

# The costs of privatisation

**It's vitally important that money spent on public services is used as efficiently and effectively as possible. But billions are being wasted, or pocketed in private profit, as a result of public service privatisation.**

The last official estimate of the total amount of public money spent on outsourced services was **£79bn** in 2007-08 – almost a third of all public service spending. This includes most spending on social care, half of local government spending, and an increasing proportion of spending on health and education services.

Growth estimates given by the Business Services Association suggest that figure is now likely to be closer to **£100bn** – and projections by industry analysts suggests that this will rise to **£120bn** over the next five years as more services are outsourced.

Government secrecy and 'commercial confidentiality' makes it hard to scrutinise how this money is spent. But we do know that much is wasted or diverted from improving frontline services, and often incurs additional costs for the public sector.

### Paying over the odds

- **£137,000** was overpaid by Calderdale Council to one provider of home care and meals on wheels last year – auditors fear much more has been wasted<sup>i</sup>
- **£10m** a year has been paid in excessive fees by Liverpool City Council on its long-term partnership with BT, according to an internal report on overcharging
- **£75m** over the odds was paid over twelve years by schools to Capita for IT services, according to analysis by rival firm Bromcom<sup>ii</sup>
- **£300m** is thought to have been overpaid for schools, hospitals and other projects as a result of bid-fixing by construction companies<sup>iii</sup>
- **£462m** was paid by the NHS in subsidies and unnecessary payments to private firms running treatment centres between 2003 and 2008<sup>iv</sup>
- **£9bn** was paid in total cost overruns on 105 outsourced IT contracts in central and local government, the NHS and other public bodies since the 1980s<sup>v</sup>
- **£20bn** is being paid in extra borrowing costs for the 700 projects that successive governments have acquired under the PFI<sup>vi</sup>

## Inflexible contracts

- **£20,000** is being charged to schools converting to Academy status simply to relicence their Information Management Systems<sup>vii</sup>
- **£215,000** was paid by South West Oxfordshire PCT to a Netcare treatment centre for cataract operations that never took place<sup>viii</sup>
- **£900,000** was paid by Tameside Council to Meridian Healthcare last year for care home beds that were never used<sup>ix</sup>
- **£2m** was paid by Bolton PCT to a Care UK treatment centre for patients it never treated because the contract required it to pay for unused services<sup>x</sup>
- **£2.5m** was paid by Surrey County Council last year to private firms Care UK and Anchor for care home beds that were never used<sup>xi</sup>
- **£3m** was paid by Leeds Council between 2003 and 2006 on private care home beds that were never used<sup>xii</sup>
- **£3.3m** was paid by Trent and South Yorkshire PCTs to a private treatment centre in excess of the work it actually did for the NHS<sup>xiii</sup>
- **£180m** a year is paid by public authorities to PFI contractors to make operational changes not covered by the original contract<sup>xiv</sup>

## Transaction costs

- **£4.6bn** is spent every year by central and local government on the procurement exercises needed to award this volume of contracts
- **£300m**-worth of GP time will be taken up with commissioning under plans currently being implemented by the Coalition
- **£1.3bn** of public money is lost every year as a result of fraud (such as cartel pricing, or fraudulent invoicing) involved in service procurement processes
- **£2.8bn to £4bn** has been spent on consultants and lawyers – additional to officials' time – in arranging the 700 PFI deals so far signed<sup>xv</sup>

## Subsidies and restructuring costs

The Coalition government's reforms aimed at increasing the role of markets and the private sector in public service deliver are creating further additional costs:

- **£10m** is being spent by the Cabinet Office on transferring public employees into 'mutual' enterprises that will compete with private firms to provide services
- **£410m** is being spent by the Department for Education on the promotion of 'Free Schools' and 'Academies' that will compete with community schools
- **£3bn** is being spent by the Department of Health on a reorganisation of the NHS, opening it up to greater commercialisation and private involvement

## Profiting from public services

Corporations involved in privatisation are highly profitable, largely due to public contracts:

- **£21m** was made in profit by health and social care provider Care UK in 2009
- **£214m** was made in profit by multi-service outsourcing specialist Serco in 2010
- **£310m** was made in profit by 'back office' outsourcing specialist Capita in 2010
- **£600m** was made by Blackstone private equity on its 2006 sale of Southern Cross
- **£625m** was made by Allianz Capital Partners on its 2008 sale of Four Seasons
- **£4.2bn** has been made over the past ten years by PFI firms on equity sales alone

## Tax avoidance

Many of the firms involved in privatisation go to lengths to avoid paying tax on their profits. A *Guardian* investigation reported that:<sup>xvi</sup>

- Capita paid **£65m** less than full corporation tax on its profits during 2004-07
- Serco paid **£58m** less than full corporation tax on its profits during 2004-07
- Compass paid **£24m** less than full corporation tax on its profits during 2004-07

Capita, Serco, Sodexo, ISS, G4S, Veolia, Balfour Beatty, United Health Care, BUPA, McKinsey and KPMG all have subsidiaries registered in tax havens.<sup>xvii</sup>

The ultimate owners of 90 PFI schemes are registered offshore. HSBC Infrastructure paid less than 0.3% tax on **£38m** profit made on 33 PFI projects last year.

## High and low pay

The money paid to top executives in major contractors puts public sector 'fat cats' in the shade. Last year the combined pay of just the seven CEOs of Care UK, Capita, Mouchel, Mitie, Carillion, Serco and Compass amounted to over **£12m**.

Meanwhile ordinary staff often see their pay and conditions suffer. Estimates suggest the failure of private contractors to pay many of their staff a 'living wage' costs the taxpayer as much as **£300m** in additional in-work benefits and tax credits.<sup>xviii</sup>

## The price of failure

When services fail, it's the public that usually has to pick up the tab. For example:

- **£7.8m** had to be paid by Bedfordshire County Council to terminate a failing outsourcing contract in 2005
- **£25m** is now the estimated loss to the taxpayer as a result of the collapse of private care home operator Southern Cross
- **£265m** had to be paid by the Home Office to Siemens on top of the £100m originally budgeted

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- **£300m** lost by Royal Bank of Scotland on a private equity buy-out of care home operator Four Seasons was ultimately borne by the taxpayer
- **£410m** was lost to the taxpayer as a result of the collapse of the Metronet 'public private partnership' for the London Underground, according to the NAO
- **£10.4bn** has had to be committed to the NHS IT project on top of its original budget – and still results have yet to be delivered

### There is an alternative

Keeping – or returning – services in-house – and engaging staff, unions, users and communities in their reform and development – has been shown to deliver real savings and improvements. For example:

- **£27,000** a year is being saved by Blaneu Gwent as a result of taking its emergency call centre back in-house<sup>xix</sup>
- **£35,000** a years is being saved by West Lindsey council as a result of taking its housing and homelessness advice service back in-house<sup>xx</sup>
- **£50,000** a year is being saved by Leeds Teaching Hospitals taking its courier services in-house<sup>xxi</sup>
- **£75,000** a year is being saved by Cotswold District Council as a result of taking its housing advisory service back in-house<sup>xxii</sup>
- **£78,000** a year is being saved by Cherwell district council by taking its glass collection back in-house<sup>xxiii</sup>
- **£120,000** a year is being saved by East Riding of Yorkshire council by taking its housing maintenance back in-house<sup>xxiv</sup>
- **£300,000** a year is being saved by Hillingdon Council as a result of taking its housing management back in-house<sup>xxv</sup>
- **£400,000** a year is being saved by Redbridge council taking its housing management back in-house<sup>xxvi</sup>
- **£400,000** is being saved by Hammersmith and Fulham as a result of taking its housing management back in-house<sup>xxvii</sup>
- **£500,000** is being saved by Coventry City as a result of taking its city centre management back in-house<sup>xxviii</sup>
- **£750,000** was saved by West Lindsey council over a three year period after it took its ICT services back in-house<sup>xxix</sup>
- **£1m** a year is being saved by Basildon as a result of taking its housing management back in house<sup>xxx</sup>
- **£1m** a year is being saved by Rotherham as a result of taking its housing management back in-house<sup>xxxi</sup>
- **£2m** a year was saved by Thurrock taking its waste and recycling services back in-house<sup>xxxii</sup>

- **£2.5m** a year is being saved by the NHS in-house consultancy service<sup>xxxiii</sup>
- **£3m** is being saved over three years by Banbridge District Council as a result of taking its recycling services back in-house<sup>xxxiv</sup>
- **£3.3m** a year is being saved by Ealing as a result of taking its highways maintenance back in-house<sup>xxxv</sup>
- **£5m** is being saved over five years by Ealing Borough Council as a result of taking its housing management back in-house<sup>xxxvi</sup>
- **£5m** a year is being saved by Coventry City Council as a result of taking its IT services back in-house<sup>xxxvii</sup>
- **£28.5m** was saved over 11.5 years with a successful in-house option for city services adopted and implemented by Newcastle City Council<sup>xxxviii</sup>

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<sup>i</sup>[http://www.halifaxcourier.co.uk/news/local/what\\_a\\_rip\\_off\\_scandal\\_of\\_care\\_home\\_that\\_overcharged\\_by\\_thousands\\_1\\_3547360](http://www.halifaxcourier.co.uk/news/local/what_a_rip_off_scandal_of_care_home_that_overcharged_by_thousands_1_3547360)

<sup>ii</sup> <http://www.guardian.co.uk/business/2009/dec/06/capita-schools-technology-competition>

<sup>iii</sup> <http://www.ofsteds.gov.uk/news-and-updates/press/2008/52-08>;  
<http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/2788332/Construction-cartel-may-have-cost-taxpayer-300-million.html>

<sup>iv</sup> <http://www.thebureauinvestigates.com/2011/05/25/500m-sweetener-paid-to-private-companies-to-treat-nhs-patients/>

<sup>v</sup> <http://www.european-services-strategy.org.uk/news/2007/ict-contract-chaos/105-ict-contracts.pdf>

<sup>vi</sup> 'Private finance costs taxpayer £20bn', *Financial Times*, 7 August 2011.

<sup>vii</sup> <http://www.tes.co.uk/article.aspx?storycode=6086539>;  
<http://www.tes.co.uk/article.aspx?storycode=6090231>

<sup>viii</sup> <http://www.guardian.co.uk/society/2006/feb/21/publicservices.health>

<sup>ix</sup> <http://www.bbc.co.uk/news/uk-england-manchester-12830480>

<sup>x</sup> [http://www.theboltonnews.co.uk/news/9138619.\\_2m\\_paid\\_for\\_patients\\_\\_\\_not\\_seen\\_by\\_clinic\\_\\_\\_/](http://www.theboltonnews.co.uk/news/9138619._2m_paid_for_patients___not_seen_by_clinic___/)

<sup>xi</sup> <http://www.bbc.co.uk/news/uk-england-surrey-14186232>

<sup>xii</sup> [http://www.yorkshireeveningpost.co.uk/news/latest-news/central-leeds/council\\_spent\\_163\\_3m\\_on\\_residential\\_care\\_beds\\_that\\_were\\_not\\_needed\\_1\\_2085330](http://www.yorkshireeveningpost.co.uk/news/latest-news/central-leeds/council_spent_163_3m_on_residential_care_beds_that_were_not_needed_1_2085330)

<sup>xiii</sup> <http://www.guardian.co.uk/society/2006/feb/21/publicservices.health>

<sup>xiv</sup> NAO, 'Making changes in operational PFI contracts', January 2008; figures for 2006.

<sup>xv</sup> Ibid, based on assessments in NAO, Improving the PFI tendering process (2007)

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- xviii Conservative estimate based on <http://www.ifs.org.uk/publications/5244>
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