 women who were unemployed in spring 1993 which was higher than the claimant count of 660,000. Some 510,000 women were classified as ILO unemployed but were not claiming benefits (57% of non claimants) and some 273,000 or 56% were seeking part-time work (Measures of Unemployment: the claimant count and the LFS compared, Employment Gazette, October 1993).

This data refers to the stock of unemployed people. There are no precise figures about the proportion of those losing their jobs in the case study authorities who were eligible for unemployment and became registered claimants. Some were ineligible for unemployment benefit because they either were under the NI threshold or had not paid sufficient NI over the previous year to qualify. Another proportion took voluntary early retirement. We have estimated that 3,000 (24%) of the 12,587 workers who lost their jobs were entitled to and claimed unemployment benefit in the case study authorities. It should also be noted that benefit take-up is reported to be near to 100% for unemployment benefit, together with pensions and child benefit. (para 46, Social Security Departmental Report: The Government's Expenditure Plans 1994/95 to 1996/97, Cm 2513, HMSO, 1994).

The analysis also needs to take into account the knock-on effects on jobs in the local economy. The loss of 12,587 jobs has resulted in the loss of £31m net spending in the economy after taking into account income tax, National Insurance payments, indirect taxation, unemployment benefit and a savings ratio. The loss of jobs in either the public or private sectors has a knock-on effect on the local economy as those with much reduced incomes spend less in shops and on local services.

Earlier studies have shown that for every four jobs lost in local government one further job is lost in private services in the local economy. We have calculated the multiplier in previous studies to be 1.24 (Royal Hospital Study, Belfast), 1.25 Sheffield (The Public Cost of Private Contractors, Sheffield City Council, 1985) and 1.25 Manchester (Manchester Employment Plan, Manchester City Council, 1987). These were based on a higher proportion of full-time workers and higher average wages. Multipliers which are based on a high proportion of construction jobs are often in the order of 1.35 because of higher average earnings levels.

The very large number of part-time local authority workers with relatively low wages which accounted for the 12,587 job losses would produce a multiplier well below the 1.25 ratio. A multiplier of 1.15 is considered a reasonable estimate taking into account the very large number of part-time local authority workers with relatively low wages. A lower multiplier, of say 1.10, would have produced a £1m or less than 5% difference in the cost of unemployment. It should also be noted that a similar analysis of other CCT manual and white collar services should be based on a 1.25 multiplier because of the significantly larger proportion of full-time jobs and higher average earnings.

The cost of unemployment is calculated to be £24.4m based on the 1.15 multiplier and the costs noted above.

Women's employment accounted for £23.1m of the cost of unemployment and men's employment accounted for £1.3m.

But this is only **part** of the cost of unemployment and the effect of job losses. The government also loses income from PAYE, National Insurance and indirect taxation from lower consumer spending. The next section calculates the scale of this lost income based on the 12,587 job losses and average wages in the different services.

Additional costs of unemployment

Loss of Government income

The loss of Income Tax revenue, National Insurance contributions and indirect taxation have been calculated on the following basis. Account has been taken of both increases and decreases in full and part-time jobs in the four services for both women and men (see Table 9.3 of the main report). Average weekly wages for local authority manual workers were based on the New Earnings Survey 1994. The 1994 survey was used because it is carried out annually in April and local authority staff would have been on the National Joint Council (NJC) rates applicable since July 1993. Building cleaning and education catering £132.80 per week and £61.50 part-time manual and £90.90 part-time non-manual; refuse collection £265.40, and sports and leisure management full-time £228.60 (male) and £187.1 (female) with female and male part-time staff on £90.90 (non-manual), £70.50 (manual).

Loss of Income Tax Revenue

Job losses and increased unemployment reduces Income Tax revenue to the Government. The amount of PAYE payable was calculated for the different groups of full and part time staff using the same average wages noted above. The personal and married persons allowances for 1993/94 were used together with the relevant tax rates of 20% on the first £2,500 of taxable income and 25% thereafter (Inland Revenue Statistics 1993, Appendix A1 and A2). It was assumed that 30% of refuse workers claimed the personal allowance and that 70% claimed the married persons allowance; in building cleaning and education cleaning it was assumed that 20% of workers claimed the married persons allowance, and for sports and leisure management it was assumed that 50% claimed the married persons allowance.

This analysis showed that lost PAYE income amounted to £0.3m in education catering, £1.3m in refuse and £0.03m in sports and leisure management. These losses were offset by an increase in building cleaning of £0.2m due to the increase in full-time jobs having a greater effect than the loss of part-time jobs. This gives a total of £1.4m lost PAYE income. This can also be expressed as a cost of £467 per unemployed claimant per annum. The bulk of this loss of income, £1.2m, is attributable to men and £0.2m to women.

Loss of National Insurance Contributions

The Government loses both employee and employer contributions to the National Insurance Fund. The calculations of the loss of National Insurance have been calculated using tables and publications from the Contributions Agency, Department of Social Security for the year 1993/94. The net effect of the loss of both employee and employer National Insurance contributions was £2.4m in building cleaning, £0.8m in catering, £1.5m in refuse and only £2,000 in sports and leisure management where the increase in part-time jobs was offset by the loss of full-time jobs. Women accounted for £3.2m and men £1.5m, giving a total NI loss of £4.7m. This can be stated in terms of the cost per registered unemployed claimant by dividing the £4.7m by 3,000 to give an NI loss of £1,550 per unemployed claimant per annum. This compares to the estimated £1,897 per claimant in the Belfast audit using government data and Unemployment Unit estimates. The lower figure in this analysis is due to the lower earnings profile and larger percentage of part-time workers.

Loss of VAT and Indirect Taxes

Reduced spending by the unemployed also reduces the government income from indirect taxation such as VAT, car tax and taxation on alcohol and cigarettes. The loss of indirect taxation was calculated by determining the amount of net wages after PAYE and NI which totalled £46.8m in the four services. Unemployment benefit for 3,000 claimants would also have to be taken into account (excluding housing benefit and council tax rebates) and it is assumed that all this income would be spent but that those in work would have a savings ratio of 5% ie that 95% of income would be spent. It is also assumed that 25% of unemployed claimants manage to maintain their pre-unemployment spending. Expenditure by households headed by semi-skilled workers included 18.3% of income spent on housing and 19.3% on food spending leaving 62.4% spent on general consumption. Indirect tax on consumption spending averages 14%.

On this basis the total tax foregone is £2.7m. At least 80% of this loss would relate to women's employment taking into account the fact that men account for seven per cent of the total number of jobs, being full-time rather than part-time, and their higher incomes.

The cost of unemployment is thus £24.4m in connection with unemployment related benefits and services, £1.4m in lost income tax, £4.7m in lost National Insurance contributions and £2.7m in lost indirect taxation, a total of £33.2m.

Loss of Income as a Result of Cuts in Hours, Loss of Holiday Retainer and Lower Wages

The above costs all relate to the loss of jobs. But other changes brought about by CCT such as the reduction in hours and earnings below the National Insurance lower earnings threshold, the loss of the holiday retainer thus reducing earnings, and lower earnings as a result of pay cuts and lower wage levels working for private contractors have resulted in a loss of income to central government. These are examined below.

Loss of National Insurance Contributions from Cuts in Hours

On the basis of evidence from the case study authorities, it is estimated that CCT has led to 15,000 workers having their hours cut to take them below the current NI threshold of £56 per week (1993/94). This was based on estimating the number of staff in the case study authorities which had reduced hours. There were a total of 17,880 catering workers (11 case study authorities) and 24,342 building cleaners (20 case study authorities) - a total of 42,222. Sixteen catering case studies and two thirds of cleaning case studies had cuts in hours. The estimate also took into account the total number of staff employed in those authorities which had cut hours. The above figures are based on contracts in some of the 39 case authorities - they do not represent all workers in all 39 authorities. So the estimate of 15,000 is, we believe, a conservative one.

Assuming an average 20 hours per week (about £70 per week at NJC Grade 1) were reduced to 15 hours (£54 per week) this would have resulted in a loss of £5.60 in weekly NI contributions (£3.22 employers and £2.38 employees contributions) making a total annual loss to the Government of £4.4m. Virtually all those affected are women in building cleaning and education catering, hence almost the entire loss of income is related to women's employment.

It is extremely difficult to estimate the financial effects on women no longer being entitled to unemployment benefit and other benefits as a consequence of not paying National Insurance contributions. The fact that women lose their entitlement is clear but the long term financial impact for central government is unclear. Much will depend on women's personal circumstances (family responsibilities, the existence of other wage earners in the household and the level of savings) as they may be entitled to Income Support both as an unemployed worker and later as a pensioner.

For example, a single woman with a part-pension (due to a period of not making NI contributions), would be entitled to a topping up from Income

Support. Hence there may be little actual saving in public expenditure as a result of the loss of entitlement caused by non-contribution to NI. It does, however, place women into having fewer employment rights, imposes means testing on them in order to supplement lower pensions, and those whose circumstances place them above Income Support levels receive a smaller pension than they would otherwise have done. This analysis has excluded an assessment of spending changes on this aspect of state expenditure because of the complexity in estimating what is likely to be a relatively small amount.

The analysis has also considered the effect on **Family Credit** which aims to help low income families back to work and those in work on low incomes. Family Credit is payable to those families on low incomes where one parent or partner is working at least 16 hours per week, supports at least one child and has less than £8,000 savings. Income which is taken into account includes take home pay, social security benefits (but excluding Child Benefit, One Parent Benefit, Attendance Allowance, Disability Living Allowance, Housing Benefit and Council Tax Benefit) and other money (except the first £15 of maintenance or money from boarders). The amount of Family Credit is based on the number and age of children and weekly income. Maximum payments are £44.30 for parents (lone or a couple) and between £11.20 and £32.20 for each child depending on age and if in full time education, below A level standard. A family with a weekly income of less than £71.70 gets the full amount of Family Credit. About 70p is taken of the entitlement for every pound over £71.70. It lasts for six months at a time.

Since it only applies to those working more than 16 hours per week, it is unlikely to apply to many cleaning and catering staff, the majority of whom have had their hours cut below 16 hours per week. Those who had their hours cut from 24 to say 18 hours may become entitled to Family Credit depending on other household income. The maximum weekly payment was £53.25 in 1993/94. Those working less than 16 hours per week could have been entitled to Income Support depending on other household income.

This analysis has excluded an assessment of Family Credit and Income Support expenditure in the context described above because of the lack of information and on the assumption that it involves relatively small levels of expenditure.

Any longer term reduction in state spending resulting from women being excluded from benefits by being below the minimum National Insurance threshold are likely to be balanced by the increased cost of Family Credit and Income Support payments made to staff because reduced hours and earnings had entitled them to claim benefit.

Loss of Holiday Retainer

In education catering some 9765 staff in the case study authorities had suffered a 50% cut in retainer and a further 522 had it cut altogether. In cleaning, 13,300 staff were affected by the loss of retainer. We have estimated that 4,000 (ie 20% of those eligible) who lost their holiday retainer, claim benefit for eight weeks per annum. We estimated unemployment and income support payments averaging £60 per week (based on £44.65 unemployment benefit, April 1993 rates, and assuming a small proportion would also receive Income Support) x 4,000 claimants x 8 weeks. This would cost the Government about £1.9m. This loss of income is entirely related to women's employment.

Loss of PAYE and NI Contributions as a Result of Lower Earnings

Employees with reduced earnings working for DSOs and private contractors will be paying lower PAYE and NI contributions. Private contractors employed 4,900 or 11% of the 46,440 workers employed in the four services in the case study authorities. The differences in wage levels are described in the chapter on each service in our main report. There were substantial differences, in some cases up to £1.00 in hourly rates, between local authorities and private contractors. In some cases DSOs also reduced terms and conditions. We have estimated the loss of Income Tax and National Insurance contributions based on 5% lower earnings for half the workforce. This would result in an annual loss of about £1.7m PAYE and NI contributions to the Government. At least 80% of this loss would relate to women's employment for the same reasons noted under the loss of income from indirect taxation above.

Summary of Costs

The cost of job losses in the case study authorities

was calculated to be £33.2m to which must be added the loss of income tax, National Insurance contributions, indirect taxation and the effects of other changes as a result of CCT. These amount to £8.0m giving a total cost of £41.2m. The different costs are described in Tables 6, 7 and 8 below.

Women's employment accounted for £32.0m (77%) of the combined cost of unemployment and loss of income to central government.

The loss of income can also be stated on a service basis for the case study authorities as shown in Table 6.

Distribution of indirect costs between central and local government

The bulk of these costs fall on central government. Only some £380 (5.3%) of the £7,083 cost of unemployment falls on local government. Although local authorities administer housing benefit and council tax rebates they claim over 90% of the money paid to council tax claimants and housing benefit claimants who live in private rented homes from the Department of the Environment. With regard to the loss of income from PAYE, National Insurance contributions and indirect taxation this is virtually all income lost by central government (Table 7).

In financial terms this means that central government bears 94.7% of the £24.4m cost of unemployment, some £23.1m, plus the £16.8m net loss of income, a total of almost £40m or 97% of the total costs related to CCT.

Job losses of 12,587 in the four services (see Table 1) in the case study authorities have been used as the base to estimate national job losses in the four services.

Table 6: **Loss of income to central government in the case study authorities**

Loss of income	Attributable to female employment £m	Attributable to male employment £m	Total £m
Cost of unemployment benefits	23.1	1.3	24.4
Other costs related to unemployment			
Loss of income tax revenue	0.2	1.2	1.4
Loss of National Insurance contributions	3.2	1.5	4.7
Loss of indirect taxation	2.2	0.5	2.7
Total cost of unemployment	28.7	4.5	33.2
Loss of income from cuts in hours, loss of holiday retainer and reduced earnings			
Loss of NI from cuts in hours	-	4.4	4.4
Loss of holiday retainer	1.9	-	1.9
Loss of NI & Income Tax from lower earnings	1.4	0.3	1.7
Total loss of income	3.3	4.7	8.0
Total	32.0	9.2	41.2

Table 7: **Loss of income to central government by type of service**

Type of income change	Building Cleaning £m	Education Catering £m	Refuse Collection £m	Sports & Leisure Management £m	Total £m
Job losses					
Income Tax	+0.2	-0.3	-1.3	-0.02	-1.4
National Insurance	-2.4	-0.8	-1.5	-0.02	-4.7
Indirect taxation	-2.0	-0.5	-0.4	+0.20	-2.7
Other changes					
Cuts in hours	-3.7	-0.7	-	-	-4.4
Loss of holiday retainer	-1.0	-0.9	-	-	-1.9
Lower earnings	-1.2	-0.3	0.2	-	-1.7
Total	-10.1	-3.5	-3.4	+0.2	16.8

Table 8: **Distribution of costs between central and local government**

	Central Government		Local Government	
	£m	%	£m	%
Job losses	23.1	94.7	1.3	5.3
Changes to hours, loss of holiday retainer and wage cuts	8.0	100.0	0.0	0.0
Total	41.2	96.8	1.3	3.2

Part 2

Calculation of national job losses

The calculation of national job losses has been based on the value of case study authority contracts for different types of authority as a proportion of the national contract value, taking into account the actual job losses in different types of authority. Table 9 indicates case study and national contract values.

Table 9: **Value of contracts**

	National total contract value £m	Value of case study authority contracts £m
Building cleaning	438*	78.0
Education catering	617*	92.3
Refuse collection	610*	54.8
Sports & leisure management	244**	27.0

* Based on Institute of Public Finance (CIPFA) database: The IPF data have been used because the total includes Scotland whereas the LGMB total contract values are only for England & Wales.

** Based on LGMB database: A total figure for sports and leisure management was not available from IPF so we have added LGMB data for England, Wales and Scotland for this service.

The national job losses are calculated in building cleaning, education catering, refuse collection and sports and leisure management as follows. The tables in each section show the share of national contracts by different types of authority, the number of jobs lost in the service in the case study authorities and the value of contracts in the case study authorities.

Building Cleaning

Table 10: **Job losses and contract values**

	Authorities' share of national contracts	No of jobs lost in case study authorities	Value of contracts in case study authorities £m
County Councils	39%	1906	15.0
Regional Councils	13%	5625	30.0
Met Districts	21%	2304	26.0
District Councils	10%	52	6.0
London Boroughs	17%	141	1.0
Total	100%	10,028	78.0

The calculation first determines the share of the national contract value, for example, County Councils have 39% of the £438m national

contract value which is £171m. Job loss in the case study authorities was 1,906 relating to a contract value of £15m. Therefore, the national job losses will be £171m divided by £15m and multiplied by 1,906 to give a national job loss of 21,730. This process is repeated for each type of authority.

County Councils = $438 \times (39/100) = 171$ thus
 $(171/15.0) \times 1906 = 21,730$

Regional Councils = $438 \times (13/100) = 57$ thus
 $(57/30.0) \times 5625 = 10,690$

Metropolitan Districts = $438 \times (21/100) = 92$
thus $(92/26.0) \times 2304 = 8,150$

District Councils = $438 \times (10/100) = 44$ thus
 $(44/6) \times 52 = 380$

London Boroughs = $438 \times (17/100) = 74$ thus
 $(74/1) \times 141 = 10,435$

Total job loss: 51,385

Education catering

Table 11: **Job losses and contract values**

	Authorities' share of national contracts	No of jobs lost in case study authorities	Value of contracts in case study authorities £m
County Councils	54%	1096	31.8
Regional Councils	12%	75	10.0
Met District/London Bor.	34%	874	50.5
Total	100%	2045	92.3

County Councils = $617 \times (54/100) = 333$ thus
 $(327/31.8) \times 1096 = 11,480$ jobs

Regional Councils = $617 \times (12/100) = 74$ thus
 $(74/10) \times 75 = 555$ jobs

Metropolitan Districts and London Boroughs =
 $617 \times (34/100) = 210$ thus $(210/50.5) \times 874 =$
3635 jobs

Total job loss: 15,670

Refuse collection

Table 12: **Job losses and contract values**

Authorities' share of national contracts	No of jobs lost in case study authorities	Value of contracts in case study authorities £m
Met District Councils 16%	263	31.3
District Councils 65%	188	16.0
London Boroughs 19%	157	7.5
Total	608	54.8

Metropolitan Districts = $610 \times (16/100) = 97$ thus
 $(86/31.3) \times 263 = 720$

District Councils = $610 \times (65/100) = 396$ thus
 $(396/16) \times 188 = 4655$

London Boroughs = $610 \times (19/100) = 116$ thus
 $(116/7.5) \times 157 = 2430$

Total job loss: 7,805

Sports & Leisure management

The calculation for this sector was based on dividing the total national contract value of £244m by £27m (which is the contract value of case study authorities) and multiplying by the number of job increases in the case study authorities $+94 = +850$

Total job gain: 850

Total Job losses

The sum of the job losses in building cleaning, education catering and refuse collection and the job gains in sports and leisure management are summarised in Table 13.

Table 13: **Total of national job losses**

Service	Job losses
Building cleaning	-51,385
Education Catering	-15,670
Refuse Collection	-7,805
Sports and Leisure Management	+850
Total	-74,010

Part 3

Calculation of national costs of CCT

The national costs of CCT have been calculated by firstly, taking the number of jobs lost in each service in the case study authorities and expressing this as a proportion of the contract value of each service in the case study authorities. Secondly, applying this percentage to the national contract value for each service to determine the national cost in each service. Finally, adding the cost for each service to arrive at a total cost.

Table 14: **Jobs lost in each service**

Service	No of jobs lost	% of total job losses
Building Cleaning	-10,028	79
Catering	-2,045	16
Refuse	-608	4
Sports & Leisure	+94	-
Total	-12,587	100

The next stage is to express the percentage of the total job loss in each service as a percentage of the costs of CCT in the case study authorities (see Part 2).

Building cleaning 79% of £41.2m = £32.5m

Catering 16% of £41.2m = £6.6m

Refuse 5% of £41.2m = £2.1m

Sports & leisure The increase in jobs was relatively small and did not have a material effect on the calculation - the job gain is only 0.75% of the employment change.

These costs were then expressed as a proportion of the contract value in each service:

Building cleaning: £32.5m divided by £78m x 100 = 41.7%

Apply this percentage to the national contract value: 41.7% of £438m = £182.6m

Education Catering: £6.6m divided by £92.3m x 100 = 7.2%

Apply this percentage to the national contract value: 7.2% of £617m = £43.8m

Refuse Collection: £2.1m divided by £54.8m x 100 = 3.8%

Apply this percentage to the national contract value: 3.8% of £610m = £23.2m

The total national cost of CCT for these services can be determined by summing the costs for each service (see Table 15).

Table 15: **Total national cost of CCT**

Service	£m
Building cleaning	182.6
Education Catering	44.3
Refuse Collection	23.2
Sports and Leisure Management	-
Total	£250.1

Part 4

Calculation of case study and national CCT savings

Over the last decade the Government has consistently claimed that CCT and market testing produce cost savings of 20%. However, this figure was never substantiated by research. The Department of the Environment then funded a major study into CCT which was carried out by the Institute for Local Government Studies, University of Birmingham. Based on 40 case study local authorities, it concluded that cost savings were, on average, 6.5% when the costs of the service after competition were compared with those before. This was accepted by the Government and detailed in the DOE's Annual Report on CCT for 1993 (CCT and Local Government, DOE, 1994).

The study found that "the range of change is very wide, from an increase in costs after competition of 62.4 per cent to a reduction in cost of 49.7 per cent. There was a reduction in cost following competition in 131 (64 per cent) of the total cases, an increase in 51 (24 per cent) cases; in 25 cases there was estimated to be no change." (DoE, 1993) Costs were examined over three tranches of competition between 1989/90 and 1991/92. It also concluded that "the figures show, on average, a reduction in cost following competition, partly from productivity changes and partly from changes in staff pay and conditions."

A previous study carried out by the Centre for Public Services for Manchester City Council had also identified savings of the same order. Both these studies did note that the full costs of preparing for CCT, such as officer time, had not been included in the cost analysis. This would mean the actual savings are likely to be smaller.

The total cost savings in the four services in the case study authorities have been calculated by applying the average 6.5% cost reduction figure to the contract values in the case study authorities shown in Table 16.

Table 16: **The value of contracts in the four services in the case study authorities**

Service	Contract value £m
Building cleaning	78.0
Education catering	92.3
Refuse collection	54.8
Sports & leisure management	27.0
Total	252.1

Total savings in the case study authorities will therefore be $(252.1 \times 106.5/100) = (268.5 - 252.1) = \text{£}16.4\text{m}$. Women's employment accounted for about 53% of these savings. An alternative approach is to calculate the total savings on the basis of cost changes in the individual services, as shown in Table 17.

Table 17: **Savings in the individual services**

Service	% change after competition
Building cleaning	-12.7%
Education catering	+2.8%
Refuse collection	-11.3%
Sports & leisure management	-5.0%

Source: Table 13.4, DoE 1993.

This gives an average saving of $(26.2/4) = 6.55\%$ which is virtually the same as using the overall figure for all CCT services. The 6.5% per cent figure has been used in this analysis because it is based on a larger sample.

National savings

The national CCT savings have been calculated by applying the 6.5% figure to the national value of contracts in the four individual services as shown in Table 18.

Table 18: **The total contract value of the four services**

Service	National contract value £m
Building cleaning	438
Education catering	617
Refuse collection	610
Sports & leisure management	244
Total	1,909

The total savings are thus $(1909 \times 106.5/100) = 2,033 - 1909 = \text{£}124\text{m}$.

It should be noted that the 6.5% average saving will include reduced expenditure by local authorities and contractors avoiding payment of the employers National Insurance contributions when they have deliberately reduced working

hours below the minimum NI threshold. As employers NI contributions represent about 2% - 3% of labour costs in building cleaning and labour costs represent about 85% - 90% of total costs, then about a third of the savings in building cleaning are merely a reduction in local government payments to central government.

Part 5

The use of DSO profit

The Local Government Act 1988 requires local authorities to establish a trading account for each defined activity being undertaken by an in-house service. The Act gives the Secretary of State power to determine the financial objectives. Building cleaning and sports and leisure management contracts, and other services which do not employ capital, must at least break even. Other services must achieve a 6% (increased from 5% in 1994) return on the capital employed.

Local authorities have wide discretion as to what they do with these surpluses and can:

- * transfer them from the DSO account to the general fund;
- * return them to clients;
- * transfer them to DSO reserves;
- * distribute part or all of them under a profit sharing scheme;
- * use them to meet DSO capital expenditure.

Although DSOs have created surpluses it should be emphasized that they cannot be considered as additional CCT 'savings'. They are essentially about the distribution of finance within the local authority. The amount of surplus does not affect the level of Government grant because this is fixed by the Standard Spending Assessment. The only additional income is that proportion of the surplus which is obtained from increased user charges. We have, nevertheless, examined the use of surpluses based on the case study authorities.

An analysis of the surpluses, using official statistics collated by the Department of the Environment for DSOs in England, Wales and Scotland in 1991/92 (the last year for which figures are available) showed that DSOs in the four services in the case study authorities produced a surplus on their trading accounts of £17.4m. This is summarised in Table 19.

Table 19: **DSO Surpluses in 39 Case Study Authorities 1991/92**

Service	DSO Surplus	% of total
Building cleaning	£2.23m	13
Education catering	£13.69m	78
Refuse collection	£0.73m	4
Sports & leisure management	£0.78m	5
Total	£17.40m	100

Based on 39 case study authorities. Source: DOE, 1993.

Nationally, these four services produced a surplus of £63.0m in 1991/92. The distribution of this surplus was different from the case study authorities because of the greater proportion of larger authorities and fewer district councils in the study. The national percentages were 14%, 51%, 23% and 13% in the four services respectively.

Female dominated services accounted for over 90% of the surpluses generated by the case study authorities (64% nationally). When allowance is made for the difference between part-time and full-time employment, women produce a relatively larger proportion of surpluses than the figures suggest.

The proportion of DSO surpluses used for profit sharing schemes has been based on information from the case study authorities which indicated that 21% of building cleaning DSOs, 10% of education catering, 38% of refuse collection and 28% of sports and leisure management DSOs operated profit sharing schemes (Table 9.10 of full report). Average payments in the case study authorities were about £50 per annum in building cleaning and education catering. Assuming similar payments were made in sports and leisure DSOs and £150 per annum in refuse collection, the total cost would be about £0.50m. Many schemes are tied to attendance so not all staff would receive the full amount. Profit Related Pay schemes which have the approval of the Inland Revenue are exempt from Income Tax and NI contributions. However, many DSO schemes do not have approval. Assuming all such schemes do not have approval, the combined National Insurance and Income Tax payments, representing increased income to the Government, would be £0.17m.

There is no national information currently available on the use of DSO surpluses. However, the following is considered a reasonable assumption:

	£m
Profit sharing	0.50
Capital expenditure	5.00
Transferred to DSO reserves	1.90
Transferred to general fund	10.00
Total	17.40

Assuming the same distribution of surpluses nationally, the proportion of the £63m surplus in 1991/92 transferred to local authorities general

funds was £36.2m. The largest proportion of the surpluses were generated by Metropolitan District Councils and London Boroughs who were confronted with substantial spending cuts as a result of Government financial controls. The £36.2m was used by local authorities as part their overall internal financial assets. As noted above, it would not have led to a corresponding reduction in Government grant to local authorities.

Part 6

Corporation Tax payments by private contractors

An increase in the contracting out of public services to private contractors could lead to these firms increasing their turnover, pre-tax profits and hence be required to pay increased Corporation Tax, thus increasing Government income. This section examines the Corporation Tax payments of the major contractors.

Twenty contractors were selected from the LGMB database using the number and size of CCT contracts won, thus ensuring that those with the largest market share were included. Eight of the nine contractors which had won contracts in the case study authorities were also included in this group of twenty firms. Six contractors were selected each in building cleaning and refuse collection and four each in education catering and sports and leisure management.

The information was obtained from company annual accounts submitted to Companies House. Three years' accounts, 1991, 1992 and 1993, were examined so that the early effects of CCT could be minimised. A three year period was selected to give a more comprehensive and fairer picture of company performance. The accounts of subsidiary companies engaged in CCT contracts were used whenever possible, although in nine cases the main or parent company accounts were used. Even when subsidiary companies were used as the basis of the analysis, the accounts reflected contracts operated in both the public and private sectors. Contractor's financial reporting periods varied, for example, year ending 31 March, 30 September or 31 December.

UK Corporation Tax rates were 34% in 1991 and 33 % in 1992 and 1993.

Table 20 : Number of Contractors and contracts in the four services

Service	No of firms	No of contracts in 1993
Building Cleaning	6	189
Education Catering	4	18
Refuse Collection	6	74
Sports & Leisure Management	4	28
Total	20	309

Source: LGMB

The three year totals in each of the services are shown in Table 21.

Table 21: Turnover, Pre-tax profits and Corporation Tax payments in 20 firms in 1991-93

Service	Turnover £m	Pre-tax profit £m	Corporation Tax paid £m
Building cleaning	1,610.2	66.1	30.2
Education Catering	1,388.2	98.2	38.3
Refuse collection	599.2	-18.0	6.5
Sports & Leisure management	50.6	2.4	0.7
Total	3,648.2	148.7	75.7

Source: Annual Returns to Companies House for 1991, 1992 and 1993.

Total Corporation Tax paid over the three years is £75.7m or an average of £25.2m per annum. The data also reveals that contractor's Corporation Tax payments represented an average of 2.1% of their annual turnover.

Nine private contractors had contracts valued at £21m per annum in the case study authorities. Applying the ratio of tax to turnover of 2.1% gives a Corporation Tax payable on the £21m contracts of just **£441,000**. Based on contracts won by private contractors this is equivalent to £4.6m nationally in the four CCT services.

One firm paid no Corporation Tax over the three year period, another had a two year tax-free period, and six companies paid no tax in one year of the three years covered. Five of the eight firms were foreign owned companies.

The Notes to the Accounts of one firm described its Corporation Tax situation as follows:

"The company was part of a UK group for tax purposes for the whole year and will surrender the tax losses for the year to another member of the Group in consideration for the payment of 80% of the taxation surrendered: This amounts to £342,000. Corporation Tax losses of approximately £3.8m are available for offsetting against future taxable profits."

In other words, when or if the firm makes a profit, it will still not pay Corporation Tax for a

period because it will be able to use its accumulated tax losses to offset against profits.

VAT payments

Valued Added Tax (VAT) charged by contractors does not represent additional income for the Government. VAT is charged by contractors but paid by the client, ie the local authority. Services bought in by local authorities are eligible for a VAT refund. In some cases both DSO and private contractors invoices for services supplied will contain VAT on the purchase of goods. VAT on these goods is also eligible for a refund as the goods are incidental to the supply of the service in the performance of a contract.

Part 7

Comparison of costs and savings

It is now possible to compare the cost savings associated with CCT and the indirect costs falling on central government.

Table 22 summarises the costs and savings calculated in previous sections which reveals a net cost of £126.1m.

Table 22: **Comparison of national CCT costs and savings**

Savings & costs	Female employment £m	Male employment £m	Total £m
Savings from CCT in the four services	+65.7 (53%)	+58.3 (47%)	+124.0
Indirect costs falling on central govt.	-192.6 (77%)	-57.5 (23%)	-250.1
Net cost of CCT per annum	-126.9	+0.8	-126.1

Previous sections also examine the use of DSO profits and Corporation Tax payments by private contractors. The use of DSO profits has been excluded from this analysis because they were primarily used to reduce the size of spending cuts and would not have affected central government financial support to local authorities. Corporation Tax payments from private contractors of about £4.6m would be additional income to the Government to offset against CCT costs.

Key points

1. Job losses of 12,587 in the four services in the 39 case study authorities are equivalent to 74,010 job losses in the four services nationally.
2. The cost of unemployment combined with the loss of income resulting from job losses, cuts in hours, loss of the holiday retainer and lower wages has been calculated to be £41.2m in the four services in the 39 case study authorities.
3. Gender differences are highly significant with changes in women's employment accounting for

£32m or 77% of the cost of increased unemployment and loss of income to central government in the case study authorities.

4. Cost savings in the four services in the case study authorities have been calculated to be £16.4m. A proportion of the savings, nearly a third in building cleaning, are reduced National Insurance contributions from local to central government.

5. A comparison of costs and savings in the case study authorities shows that savings of £16.4m have been outweighed by costs estimated to be £41.2m, a net cost of CCT of £24.9m in the case study authorities. It is false economics for the Government to claim 'savings' in local government when in fact central government is bearing substantially greater indirect costs and loss of income.

6. The net national cost of CCT in the four services is £126m. This sum will in fact be larger if the other three services (grounds maintenance, vehicle maintenance and street cleansing) are taken into account. These services have a much smaller proportion of part-time workers and hence the indirect cost to the government will be proportionately larger.

7. The Government is, in effect, subsidising CCT. Local authorities make £124m 'savings' whilst central government is responsible for 97% of the £250.1m costs. This can be expressed in another way. **Every £1m of CCT 'savings' costs the Government and the public purse £2m.**

8. These are recurring costs. If these costs applied since the start of CCT in August 1989 the net cost over the 6 years to August 1995 will be **£755m** (based on 1993/94 prices).

9. The transfer of surpluses from some Direct Service Organisations to local authority general funds is treated as if authorities were drawing on their balances and does not affect the level of Government grant. It is not additional income for local authorities. Corporation Tax payments by private contractors have only a marginal impact on Government income, amounting to a mere £0.44m in the case study authorities or £4.6m nationally.

10. The extension of CCT to white collar services will lead to further costs if job losses and changes to hours, terms and conditions are on a similar

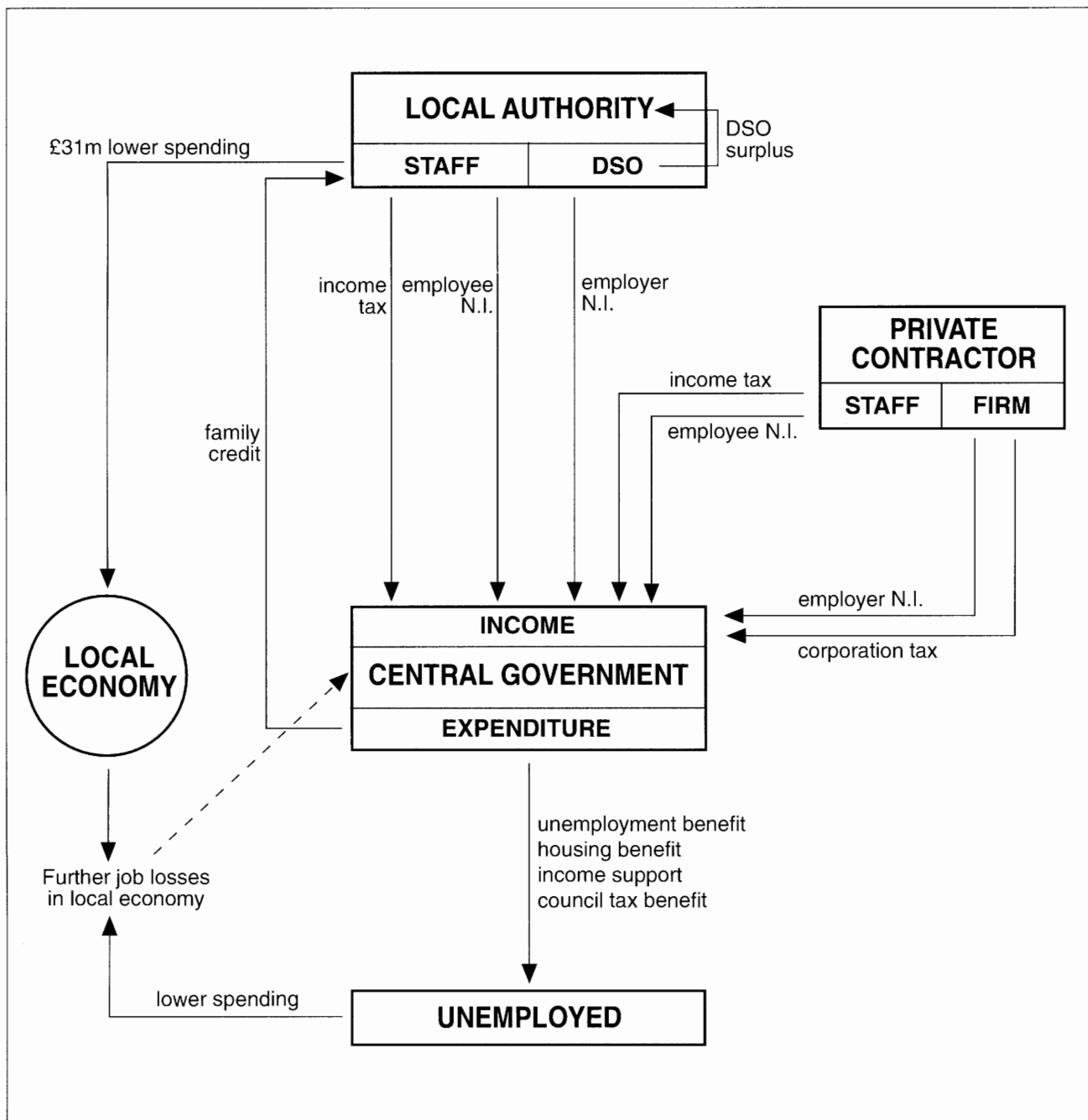
scale to those experienced in the manual services. Although the distribution of job losses between women and men is likely to be about the same, the proportion of women's full-time jobs will be substantially greater.

11. A more rigorous implementation of the Transfer of Undertakings Regulations (TUPE, which implemented the European Acquired Rights Directive), for example, requiring contractors to maintain staffing levels, pay and conditions throughout the contract period rather than for a few months, would reduce the public costs of CCT.

12. The CCT regulations require local authorities to take 'savings' over a ten year period into account in the evaluation of tenders. However, this does not reflect economic reality. The regulations clearly need to be amended to either take into account other costs and savings or to simply focus on contract prices. As presently constructed, they appear to be a blunt instrument designed only to disadvantage in-house bids and ignore the full costs of CCT.

13. Accounting practices also need to take into account the growth of contracting out or outsourcing. The accounts of both public bodies

CCT: Government Income and Expenditure Flows



and private companies identify the number of directly employed staff and identify expenditure on goods and services. However, accounts should also be required to identify the number of contract labour (manual and white collar) indirectly employed by the authority or company on services provided to it.

Macro-economic policy issues

Those who claim that competitive tendering produces 20% 'savings' also claim that it has benefited the wider economy; that CCT has benefits beyond the public sector. However, the findings of this research show that this claim has no basis whatsoever. Competitive tendering is not 'saving' public money which could either be invested in other services or used to reduce Government expenditure. Whilst public sector employment is reduced by contracting out and private sector employment increased, the latter is in effect being subsidised by the public purse. If there are no savings but substantial costs to CCT, then there can be few, if any, macro-economic benefits of this policy.

There is no evidence, at least in the four manual services examined, that CCT is providing highly profitable opportunities for the private sector which may lead to benefits for the economy as a whole. Far from increasing consumer spending, CCT reduces it through lower earnings. The avoidance of National Insurance contributions, reducing labour costs and adopting more flexible employment policies may help some firms to win contracts and boost profits in the longer term. However, there is a price to be paid for these policies which has been documented in this research paper.

Changes in future rounds of CCT

It could be argued that the level of savings may increase in future rounds of CCT or that private contractors may increase their market share and/or increase profitability and thus increase Corporation Tax payments. But any substantial change will inevitably have an impact on employment and/or earnings levels given the labour intensive nature of public services. It should also be noted that the level of savings is a relatively small component of the overall financial effects of CCT. The £16.4m savings in the case study authorities are equivalent to £353 per worker employed on CCT contracts in the case study authorities. Corporation tax payments by private contractors of £441,000 per annum are equivalent to just £90 per annum per worker employed by private contractors in the case study authorities. These are far outweighed by the cost of increased benefits and the loss of income to the Government.

Many of the changes to terms and conditions, hours and to a lesser degree staffing levels, are unlikely to have been achieved in conditions other than economic recession and mass unemployment. Any substantial improvement in the British economy is likely to lead to demands for at least the reinstatement of lost hours and earnings. There may also be demands for better quality services. Contract prices are likely to rise with a subsequent decline in contract 'savings'.

Part 8

Policy Issues

Social and economic auditing

This analysis adds considerable weight to the need for a social and economic audit or cost benefit approach to decision making in the public sector, particularly when policies imposed at one tier of government have a substantial effect on another. It highlights the need for this methodology to be at the centre of the CCT debate. The failure to assess the full cost of Government policies makes any 'value for money' exhortations from the Audit Commission appear to be misplaced. The Commission's recent report calling on local authorities to take measures to increase the level of competition will have no impact with regard to the costs of CCT.

Research which predicted that there would be no savings under CCT but increased public sector costs has been available for a decade. A Privatisation Audit carried out for Sheffield City Council by SCAT (now Centre for Public Services) in 1985 concluded that the net effect of tendering in Sheffield would be £17m or £660m nationally over five years (1984/85 prices). Although covering four additional services (other catering, street cleansing, grounds maintenance and a small element of vehicle maintenance), the predicted costs of CCT are broadly comparable.

A full social and economic audit or cost benefit analysis should take into account the following issues:

- the social impact of job losses and the impact of large contracts on local communities.
- the longer term impact of excluding part-time workers, mainly women, from the National Insurance scheme.
- the impact on social and family life of women being forced into multiple employment in order to try to maintain income.
- the impact of increased casualisation in the labour market.
- the fragmentation and loss of trade union organisation and representation.
- the impact of changes in the quality of service relative to any efficiency improvements in the organisation and delivery of services.

- the full costs of preparing for CCT and continuing contract management
- the impact on environmental policies

Economic development

The effects of CCT can often substantially reduce or even nullify local authorities' economic development strategies. Many local authorities, particularly Metropolitan District Councils and London Boroughs, devote resources to economic development projects. However, jobs created or supported through grant aid, loans and other initiatives in the private sector are often outweighed by job losses and cuts in terms and conditions within the local authority. The loss of a large cleaning or catering contract in a major city can result in the loss of several hundred jobs. Although these are often mainly part-time jobs the economic consequences are often greater than the jobs created at considerably higher cost through economic development (job creation costs are usually in the £5,000 - £50,000 range).

In these circumstances, CCT has effectively neutralised economic development. As employers of large numbers of mainly manual workers, DSOs have an important role in the local economy in setting and maintaining employment standards.

Local authority anti-poverty strategies

The impact of CCT-related job losses and reduced earnings, particularly for part-time workers living in inner city areas, is likely to seriously undermine anti-poverty strategies. The two policies are, in fact, working in conflict. The impact of CCT clearly needs to be included in any assessment of the impact of anti-poverty strategies. Given the scale of changes in employment and earnings it could be argued that a CCT strategy which minimised job losses and cuts in terms and conditions should be the centre of any anti-poverty strategy. The Full Report concludes that CCT has increased inequality.

Market testing in the NHS and Civil Service

Government still claims 'savings' of 20% as a result of market testing in the National Health Service and Government Departments. There is little difference with CCT in local government and therefore the financial effects are likely to be very similar. Claims that market testing savings are used for patient care hardly seem credible if the Government is, in effect, subsidising market testing on the same scale as CCT. If every £1m 'saved' is costing the Government £2m then any 'transfer' of expenditure to patient care by the Department of Health is costing other Departments dearly, particularly the Department of Social Security.

European dimension

A similar analysis on other countries would have to take into account different levels of welfare state benefits which could, particularly those with higher benefits, have a material effect on the cost analysis. Different levels of individual and company taxation would also need to be assessed. Contracting out and outsourcing policies are being adopted by many other Governments. If the cost of these policies are of a similar scale to those identified in Britain, then the total public sector cost in the European Union would run into billions.

Globalisation

Governments are implementing policies which claim to improve the efficiency of public services but in practice they are primarily creating new and expanding existing markets for transnational companies (A Global State?, Public Sector Research Centre, Sydney, 1994). Globalisation and the restructuring of labour markets is, in effect, being subsidised by the public purse. Low paid workers are being marginalised from the welfare state, the very people who should be beneficiaries.

Concluding statement

The study of the Gender Impact of CCT in Local Government was based on detailed research in four services in 39 local authorities which is fully described in Chapter 2 of the Full Report. The additional research of the public sector costs and savings of CCT is also based on a detailed methodology and rigorous analysis. It is based primarily on Government figures. Whilst there may be some discussion over parts of the analysis where we have had to make estimates, these have been based on full consideration of the information available and we have attempted to take a reasonable approach to estimation.

However, it should be emphasised that marginally different estimates alone would not account for the £126m difference in the savings and costs of CCT.

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