The dynamics of public sector transformation

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Is it possible to reverse the tide?

Neoliberal ideology has driven public sector transformation over the last three decades, with the aim of reconfiguring services and the welfare state. This transformation has been constructed in three ways. Firstly, service users have been encouraged to think of themselves as consumers, with the aim of changing the way people use public services and the welfare state and the way they are financed, thereby reshaping our expectations of government and service providers. Secondly, market mechanisms have been introduced, with new regulatory frameworks and procurement processes and the institution of a contract culture - through which public services can be outsourced, and delivered by private or voluntary sector companies. Thirdly, the state has taken an increasing role in the commercialisation of public services, through developing new ways to privatise services and assets, and imposing performance management regimes with targets and inspections; it begins to reconfigure democratic governance, so that accountability is fractured and dispersed to separate agencies and companies, creating a further pathway to privatisation.

Each element of this neoliberal transformation is planned and constructed. Markets in public services do not evolve of their own accord; they require significant government regulation, promotion and finance - by 2006 the estimated figure was £3.0bn in annual costs, plus one-off costs of £8.4bn.[1] The process is designed so that each stage establishes the ideological, organisational and operational framework for the next element.

Britain's recent transformation agenda was heavily influenced by a series of reports by the Prime Minister's Strategy Unit beginning in 2003 under the banners *Building on Progress* and *Building Britain's Future*. Reports on different aspects of the public sector - such as *Local:Vision*, *Power in People's Hands*, *Partnership in Public Services*, *Working Together* and *Putting the frontline first* - shared a number of common features (see www.cabinet-office.gov.uk). They all glossed over the consequences of making the commissioning of services the norm, and saw no downside to the introduction of competition and contestability; and their view of public sector capability was very narrow, restricted to questions concerning the furthering and supporting of market mechanisms. None of the reports gave serious consideration to the employment implications of their proposals, and they seldom made genuine proposals to engage the public, service-users and staff in the policy-making process. Instead, a consumerist approach was promoted across all these reports - with the advocacy of market research and citizens' panels to seek people's views, and a focus on 'customer relations'. The early transformation documents claimed that it 'did not matter' who provided public services. This neutral position is about to change - the option of retaining in-house provision is now under threat.

Throughout the period of the current financial crisis - brought about by the failure of neoliberal economics - there have been no lessons drawn about the wisdom of opening up the public sector to the storms of the market. No attempt has been made to change the neoliberal model as it is applied in the public sector. The illusion has been sustained that public sector reform shares in none of the deficiencies of the financial markets. In fact blame and cost have been shifted away from bankers: it is the public sector and wages that are under attack.

The new coalition government plans to accelerate implementation of this strategy. It is therefore important to be aware of the actual extent of public service transformation, which is more uneven than is usually recognised. This enables a better judgement of the possibility of alternative strategies, which must form part of the rethinking that is needed on the left. There are a number of ways to assess the degree of embeddedness and effectiveness of the transformation that has taken place. These include looking at the amount of 'lock-in' built into the system, for example through regulatory frameworks or penalties payable for contract termination, or through externally imposed controls such as Free Trade Agreements or EU regulation; the extent of cultural change that has been introduced (for example the erosion of public service principles, or acceptance of commercial values); the extent of the spread of market mechanisms and new institutional forms; the success or otherwise of changes introduced (e.g. savings, performance improvement, innovation); the nature of changes in the structures of employment; and the continuing strength of public sector capability.

The erosion of public service principles and values and their replacement by business values and individual responsibility has, in fact, been significantly slowed because of a gulf between rhetoric and reality. Some senior and middle public sector management avidly promote commissioning and partnerships, in the belief that there is 'no viable alternative'. However, a large proportion of public sector staff remain committed to public service principles, despite the confusing language of neoliberal transformation. I will now turn to a more detailed consideration of each of the three elements involved in the process of transformation, looking at the pace and extent of developments, the degree of embeddedness that has been achieved, the wider effects of change, and the prospects for a change of course.

Consumerism

Consumerism and the 'personalisation' of services, with the top-up fees that follow in their wake, are part of a wider agenda that includes the creeping introduction of fee-paying into the public sector. This has affected important parts of daily life - tolls for roads, tunnels and bridges; tuition fees and loans for college students; fees for homecare; charges for music and other 'non-core' activities in schools; and the increasing requirement of employees that they rely on defined contribution pension schemes. This system of multi-tax collection is inefficient, and it also masks the extraction of profit by an array of contractors and consultants. It also breeds anti-collective attitudes - why should I pay for education when I don't have children? Or why should I pay for motorways when I don't drive?

There have been trends in service delivery towards individualisation (where people are in receipt of individual budgets from which to buy the services they require) and personalisation (whereby users are consulted about the design and delivery of services). These are now virtually interchangeable. But direct payments, individual budgets, vouchers and charges inevitably lead to personally-financed top-ups when public expenditure is inadequate. Funding priorities and systems have been redesigned so that public money follows individuals - for example patients and pupils - in order to promote 'choice' and market forces. In general financialisation is designed to transfer responsibility and risks onto users. Instead of collective security, the welfare state will increasingly offer individual competition for resources.

Special purpose companies, off-balance sheet accounting, limited accountability and commercial confidentiality, securitisation, complexity, outsourcing, offshoring and secondary market refinancing are precisely the policies and practices that led to the global crisis. Yet the public sector is being pushed to adopt these practices and the whole sector is becoming financialised.

'Impact assessment' has been narrowly framed, to focus on regulatory matters and competition, and to conceal the full public costs and consequences of the transformation, while participation has been primarily limited to consultation and market research. The 'empowerment' rhetoric masks decreasing involvement in important policy and procurement decisions. Users and citizens are increasingly treated on an individual basis, with less and less group or collective identity; a consumption relationship is being imposed in place of a 'right of use'. Participation is directed towards 'customer' complaints, rather than an involvement that promotes ideas and policy alternatives. The state has constantly sought new ways to diffuse and disperse governance and accountability.

However, extending individual budgets into health and education is fraught with difficulties and contradictions and will create new opportunities for organising and alliances. Some groups of service users have opposed some of the changes being introduced, and there are possibilities for exposing some of the empowerment rhetoric. But power has to be sought, earned and retained by organising, action and negotiation. It is never given willingly.

Market mechanisms

Liberalisation and competition to create public services markets at national, European and global levels have continued. The European Union has single-market policies and regulatory frameworks for postal services, utilities, transport and telecommunications. The World Trade Organisation negotiation for a

General Agreement for Trade in Services (GATS) has been delayed but the threat of a compulsory opening up of the public sector to marketisation remains. The regulatory regimes that are supposed to supervise the firms taking advantage of these changes have combined weak enforcement with reliance on self-monitoring by the private sector.

The marketisation process has required the state to introduce competition and market mechanisms. Schools, hospitals and other facilities are compelled to compete against each other, whilst public bodies act as commissioners of services, creating further opportunities for private finance and partnerships. The growth of agents and brokers in social care, education and employment services, creates new niche markets.

To what extent are these neoliberal transformation policies embedded in the public sector? In practice there is a gulf between policy and implementation. There are major credibility gaps between the claims of 'world-class commissioning' and procurement in practice, in particular in contract monitoring. There is no evidence that NHS commissioning has produced health benefits other than greater private sector provision in some local health economies; while the purchaser/provider split has increased transaction costs, which are estimated to have increased to 14 per cent of total NHS costs.[2]

Media reports of transformation models, such as the Barnet easyCouncil model or the Lambeth 'John Lewis' model, mask a stark reality that neither council fulfils any of the criteria relating to, for example, higher charges for faster/better quality services, or community ownership.[3] In fact Barnet Council's Future Shape transformation project has achieved little since the policy was launched two years ago, largely due to trade union intervention and management inertia. In any case Future Shape is basically nothing more than an outsourcing and privatisation strategy; it shows few signs of realising its claimed potential for radical behavioural change.

The Private Finance Initiative has expanded markets in the design, build, finance and operation of schools and hospitals. In addition, a secondary market has emerged in which more than 620 shareholdings in Public Private Partnership (PPP) project companies have been sold in the last decade, primarily to infrastructure funds.[4] Financial institutions have built up significant portfolios of PPP assets, providing a new source of exploitation and profit. PPPs allow governments and business to distort the debate about levels of taxation and obscure the true public cost of new infrastructure. Their format conceals the fact that they are fully funded by government and/or user charges. In 2009 about 78 per cent of operational PPPs in England by capital value were not recorded on the balance sheet of public sector financial accounts.[5] International Financial Reporting Standards now require that these assets are included in government department balance sheets, but they continued to be excluded from Britain's national debt total under the New Labour government.

In addition, forty local authorities have strategic service-delivery partnerships with private contractors for corporate, planning and/or technical services. These ten to fifteen year contracts are valued at £8bn and employ 16,500 staff. Of these, three contracts have been terminated and two significantly reduced in scope - resulting in a 12.5 per cent failure rate.[6]

The involvement of mutual organisations, cooperative and social enterprises in the procurement process is essentially a diversion that seeks to minimise community organisation and opposition - offering them a buy-in to the neoliberal agenda. They are unlikely to be a means to create new forms of 'public' ownership or to revitalise democratic governance. The trend towards multi-service contracts and integrated service delivery is likely to marginalise these organisations in the procurement process.

Good design in a handful of PPP projects does little to alter the fact that PPPs have not led to a step-change in innovation and design. In fact, the standard of civic design has been eroded. Strategic Service-delivery Partnerships (SSPs) have contributed little, if anything, to the development of e-democracy and e-citizenship.

Business interests have conflicting and contradictory interests in the level of public expenditure. Large cuts in public spending inevitably harm the construction industry, and reduce training programmes and financial support to private industry; and in general they mean that the public sector buys fewer goods and services from the private sector. The prime motive for privatisation is to secure new or expanded markets in private provision for those firms operating within the service provision sector, thus opening to them new channels for accumulation and control. There is also a belief that the private sector is best placed to suppress demand for services, to promote 'choice', and to maximise the use of fees and charges, so as to minimise public expenditure and hence taxation. Business interests are now involved in the public policy-making process through representation on boards, commissions and review bodies, and are thus able to influence policy, legal and financial frameworks. However, this is not fully embedded, and is therefore reversible. But the PPP market is well established in Britain and has extended global reach. Its continued growth will not be halted, let alone reversed, without radical alternative policies and strategies that maintain a flow of construction contracts.

Neoliberal policies have increased the transfer of public sector staff to the private and voluntary sectors, and this has led to worsening conditions of employment for many workers. Although the European Acquired Rights Directive has ensured a degree of continuity for jobs, terms and conditions and trade union representation, there are limitations on its scope, and pensions have been excluded, and this has led to trade union proposals for a more comprehensive 'TUPE-Plus' policy or the secondment of staff. The inherent weakness of the government's Code of Practice on Workforce Matters, and the failure of employers and trade unions to monitor its implementation, have enabled many contractors to evade their employment responsibilities. The systematic evasion of TUPE in social care, through the widespread use of individual rather than block contracts, has directly led to a workforce that is lower-paid, privatised and less unionised. Outsourcing, and the transfer of functions to arms-length companies and trusts, has strengthened management's 'right to manage', with a wider use of casual and migrant labour. This has fractured and undermined trade union organisation. Little of the commentary on individualisation and personalisation has shown much concern for these effects on jobs, terms and conditions.

Reconfiguring the role of the state

The role of the state has changed massively during the last three decades in a number of different ways. Firstly, it is no longer the owner of many of its former assets; secondly there now exists a large number of arms-length and special purpose companies, to which it has devolved a number of its functions; thirdly, this has involved extensive changes to forms of accountability; and, fourthly, its scope has widened to include a big increase in the welfare that is offered to corporations.

By the late 1990s most of the formerly state-owned industrial and public infrastructure companies, including transport, oil, telecommunications and the utilities, had been privatised in the UK. Between 1980 and 1996 some £13.5bn of public money was lost in the sale of nationalised industries and state corporations.[7] When the £28.3bn debt-write off, the £2bn pre-privatisation restructuring costs, the £3bn consultants' and advisers' fees and the tax concessions in the post privatisation period are added to the equation, it is clear whose interests were being served.

Local government and the welfare state could not - at least politically - be privatised by the sale of entire organisations. A different strategy was needed that required commercialisation, user charges and marketisation to create a pathway to privatisation. Moves in this direction have been assisted by the ways in which privatisation has mutated in the past thirty years. It is no longer confined to transacting a sale of assets, but has become a process, beginning with financialisation and commercialisation to create new markets and concluding with four categories of privatisation - of global public goods, assets and services, governance and the public domain.[8] Understanding this process, and its damaging effects, will be crucial to challenging its continuing development.

However, the speed at which several UK banks were effectively nationalised in the financial crisis, and the current wave of nationalisation of privatised utilities in Latin America, show that privatisation is reversible with the appropriate political commitment and economic circumstances.

Arms-length and special purpose companies proliferated massively during the years of New Labour government. To date, 920 PFI/PPP projects have reached financial close, with a capital value of £72.34bn. In addition, 69 arms-length organisations manage more than one million council homes in 65 local authorities; 90 leisure trusts manage local authority sports and recreation facilities (15 per cent of total); there are now 203 academies (state-funded schools established and managed by sponsors) in 83 local authorities, with a further 100 due to open by autumn 2010; and there are nearly 300 foundation and trust schools in 91 local authorities (where the governing body has much more autonomy and may own school buildings and land). Most schools and hospitals have, in effect, become stand-alone businesses. The widespread use of the company model, with institutions governed by a Board of Directors whose prime responsibility is to the interest of the company, makes it more difficult for community representatives to challenge and organise against company policy. Thirty-six Urban Regeneration/Development Companies and City Economic Development Companies have been established to meet the 'holistic socio-economic regeneration needs of an area'; Business Improvement District and Housing Market Renewal Area companies are further examples in this sector. More councils are now setting up new Local Asset-Backed Vehicles, joint public/private companies, to 'deliver local growth' by using publicly owned property assets in joint venture projects.

This high degree of institutional change will be difficult, but not impossible, to reverse. However, dismantling companies and quangos will not be achieved overnight; and some schools and hospitals may resist threats to their 'freedom' unless there are viable and attractive alternatives.

These changes have brought about changes in forms of democratic accountability, which has been reconfigured by the creation of a wide range of new bodies, quangos and partnerships such as NHS Trusts, Foundation Hospitals, Primary Care Trusts, Probation Trusts, Local Strategic Partnerships, Public Service Boards, Children's Trusts and Care Trusts. In addition, local projects of national programmes such as healthy living centres, Sure Start, Neighbourhood Nurseries, and education and regeneration initiatives require separate organisational structures, usually non-profit companies, as a condition of funding. Each organisation has its own responsibilities and duties, performance management system, governance arrangements, procurement process and 'consultation' policy, leading to fragmentation, an erosion of democratic accountability, superficial scrutiny, and less transparency. In addition, performance management has been imposed across the public sector, with targets, inspections and benchmarking regimes, and punitive action for 'failure'. But the legitimacy of these forms continues to be challenged within public services. There is wide scope for a return to public service principles and a new public service management.

The growth of corporate welfare has seen the extension of 'welfare' to business by providing assistance in working towards a common client/contractor ideology; in the development of an owner-operator infrastructure industry; and the provision of a system of tax relief, subsidies, credits, guarantees, incentives and concessions to business. Subsequently the state had to assume fiscal responsibility for financial market failure with bailouts, fiscal stimulus and arranged mergers and takeovers. The state has facilitated the infrastructure market and PPPs via the wider markets initiative and overseas aid programmes. Descriptions such as the 'enabling', 'contract' or 'market' state are inadequate to describe these developments, because they do not reflect the scope and scale of changes within the state and its continuing corporate welfare role.

There has been no discernible trend of empowerment of frontline staff or service users in public sector bodies or arms length companies. However, marketisation and privatisation have created new opportunities for business involvement in government task forces, commissions, reviews and working parties, together with appointment to public sector company boards, with more opportunity to shape public policy, compared to a decade ago.

Beyond 2010

While all these organisational changes have been going on, insufficient attention has been paid to the major challenges that confront public services and infrastructure in the twenty-first century: adapting to demographic and climate change, and meeting the economic, energy, water, transportation and social infrastructure needs of European city regions, megacities in Asia and megaregions in North America; developing responses to new technology (for example, developments such as smart cars, new energy breakthroughs and nanotechnology will enable smarter, self-monitoring infrastructure but will also impose new demands on cyberspace and require faster networks); and, last but not least, effective local and regional economic development strategies in the face of the recession.

New challenges will also arise as a direct consequence of neoliberal policies - for example in addressing the contradictions of seeking a low tax economy while continuing to meet the demand for good quality public services; or in balancing calls for small government with the need for state regulation and intervention in markets. There will also be a need to address the erosion of democratic accountability and transparency that has taken place, despite all the claims of 'empowerment' and 'localism'.

All this will not be helped by the new era of marketisation and privatisation that is emerging, driven by budget deficits, cuts in public spending and a probable further sell-off of public assets to help balance the budget. In addition, investment banks, infrastructure funds and pension funds will be searching for 'safer' infrastructure investment to recoup recent losses. And there is every likelihood of increased pressure to outsource services. New PPP models are likely to widen the scope for private sector entry into core public service provision, via larger, multi-service, contracts. This could lead to the virtual elimination of in-house options, bids and provision.

Experience has shown that the most successful campaigns against marketisation and privatisation combine rigorous analysis of proposals, alternative policies, organising in the workplace, community and civil society to build strong, effective and independent organisations and alliances, and selective community and industrial action. Workers and community plans and blueprints are a vital way for communities, services and local economies to draw up progressive policies and demonstrate that there are alternatives to neoliberalism. Defensive action alone has proven to be ineffective in opposing such transformation.

It is important to re-establish support for the idea of government as direct provider and regulator, and to begin to redefine the relationship between state and citizens, with public service principles of social justice, universal provision, public interest, democratic accountability, participation and sustainability. The 'impossibility' and 'inferiority' attitudes must be replaced with enhanced public sector capability.

It is also important to look at ways to increase resources for the public sector, including looking at ways of redistributing resources within government. Public resources could be increased through progressive redistributive taxation, tackling tax evasion and avoidance and non-payment of tax, and the raising of additional revenue.[9] Stopping Trident and the marketisation of public services would save more billions annually.

The reform of financial markets should be geared towards both increasing the contribution of the sector to the exchequer, and to limiting the damage it can do to the economy. It should include a ban on the use of tax havens, controls on private equity and hedge funds, a Financial Transaction Tax, firewalls between investment and commercial banking, reform of ratings agencies and the prohibition of off-balance sheet financing. The European Investment Bank and other development banks should invest in public infrastructure and strengthen public sector project management in both OECD and newly industrialising countries. Future bilateral and multilateral trade agreements and new policy frameworks of the World Bank and International Monetary Fund should exclude all reference to marketisation, PPPs and privatisation.

One aim of economic strategy should be to align public service and infrastructure investment, construction capacity, training programmes, research and innovation to achieve synergy and economic benefits. The question of who provides services is important, but so are the ways they source materials, supplies and labour. A progressive public management for the twenty-first century should focus on in-house delivery, and enhanced public sector capability and intellectual capital, and should plan to democratise and consolidate public bodies. It should also have a comprehensive economic, social, health, environmental and sustainable development evaluation framework, and new contracts for public infrastructure design and construction.[10]

Improved accountability, participation and transparency - a 'whole system democracy' - would revitalise governance and engage communities and trade unions in the public policy-making process. The plethora of companies, trusts and quangos could be dismantled, and functions transferred to democratically accountable bodies. Stringent controls on PPP projects and the infrastructure market must include new governance, monitoring and transparency arrangements, closure of national and departmental PPP units, and improved employment protection through new labour standards.

To bring about these changes a parallel transformation of trade unions is essential, to increase their campaign-organising and alliance-building capabilities, enhance in-house capability for action research, and provide strategic technical advice to branches and regions. Trade unions will also need to increase their influence in pension fund investment strategies. At the same time, national, regional and local alliances between civic, community and trade union organisations are needed to mobilise opposition to marketisation and privatisation. In so doing they could become leaders in the wider struggle to reshape our approach to public investment, redesign and democratise the policy-making process, and ensure that public infrastructure is fully integrated, with high quality publicly provided services. It is time for a strong challenge to be issued to all who continue to promote neoliberal transformation - including outsourcing, utility and construction companies, PPP operators, banks and investment funds, and management consultants, lawyers and business organisations.

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His latest book is *Global Auction of Public Assets: Public sector alternatives to the infrastructure market and Public Private Partnerships*, Spokesman 2010.

Notes

1. D. Whitfield, *New Labour's Attack on Public Services: Modernisation by Marketisation*, Spokesman 2006.

2. House of Commons Health Committee, *Commissioning*, Vol. 1, Fourth Report of Session 2009-10, HC March 2010.

3. *Guardian*, 'Tory controlled borough of Barnet adopts budget airline model', 27.8.09; 'Barnet's "easyCouncil" to part privatise planning service', 18.2.10.

4. D. Whitfield, *Global Auction of Public Assets: Public sector alternatives to the infrastructure market and Public Private Partnerships*, Spokesman 2010.

5. National Audit Office, *Private Finance Projects*, October 2009.

6. European Services Strategy Unit, *PPP Database*, October 2009, www.european-services-strategy.org.uk.

7. D. Whitfield, *Public Services or Corporate Welfare: Rethinking the state in the global economy*, Pluto 2001.

8. D. Whitfield, *A Typology of Privatisation and Marketisation*, ESSU Research Report No 1, 2006.

9. For one way of doing this see Green New Deal Group, *The Great Tax Parachute*, 2010.

10. Whitfield, *Global Auction of Public Assets*.