

The obsession with and the failure of outsourcing

Article Review

This article exposes the myth that outsourcing public contracts are value for money.

Source Zoe Williams The Guardian;

“This obsession with outsourcing public services has created a shadow state

The winners are private equity and shareholders. The losers are the low-paid and the vulnerable. And in the end we all pay

The government has "finally woken up from its post-election slumber", notes Caroline de la Soujeole, from investment bank Seymour Pierce, "and is open for business ... determined to find new, efficient ways of delivering services rather than cutting them". Huh. Who ever heard of a government that could cause this much damage while still asleep? But that is by no means the most wrong part of a short but entirely wrong statement.

By "open for business", the analyst means the government is outsourcing public services - at a huge rate. The value of such contracts has risen from £9.6bn in 2008 to £20.4bn in 2012. Seymour Pierce estimates that public sector outsourcing could hit (deep breath) £101bn by 2014-15.

You can see the existing contracts wherever you look - helping unemployed people find jobs has been entirely privatised. It's known as the "welfare market", a peerless example of double-speak in which people's welfare is ignored and market forces dominate. The Work Programme doesn't work at all on its own terms - though if, as I suspect, the true aim is to destroy the standing and the self-esteem of the unemployed, it is working quite well. That's worth between £3bn and £5bn over five years. Atos has £3bn worth of contracts, also over five years. The UK Border Agency issued contracts worth £1.7bn, all to three companies and running for five years. Probation services are outsourcing 60% of their work, valued at about £600m a year.

This is all based on the principle that the public sector is inherently inefficient. Hand it over to private companies and they will swoop in with their efficiency, their economies of scale, their incentives and their competitiveness, winnowing it down into a dart of perfectly targeted public spending.

In practice, when they say efficiency, that generally means lower wages. When they say economies of scale, that generally means constructing the contracts in such a way as to leave only the largest companies eligible to bid for them. When they say incentives, look closely and you will mainly see perverse incentives. And when they say competition, what you're actually left with is four or five - sometimes only three - companies, who barely compete with one another at all but instead operate as an unelected oligarchy.

Most public services are not about producing microchips, they're about human relationships - care work, parole, job-seeking, even assessing whether or not a disabled person is really disabled; they are about one human being spending time with another. The economist Ha-Joon Chang's famous example of the pitfall of efficiency is that it mainly means making things faster - and yet if you played a minuet at three times the speed, would that improve it?

A much less romantic example, but one that exists across the country, is being given a bath by a care worker. Your local authority has signed a contract for care work that's much lower than they were previously paying in-house. Now your bath has to be undertaken by someone who doesn't have time to take her coat off. You probably don't know her, because staff turnover averages 30% in this sector. Whoever she is, she probably has to claim housing benefit and in-work benefits, so the public purse is paying one way or another anyway. Who wins from all this humiliation, the low-wage trap, and the isolation? Who wins when a waste management company takes over a contract and bin men are simply paid 25% less than the bin men three miles away? The shareholder, the private equity firm that bought out the waste management outfit and sold it on: not you, not us.

However, it is wrong to suppose that outsourcing only erodes wages at the bottom. It is a classless foe, and attacks people right up the pay spine (except at the top).

According to Harry Fletcher, of the National Association of Probation Officers, when Serco won the probation services contract in London it did so by massively underbidding the public sector with a view to stripping out 100 of the 550 jobs. Not to worry, you might think - the others will be covered by Tupe legislation that protects employees when ownership is transferred; pay, terms and conditions will be unaffected.

But possibly not - when Liberata won the education maintenance allowance and adult learning grant contract from a number of local authorities in 2007, scores of people were transferred from the public sector. It turned out their pensions weren't always protected. Then the company "restructured", a process that trumps Tupe, and the "scheme leader" tier was simply removed, which meant a pay cut for many of the most qualified staff.

Then it turned out that Liberata couldn't handle the contract, but by this time it was so large that the only other company capable of taking it on was Capita. When the present government came in and canned EMA, citing "unaffordability", the galling thing was that private sector bungling had made it quite expensive. So a government scheme that the data showed had a positive effect on young people's life-chances was trashed; skilled people were left unemployed; unskilled people, unemployable. And Capita probably walked away with a wedge because the coalition broke the contract. "Probably," I say, because this comes under the umbrella of so-called commercial confidentiality, so we will probably never know.

What happens when these firms, with their inexorable expansionist logic, bite off more than they can chew? We pay anyway. We paid G4S; we will pay it again when its prisons catch fire. We will pay A4e when it finds no jobs; we will pay Serco when its probation services fail.

We will pay because even when they're not delivered by the public sector, these are still public services, and the ones that aren't too big to fail are too important. What any government creates with massive-scale outsourcing is not "new efficiency", it is a shadow state; we can't pin it down any more than we can vote it out. All we can do is watch”.

Zoe Williams

Comment

The latest information regarding the G4S fiasco at last year's Olympic Games, as reported on the Radio 4 Today Programme, states that the company lost £70 million on the contract. We were all grateful that members of the forces stepped in to complete the job, not realising that many of them would be made redundant at the end of the games.

When contracts are awarded, the capacity for their delivery is taken for granted. It was clear early on that G4S did not have the capacity to train the amount of workers required to fulfil the requirements of the contract.

On many occasions the work from private contractors is poor, adequate training is not given and often unskilled third party subcontractors are used to increase the profits of the contractor. It is common for private contractors to employ skilled negotiators to handle contracts and if all the requirements for delivery are not included, charges incurred for extra work are extremely high.

The whole area is a minefield, where public money is wasted on a monumental scale. GMB members lose their jobs and have their pay cut, while the fat cats continue to grow bloated on the cream of public finances.

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