

# PUBLIC SERVICE ACTION

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Adam Smith Institute

## VISIBLE HAND

In what amounted to a PR exercise to advertise the services of consultants Price Waterhouse, Coopers and Lybrand, Rothschilds, Ernst & Whinney and their city slicker colleagues to the rest of the world, the Adam Smith Institute's Second London Conference on Privatisation last month drew more than 150 representatives from 30 countries.

Those present included representatives from the South African Ministry of Privatisation, Israel's Ministry of Interior and Local Government, the World Bank and a US free market think tank funded by USAID.

In his opening speech, Chancellor Nigel Lawson proudly announced that in the UK, privatisation was a now an established part of the economic landscape and "a manifest success". He promised that by the end of Thatcher's third term 60 per cent of the state sector (as was in 1979) will be in private hands. And he added that "we don't intend to stop there."

Speaking about the UK, Eric Anstee Director of Privatisation for Ernst & Whinney referred to the creeping privatisation of the Post Office, a lot more private roads and the current education bill as "one of the first steps towards total privatisation of education".

The rest of the conference dealt with tactics and techniques of privatisation drawing largely on the consultants' worldwide experience with government at every level.

It was suggested that privatisation was "not simply about divestiture" but a



President of the far-right Adam Smith Institute, Dr Madsen Pirie, welcomes Chancellor Nigel Lawson as a key speaker to the institute's conference on privatisation.

"very powerful weapon to achieve different objectives". One Coopers & Lybrand speaker said that privatisation would "change the political culture of a nation". But the bottom line was that the public sector should be denationalised in such a way that future renationalisation would be impossible. And as John Redwood, Tory MP for Wokingham and an adviser to seven governments remarked, the plan is to make the opposition "dig in to be the opposition for a long time".

A Coopers & Lybrand assessment of the current situation in the UK is that Thatcher has "created the climate whereby the opposition does not want

renationalisation."

Conference delegates were also treated to a trip to Wandsworth Town Hall to learn the mechanics of contracting out which the Tory leader Paul Beresford said the council was receiving worldwide attention for its privatising methods.

### INSIDE

**Pathology Labs  
Private ambulances  
Leisure**

## CONTRACTORS Fines & Failures

### Exclusive SWEPT ASIDE

**The South London borough of Bromley refused to reaward its street cleaning contract to Exclusive, after a series of complaints about the poor service, but it is already running into trouble with new contractors Teamwaste.**

Teamwaste's tender of £1.2 million was lower than Exclusive's bid, giving the borough's ruling Tories an easy way out of the dilemma of changing contractors without appearing to criticise their own privatisation policies.

Exclusive drew a running series of complaints from residents by leaving entire areas of the borough's streets unswept. But the pattern is already repeating itself with Teamwaste. Although the company only started the contract in April, councillors have received complaints about similar problems and officially raised the problem at full council meetings.

### Wandsworth ELDERLY CONDEMN PLANS

**Wandsworth Council's plan to privatise 200 of its cleaning and catering staff in social services day centres has met stiff resistance from day centre users.**

Petitions and testimonial letters from more than 1,000 elderly clients, many physically disabled, some with severe learning disabilities, have flooded Wandsworth Town Hall. Without exception they praise the service, and flexibility of council staff and voice doubts such levels of service would be attained under private contractors.

The movement of clients comes as a severe embarrassment to Wandsworth's Tory Group who see privatisation as a means of further cutting social services expenditure. According to the Audit Commission Wandsworth Council already spends 41 per cent less than the inner London average on its social services and 18 per cent less per head of population than neighbouring Tory-controlled Westminster Council.

Tory members of Wandsworth Coun-

cil's Social Services Committee were further embarrassed when an employee's deputation and Labour Councillors revealed that directly employed care staff in council old people's homes were being drafted in to cook breakfasts for residents when the catering contractor failed to put in an appearance.

In the last year Wandsworth Council has fined the contract, **ARA Catering**, £14,000 for some 240 defaults. The service failures in the council's homes for the elderly include failure to provide breakfasts, inadequate portions, dirty kitchens, untrained staff, and at one home animals scavenging in the waste bins. The company is allegedly incurring substantial losses on the contract.

### Worcester CAMPAIGN WINS CAPITAL

**Catering workers in Worcester Health Authority are celebrating keeping their jobs in the face of Gardner**

**Merchant's attempt at 'legalised bribery'.**

There has been an excellent local trade union campaign of industrial action, extensive local press coverage and Clare Short MP put down an early day motion. They have so embarrassed West Midlands RHA that they have done an about face and agreed to lend the DHA the £1.3m needed to upgrade the kitchens and keep the service in house. The loan is to be repaid over five years.

When the catering service was put out to tender by Worcester DHA, the in-house bid was £45,000 cheaper but the RHA refused to loan the money needed for building new cook chill plant and upgrading the kitchens. Instead they accepted the more expensive bid by Gardner Merchant (see PSA 34) who 'threw in' a £1.3m loan.

Now the workers are celebrating the fact that they keep their 25 per cent bonus, the better pay and conditions the in-house bid offered compared to Gardner Merchant, and continuity of NHS employment. They also get valuable relocation and travel money as their jobs at the new plant will be some distance away: for many workers the travelling had meant they could not afford to keep their jobs.

### TASKMASTER BILL

Surrey's Tandridge District Council may present rubbish contractors **Taskmaster** with a bill for emergency measures after the company got badly behind with collections. (See PSA 35).

The council set up 18 emergency tips for the public to take their waste after Taskmaster got so far behind on collections that the council was also forced to put housing maintenance staff on the rounds to try and clear the backlog. Within three weeks of the contract

beginning, the Taskmaster workers, previously employed by Exclusive, went on strike about conditions, working beside council staff on more pay and the company's refusal to allow unionisation.

Labour councillors warned Taskmaster would not be able to meet contract requirements with a £780,000 bid employing 27 staff. Its tender won against a £880,000 bid from the existing contractor **Exclusive** who employed 36 workers on the contract.



One of 18 emergency tips set up by Tandridge District Council in Surrey after rubbish contractors Taskmaster got behind with collections.

## Mediclean

# DHSS DANGER WARNING

Warnings from DHSS technical experts were ignored when a Gloucestershire health authority decided to award its hospital cleaning contract to ADT-owned Mediclean Ltd.

Analysis of Mediclean's tender documents show the company has set the contract on course for failure with impossibly high work levels for the staff.

The company is notorious for its method of preparing tender documents (see PSA 35). It uses its own work measurement data with no objective basis, ignores cleaning frequencies set in DHS specifications, and consistently underestimates reasonable staff costs.

A confidential report from a DHSS advisory body on contracts told the Cheltenham District Health Authority that bids from Mediclean and **Initial Cleaning Services** would not meet the specifications for cleaning nine hospital units. The report said only the in-house bid was able to meet contract requirements.

The tender documents show Mediclean's bid was based on staffing and work levels with a British Standards Institute work performance rating of 118. Initial's bid had a performance rate of 108 and the in-house bid's rate was 92. A normal work rate is 75 and most workers can achieve performance rates of up to 100.

Mediclean's tender was £95,000 cheaper than the in-house bid but the company plans to employ only 86 workers on the contract, 50 less than used by the NHS. Wards which had three cleaners will have only one-and-a-half when the contract starts on 6 August.

### LOW PAY

NUPE area officer Ken Terry predicts the company will have trouble getting workers from Cheltenham to work for low pay. A Sainsbury's branch, which opened recently in Cheltenham and also offered low paid jobs, had to bus workers in from Cardiff to staff the store.

Only 33 of the existing NHS staff are applying for jobs with Mediclean. Workers are being offered £2.03 an hour with a 20 pence bonus for "good time keeping". Saturday work is to be paid at time-and-a-half and Sunday at double time. Annual holidays are to start at two weeks and increase on the basis of service. There is no pension scheme and only a voluntary accident scheme.

### OTHER FAILURES

Mediclean has already run into trouble in contract with other health authorities in the West of England.

The Bristol and Western Health Authority refused to pay the company the full price for a contract started in September 1986. There was a 60 per cent turnover of staff in the first six months of the contract.

Mediclean was also reported to have a 69 per cent failure rate within two weeks of starting a contract in September 1987 with the Frenchay Health Authority. The contract had four managers within six months.

cleaner earning £87 a week, being the sole bidder for a six month trial contract with the Ryedale District Council to clean toilets in Malton and Pickering. Success meant a seven day working week for £228, and after deducting expenses, he was earning less than £100 a week.

But when the council invited bids to clean all eight public toilets in five North Yorkshire towns, councillors were reportedly shaken by a bid of £67,548 from Rab Docherty. He did not get the contract which went to an individual contract cleaner with a £30,000 cheaper

## More News

### WATER

The moves by French water companies into the UK industry in the run up to privatisation reached a new stage in June with the £47.6 million takeover by **Lyonnais des Eaux** of the **Essex Water Company**, the largest of the 28 statutory water companies. Lyonnais is expected to make a further takeover bid for the **East Anglian Water Company** in the near future. It is simultaneously expanding its stake in the Italian water industry with a new deal with **Fiat** motors.

The French water companies are ahead of their British competitors in the development of denitrification technology and expect to profit from the reluctant British acceptance this year of the EC 1980 Directive on nitrates in drinking water.

In reaction to the French moves, one of the water authorities, **Northumbrian Water** has begun buying shares in two of the water companies operating in its area.

### HEALTH WARNING

Cleaners in one London borough have produced a large sticker warning of the consequences of private contractors.



## FLUSHED AWAY

A former council cleaner who won a private contract to clean public toilets changed from being a 'have-a-go' media hero to another reject of the 'enterprise culture' within months.

Last summer Yorkshire papers made much of Rab Docherty, a council

bid even though council officials had costed the job at £47,500, plus all materials.

Docherty's higher costings were based on employing three full-time and one part-time worker at £2.75 an hour, with proper paid holiday leave, transport and National Health and Insurance payments. He would have received a wage of £150 a week.

The rejected contractor reportedly wished "the other man the best of luck" and was planning a short holiday, not having had a day off since he took on the contract.

## More News

### HEALTHY PROFITS

The Beverly Hills-based multinational **American Medical International** has announced its best quarterly earnings for three years. For the last three months AMI's revenue increased by 10.3 per cent. Nine months earnings were \$97 million or \$1.17 a share. In May AMI announced plans to sell almost half of its US hospitals to their employees for \$910 million. The corporation is selling its smaller and less profitable hospitals.

**Humana**, another big US hospital operator which runs the Wellington hospital in London, has also announced increased profits with three-quarter profits rising from \$52.2 million to \$63.8 million.

### Civil Service

Piecemeal privatisation of the civil service continues, against a background of proposals from the PM's efficiency adviser Sir Robin Ibbotson to hive off 'at least' 75 per cent of Whitehall to 'self managing' agencies. Linked to this is the Treasury report proposing casualisation of civil service work: the NUCPS conference voted to oppose it.

### PER FOR SALE

**Professional and Executive Recruitment**, one of the largest recruitment agencies in the UK with a £94 million turnover is to be sold by private tender. A management buy out bid is expected to compete with tenders from a number of private operators – including the giant **Blue Arrow**, whose empire already includes **Manpower** and **Brook Street**.

### PSA TO MARKET

24,000 jobs are at stake in Government plans for the Property Services Agency recently announced and drawn up without consultation with the Unions. For years a target for the Tory privatisers, the Agency is to be split into 3 parts and put on a trading fund basis by 1993. It will have to compete against the private sector for Government contracts.

### RACAL GETS BIG BROTHER

**Racal-Scicon** has now won the contract for the computer network linking the DHSS, Inland Revenue, Customs and Excise and Home Office.

### PRIVATISED JOB CUTS

Yet another round of redundancies has hit the workforce at the Plymouth Royal Dockyard where management was privatised last year. Between 1400 and 3000 jobs are to go bringing the total cut to 7000, in contrast to earlier government promises of only 2000. The trade unions had warned this would be likely to follow privatisation.

## ServiceMaster

# PRIVATISED MANAGEMENT

**ServiceMaster has won a three year management only contract for the portering and domestic services at the prestigious Guys Hospital in London. ServiceMaster specialise in providing management services in the US.**

They were initially brought in to advise on the specifications and contract documents for this new sort of contract – but ended up winning the tender themselves. Five contractors were invited to tender but only **Initial** and **ServiceMaster** did so. They are both now bidding for a similar contract at the Lewisham hospital, the only other hospital in the district. There will also be an in-house bid this time.

### NEW STYLE CONTRACTS

**ServiceMaster** supply four management staff, while the rest of the workforce remain NHS employees. Although they reassured trade unions that the £600,000 savings would not involve redundancies, within weeks of the contract starting, 11 porters, 44 domestics and 3.5 clerical/admin jobs are to go (all FTEs) – about 120 people's jobs. Their winning tender was only cheaper because of savings on redundancy payments: previous management staff had been redeployed.

Such high job losses are difficult to achieve by natural wastage. However a US Union report on their contract at Kaiser Hospital in Los Angeles reports "In just one year of operating under **ServiceMaster**, the number of grievances went up from 70 to 280 in one year. The grievance procedure has been continually bogged down with complaints about workload, work distribution, supervisorial harassment, inadequate equipment supplies and hazardous chemicals". Promises of training and modern methods have not been kept. New equipment is brought in, making it difficult to withdraw from a contract without the money to re-equip.

**ServiceMaster** has grown from a carpet cleaning firm to being one of the biggest companies in the US providing management services to health care facilities as well as a number of other public services, most recently expanding into school cleaning.

With 73,000 employees they are bigger than **Hawleys** and have contracts in 20% of all US hospitals with more than 50 beds. But many hospitals in the US are not renewing contracts with **ServiceMaster**: they can maintain the changes without paying the company.

**ServiceMaster** have so far failed to win any NHS contracts, although they put in bids in the early years. With the prospects of compulsory tendering in

local government, plus the development of new sorts of contracts, the contract at **Guys** is a useful beachhead.

### SERVICE TO THE MASTER

**ServiceMaster** are certainly well connected. In a letter to Simon Hughes MP, the Chief Executive of **Guys** admitted that "the introduction was originally made through the PMs office". Founding Director, and past President of the Hospital Services division, Allan C Emery Jr is also President of the Billy Graham Evangelistic organisation. Harvey Thomas at Conservative Central Office worked on the organisation of Billy Graham's last tour in the UK. Brian Mawinney MP who used to be a Director of **ServiceMaster** is also connected with the Luis Palau evangelistic movement.

This contract is part of the new generation of contracts:

- **Initial** have just won a 'whole linen service' contract in Merton & Sutton (see PSA 33);
- East Birmingham HA have introduced a cook/chill system, and while the NHS employ the managers and chefs, **Hospital Hygiene Services** recruit and pay unskilled staff. They are still on Whitley rates but have lost £25 a week bonus.

## A READY REFERENCE ON CONTRACTORS

The introduction of compulsory competitive tendering makes information about private companies vital.

For five years *Public Service Action* has monitored and analysed companies seeking public sector contracts.

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## Ambulances

# PRIVATE IN-ROADS

Since June, the 250 patients carried each day by non-emergency ambulances in Northumbria travel not with the NHS ambulance service, but the former NBC subsidiary, Go Ahead Northern Bus Company.

The contract is for one year and will be closely monitored, say the Ambulance Service – and the 30 new Go-Ahead Drivers will be given training by the Service, including first aid and patient management.

Ambulance services appear to be undergoing piecemeal privatisation in a growing number of areas. There is a long tradition in many health authorities of using hospital car services and taxis for non-emergency services, but recent developments show a clear increase in the pace of contracting out. Cuts in public transport services following deregulation have combined with 'community care' policies and rationalisation of facilities to fuel the demand for ambulance services.

The Secretary of the National Association of Chief Ambulance Officers sees the new contracting out as simply an extension of existing practice. He admits however that it is political, rather than financial, pressure which encourages the practice. He cites the south west of England where Dorset already contracts out 60 per cent of its work to the hospital car service, Wiltshire where one third is contracted out, and Hampshire's use of **Mainline Taxis** for carrying patients to day hospitals.

The Association is concerned that there should be safeguards in ambulance tendering to ensure high standards are maintained for vehicles, staff and service. To this end they have pro-

duced model specifications for the process. They believe emergency ambulance services will be safe from privatisation, however large the private sector grows around them. The trade unions are not so sure: the NHS experience over the last five year shows that if central government chooses to push a policy, local control becomes meaningless. Michael Forsyth is already pushing the idea in Scotland.

There are already private ambulance firms providing services to private hospitals. Some months ago Cambridgeshire GPs received details of a new private service there, set up by two ex-NHS workers and associated with a small Gatwick-based air and road ambulance firm called **Sovereign Medical Services** – offering all types of ambulance work.

At present there is no government registration or regulation of private ambulance services – and no guidelines for contracting out NHS ambulance services. A DHSS spokesperson told PSA that the Government saw no need for action and the responsibility for control lay with the Ambulance authorities who contracted out and with GPs who called private ambulances for their patients. Both the Chief Ambulance Officers and NUPE are planning to campaign for proper registration and codes of practice for the private sector before the cowboys move in on a large scale.

## National Health Service ROUND TWO

Health Authorities who are coming up to the second time round for tendering are using it as a chance to undo the mistakes they made the first time.

The contracts coming up for renewal are those that went out before hospital managements believed that unless they had tight specifications the contractors would cut the service to ribbons and that "savings" actually meant cuts in service.

According to the Union's Joint NHS Privatisation Research Unit "much smaller" savings are being recorded, and in some cases contract prices have risen to pay for improved standards.

- At Stoke Mandeville Hospital in Aylesbury, the contract has increased by half a million pounds but been given to **Mediclean** instead of **Crothalls** – although both are owned by **ADT**. Two wards have been closed temporarily to pay for the improved service.

- Bradford HA has just given the contract for portering, cleaning and transport at Woodlands hospital to **Taylorplan Services**, instead of **Initial**.

There is a move to bring the contracts back in house:

- Oxfordshire HA which has just awarded two out of three contracts to the in house tender after complaints about the performances of **RCO** and **Hospital Hygiene Services**.

- At Hammersmith Hospital, after problems with **Mediclean's** performance, they have employed a consultant to re-examine the specifications and draw up an in house bid with the trade unions co-operation. Last time there was no in house bid.

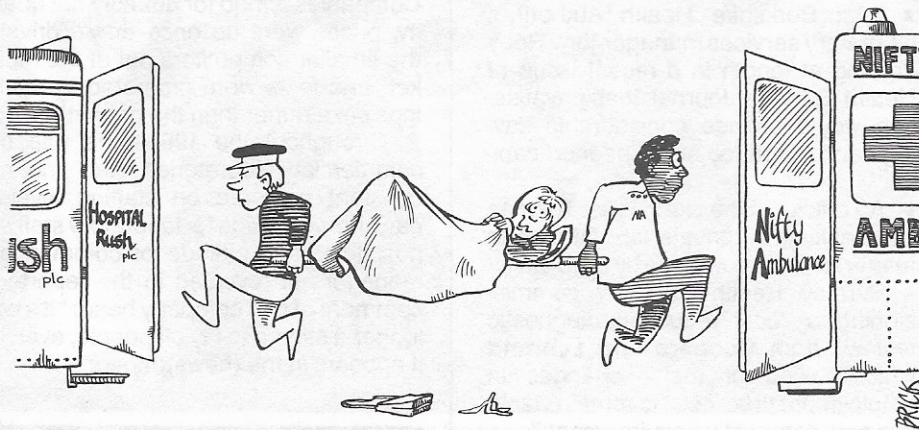
## More News

### CLYDEBANK MOVE

US company **Health Care International** has lodged its planning application for a 260-bed private hospital catering exclusively for overseas patients with Clydebank District Council.

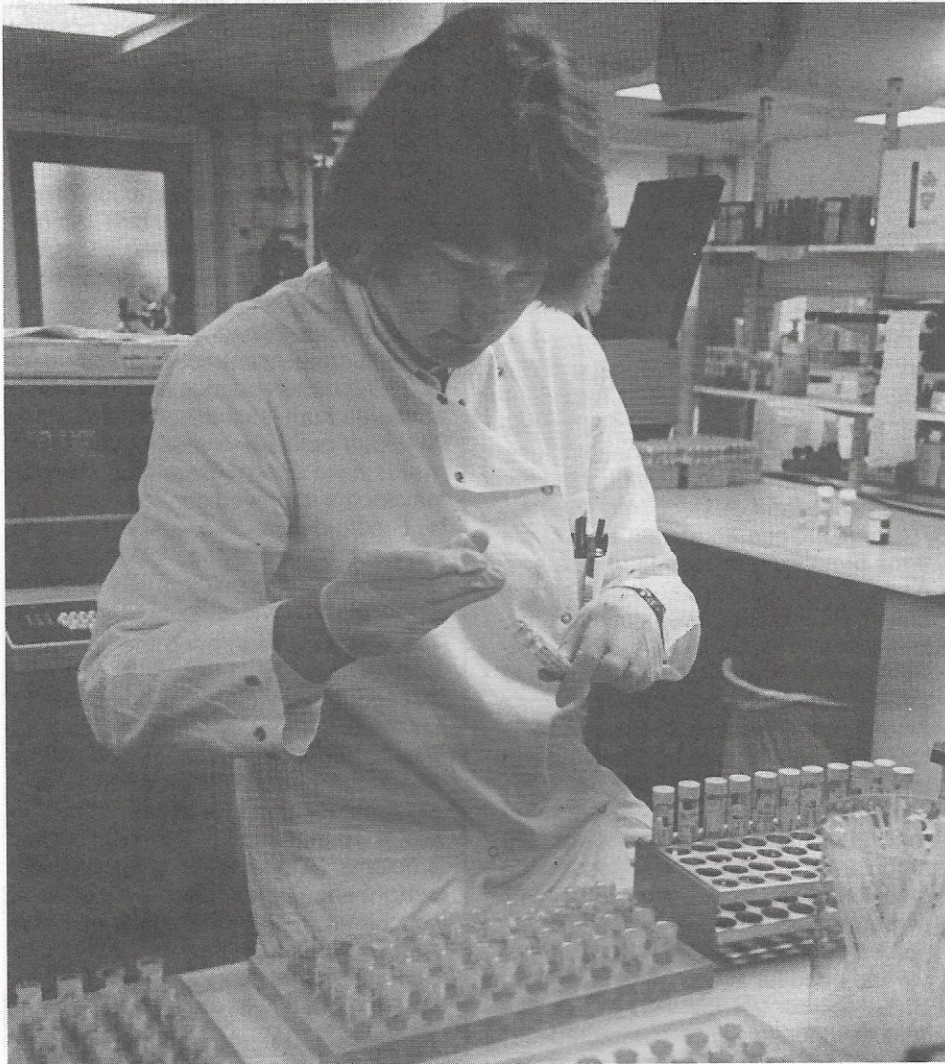
The Scottish TUC, local health councils and Labour MPs are opposing the £112 million project which would involve the recruitment of more than 600 nurses and doctors, causing a severe drain on NHS staffing levels.

HCI's application is likely to be turned down by the Labour-run district council's planning committee in August and the company will then appeal to Scottish Secretary Malcolm Rifkind, who supports the project. The Scottish Development Agency is already clearing the 19ha. proposed site, formerly an asbestos factory, at a cost of £4 million.



## Pathology Labs

# TESTING THE MARKET



The government has now opted to push privatisation of NHS pathology laboratories, not by direct central order, but through general financial pressure on health managers.

Social Services Minister John Moore explained in a recent speech that the government would not order a new round of privatisation of hospital services "since it is clear that managers can and will use this powerful tool without regular prompting from Whitehall."

MSF, the union for laboratory pathology staff, has condemned the government's approach as "creeping privatisation", avoiding public debate on competitive tendering and expecting health authorities to do the job quietly. The union campaign to keep pathology labs in the public sector has highlighted the problem of low pay for lab staff, many of whom are already moonlighting in private labs for extra money.

Privatisation preparations have already included:

- A private consultants report for the DHSS on laboratory costs recommending moves to cut the number of skilled staff.
- East Berkshire Health Authority's laboratory services manager Tony Raby arguing at length in a recent issue of Health Service Journal that privatisation would provide considerable savings and introduce much needed capital.
- An official at the North West Thames RHA asking 47 private laboratories to tender for work now done by NHS staff.
- Burnley Health Authority commissioning a "cost reduction diagnostic review" from **Coopers and Lybrand** which talked of major changes in employment practices "to remain viable in a new competitive environment."

## United States

## NEGATIVE RESULTS

Big companies gained a commanding hold on pathology services in the US during the 1970s, an experience with important lessons for NHS pathology laboratories threatened by "creeping privatisation", in Britain.

From the 1950s private laboratories set up by technologists and bioanalysts eroded the power of medical pathologists. In the late 60s big corporations, with the money needed for major capital investment in technology, moved into the industry. Most were drug companies.

Of the five largest West Coast laboratories, which accounted for more than a third of national test volume, three were bought by the drug companies **Abbot Laboratories**, **Bristol Myers** and **Upjohns**. **Dow Chemicals** and **International Chemical and Nuclear** bought the other two. Other companies which moved into the sector included **3M**, the defence electronics firm **Damon Corp**, **US Vitamin**, and **WR Grace**.

The corporations gained their dominance of the private pathology sector by:

- Automation and economies of scale in the production of lab tests
- Fierce price rivalry because they had enough money to make "deep pocket" bids to win contracts.
- Giving doctors a bigger cut from the fee for each test ordered.
- Co-operating with the setting of official quality controls knowing that smaller labs could not match the standards of large high volume labs at the same low price.

The disadvantages of market domination by the large corporations became quickly apparent however. Companies aimed for quantity not quality, prices went up once they'd driven the smaller competitors out of the market, and tests were promoted for testings sake rather than the patient's.

Throughout the 1980s the role of commercial laboratories has meant constant pressure on staffing levels, pay and workloads for laboratory staff in hospitals. The attitude of commercial managers is revealed in the reported comment of one company head: "It's no longer a stigma to lay off people, even if it appears in the (news)papers".

## Private Pathology

# PROFIT SAMPLES

Three companies dominate the private sector pathology laboratories in Britain. Their operating methods and structure point to the likely future for NHS laboratories carved out of the public sector.

The three companies are **J S Pathology Services plc (JSPS)**, **MetPath (UK) Ltd** and **AMI Medical Laboratory Services Ltd**. MetPath and AMI are subsidiaries of large US companies.

All three operate with large central laboratories providing economies of scale, often distant from the hospitals and the GPs they serve. Their operational methods depend on heavy capital investment in the latest technology, and using fewer highly qualified staff working on much longer shifts than the NHS. To return profits, the companies need large contracts for a high quantity of standard tests. They can do this either by grouping samples from a wide geographical area or a number of hospitals in one central site, or with large screening projects for companies or public health campaigns such as cervical cancer and Aids tests.

After a television documentary screened last year revealed high levels of failure in screening for cervical cancer by a private laboratory, the big three companies helped set up an industry body – the Association of Independent Pathology Laboratories – to “safeguard standards”. This was a public relations move but also helps squeeze the smaller competitors out of

the market. Smaller companies find it hard to make profits without cutting more corners or investing in the latest high cost testing technology.

The attitude of private companies to the prospect of privatisation of NHS labs is revealed in the reported comments of one JSPS director: “Basically they’re all overstuffed and under-worked; they’ve got the wrong equipment, they haven’t got the right computers and they’ve got stupid doctors floating around the place . . . they’d all have to go to make it a viable proposition and that would be very difficult.”

Late last year a city analysts’ report estimated that even a five per cent share of NHS pathology work would yield a £10 million bonanza for private pathology firms.

JSPS is the country’s largest pathology company, based in London’s Harley Street. Its clients include **Private Patients Plan**, **BUPA**, the medical departments of **Marks and Spencer** and **Esso Petroleum**, as well as 20 overseas medical institutions. In partnership with **St Martin’s Hospitals Ltd**, JSPS set up London Bridge Laboratories which services the private London Bridge Hospital and Chelsea’s Lister Hospital. Health screening for

companies and clinical trials for drug multinationals are growth areas for the company.

MetPath (UK) Ltd is a subsidiary of **Met-Path Incorporated** which operates two of the world’s largest pathology laboratories in New Jersey and Chicago. The New Jersey laboratory processes more than 35,000 samples a night, flown in from more than 60 satellite service centres around the US and the world. The British company operates a similar central laboratory near Hammermith’s Royal Masonic Hospital in London. It also has laboratories near Harley Street and at the UME-managed private St John and St Elizabeth hospital.

AMI Medical Laboratory Services Ltd, owned by the US health multinational **AMI**, is the third largest company. It boasts a higher revenue earned per square foot than any hospital in the AMI group. It serves AMI’s three central London hospitals and supports laboratories in other AMI hospitals. The central unit carries out about 300,000 tests a year with annual revenue of £2.3 million.

Last year outpatient activity was reported to provide only ten per cent of the company’s work but managers are looking to expand this area because they know in-patient activity is restricted by the number of hospital beds in AMI hospitals.



Medical laboratory scientific officers lobbying Parliament in their campaign against low pay and privatisation.

## Westminster WASTE FIASCO

Westminster Council has failed to create any competition for its valuable refuse and street cleansing contract.

A management buy-out bid through a new company, **MRS**, set up for the purpose has put off the established waste firms. Of six firms originally showing interest, only Pritchards submitted a tender. This was withdrawn in May. The council extended tender deadlines several times, reduced the price of tender documents and invited bids from companies originally excluded – all to no avail. NUPE has expressed concern over the growing crisis in morale among the workforce and large numbers of ill-health retirements – 56 since July 1987 with 12 more pending.

### SPREADING THE RISK

New contracts in some other services have been decided. Cleaning contracts have gone to: **RCO** (social services), **OCS** (libraries), **Initial** (Offices and depots), **Electrolux** (housing estates in Pimlico). Catering in staff restaurants has been won by **Taylorplan**. In-house bids were successful in social services catering and grounds maintenance on estates.

## Norfolk

### ... AND SOME YOU LOSE

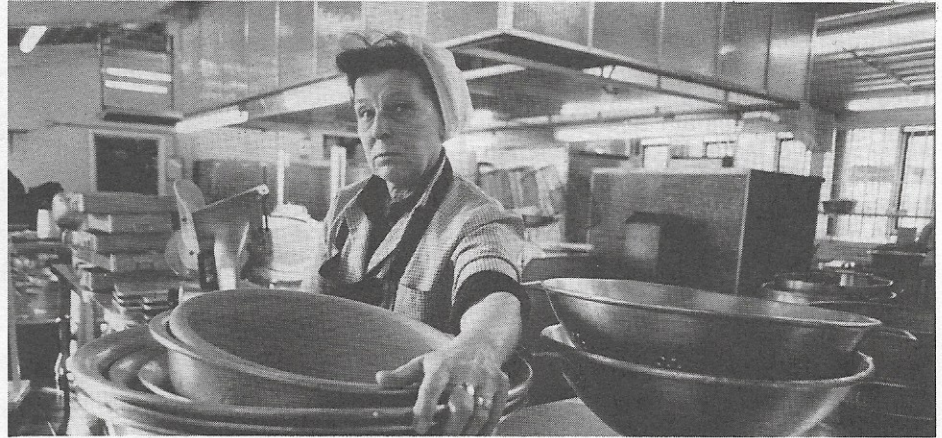
Norfolk Council's aims, it claims in staff newsletter **COMPETITION**, are "to keep as much of the work as it can for our own employees" and "to make sure that the standard of service to our customers does not fall".

So the council decided to risk its workers' jobs in three areas a year before necessary. Catering in one area stayed in-house – there were no private bids. One cleaning contract has stayed in-house, but with reduced pay and conditions. Staff who do not accept the new contracts will be said to have declared themselves redundant, so receive no redundancy pay. The third contract, for cleaning, went to **ISS Ltd**, who failed in a small school cleaning contract in the country a few years ago. 30 jobs have been lost.

The aim of the trials, the newsletter stated, was to 'gain experience' and avoid 'expensive mistakes'.

## The dangerous misuse of

# UNIT COSTS AND RATES



Many local authorities are seeking information on contractors' unit costs and rates. The intended use of this information, to compare with existing direct labour unit costs and then determine the necessary cuts or changes to match or be 'competitive' with these rates, is very dangerous for a number of reasons.

□ Contractors' costs and rates vary from contract to contract. The information in tenders submitted by contractors will show widely varying unit costs depending on how keen the firm is to win the contract.

□ Rates on a particular contract may not accurately reflect the firm's actual costs because:

- it may have gained the contract with a loss leader bid, either hoping to recoup costs later by cutting corners, demanding increased payments etc; or may have 'bought' or subsidised the contract as part of a longer terms strategy to gain more contracts from the authority of neighbouring councils; or to gain experience of the work.

- it may not have included capital or investment costs as it was using spare capacity or existing equipment, the cost of which had already been charged to private sector work.

□ The difficulty is deciding **when** to take a contractor's costs as a true reflection of actual costs or rates. Soon after some firms start contracts they demand substantial additional payments, regularly request costly variation orders, and try to maximise annual price reviews. Hence the cost of the service is likely to accelerate.

- Contractors may base unit costs and rates in anticipation of gaining further work in the local authority and thus exploiting the advantage of certain economies of scale, flexibility of labour etc.

□ Contractors do not operate with 'fixed' costs – they can subsidise contracts from more profitable areas or work and from contract to contract.

They also base their tender costs at the highest level but immediately below what they believe their competitors will charge. They may use their own work measurement data and times (see PSA No 35).

□ The range, level and quality of services varies both within the public sector and between the public and private sectors. A comparison of rates is therefore only valid for **comparable** specifications, working methods and contract conditions.

□ The overheads of many subsidiary companies contain transfer payments to the parent company thus inflating real costs. In other cases parent companies subsidise subsidiaries thus deflating actual costs. Historical evidence of this can sometimes be revealed in a detailed examination of company accounts but it is very difficult to determine whether it is reflected in contractors current unit costs.

□ The Accounting procedures can vary, particularly in the treatment of depreciation, valuation of assets and liabilities, pension fund surpluses etc.

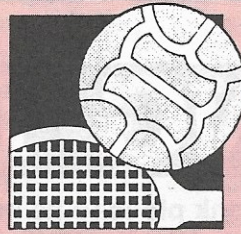
Even if a local authority considered its unit costs were comparable with contractors rates it does not guarantee anything. It becomes meaningless if a contractor's loss leader bid cannot be eliminated on technical or financial grounds at tender evaluation.

Since public services are labour intensive the use of unit costs is usually translated into labour rates, how few workers and how cheaply they can be employed. This is a 'strategy' doomed to failure.



## Sports and leisure

# AT THEIR LEISURE



**The announcement that sports and leisure management is to be put out to tender is expected as we go to press. It is likely that the lengthy list of facilities and services originally listed (see PSA 31) will be reduced to sports and leisure centres to match the private sectors interests, and that educational and dual-use facilities will be exempt because of the clash with the opting out of schools.**

Local authorities will keep control of pricing policies after pressure from sporting and community interests. However financial targetting based on turnover rather than assets means that control will be in very tight limits. Centres will be closed if targets are not met ie. if income is too low because prices are not high enough or there are too few paying customers to meet the costs of providing the service. Such considerations will undermine policies to encourage wider use or social objectives and any positive targetting or development work with particular groups in the community eg. the disabled. It will increase pressure for changes in pay and shifts whether or not the private sector is bidding. With the detailed order not expected for several months, first contracts will not go out until 1990 at the earliest.

### IN THE RUNNING

The original Consultation paper (*PSA 31*) received very little response from the private sector. Only 13 private interests responded, of which five were consultants, and only one, **Rank**, was a major company. In contrast there was considerable opposition from the sporting lobby both locally and nationally.

While leisure is the fastest-growing consumer sector, with enough profits to be made elsewhere, taking over existing local authority facilities does not seem very attractive to the existing leisure management companies.

The big leisure companies such as **Mecca**, **First Leisure**, **Brent Walker** have been more interested in high income sports such as golf and squash, or multi-purpose sites such as theme parks, leisure pools, marinas or in mixed retail and leisure developments. But with the tendering process adapted to their needs, it is likely that other companies will decide to bid for a share of a very big market; **Allied Lyons** have just taken on two contracts managing sports centres on the south coast.

**Mecca** was part of **Grand Metropolitan** until a £95m management

buy-out in 1985. The company has submitted tenders in the past and carried out at least two privatisation feasibility studies for local councils. But it is reportedly "not excited" by the prospects of contracting for local authority services. Their view is that "most of the activities (run by local authorities) do not lend themselves to cost effectiveness".

**First Leisure** was formed to take over the leisure interests of **Trust House Forte** in 1983. It has a wide range of leisure facilities – eg Blackpool Tower and Winter Gardens, Chichester Marina, London theatres as well as snooker halls and dance halls. It is currently concentrating on integrated leisure centres, and has no known interest in contracting.

**Brent Walker** have 25 companies running high profile projects such as the Astrodome at Basildon, Brighton Marina and a 20% stake (with **BET** and **Bouygues**, a French construction company interested in water privatisation) in Wonderworld in Corby. Apart from running Southend Pier, they have no local authority connection.

There is very little experience of privatised sports and leisure management – there are about a dozen contracts, all held by smaller companies.

**Crossland Leisure (Holdings) Ltd** is the main company in the field. It was established by two ex-local authority leisure centre managers and a colleague from a private health club, specifically to bid for the management of local authority facilities. It has seven contracts mostly in new or refurbished centres in the Home Counties. They operate by setting up a separate company for each contract, charging a management fee, employing staff directly, paying service costs and sharing any surplus with the council. The company makes its profits by putting up charges, controlling programming to leave space for lettings to private clubs, and expanding hours of use. Staff numbers are cut, so are wages, shift payments and overtime. In Camberley pool, they reduced staff so

much that at some periods only one lifeguard was on duty and customers were asked to sign a disclaimer form in case of accident.

**Sports and Leisure Developments plc** was also formed by an ex-local authority manager and offers a complete package from design through to management. Currently it manages an ice rink for the LB Havering and is developing two more projects with Dartford DC and LB Waltham Forest.

### CATERING

Competitive tendering in catering, cleaning and grounds maintenance will also affect sports and leisure centres. There are already a number of private catering contractors in leisure services. Apart from the very large companies such as **ARA**, **Grand Met**, **Compass** and **Sutcliffes**, there are also two smaller companies that have won contracts: **Sports and Leisure Foods Ltd** has 12 contracts, all over the country. **Caterleisure** has in the past had a number of local council contracts, but appears to have withdrawn from the market and now only has South Kesteven. It has recently won contracts from **British Rail** to operate seven former **Travellers Fare** outlets.

**Pritchards** have several cleaning contracts in leisure centres, as well as a number of small local companies.

### OPPORTUNITIES

The possible opting out of schools and sale of council estates could mean the loss of facilities that were previously available to the public. Government grants are available for private leisure developments as part of inner city regeneration packages – these will compete with local council facilities.

### MANAGEMENT BUY-OUTS

Rochford DC in Essex recently set up a company headed by its Director of Leisure to take over all sports and leisure services and the existing 200 staff. The company will be owned by its employees and will have to bid in competition with private companies when tendering is introduced.

Westminster recently put five leisure centres out to tender. The in-house bid was withdrawn because the officer drawing up the bid was also preparing his own management buy-out bid. There is now no in-house bid.

It may be that management buy-outs are the most likely threat to council services. Both examples above had the benefit of promotion or support from the council. But they do not save jobs or services – the services will still be run by a private company without national pay and conditions and without local accountability, even if the faces are familiar.

## Post Office

# CASHING THE GIRO

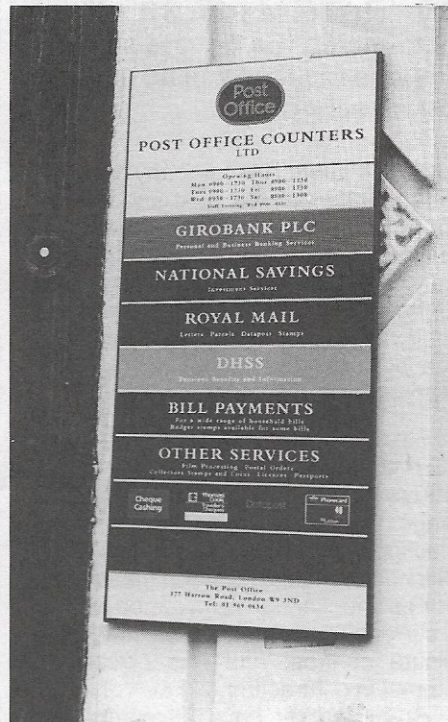
The Post Office banking arm Girobank plc is to be sold by auction and the Government now has the rest of the Post Office wrapped and tightly tied for sale to the private sector.

Shortly after announcing the sale of Girobank, Industry Minister Kenneth Clarke also blocked Post Office management plans for automation and new business activities. He is clearly not going to allow any expansion of the Post Office as a public sector enterprise. More definite plans to sell **Post Office Parcels** and **Post Office Counters** are bound to follow shortly.

And while privatisation of the **Royal Mail** has supposedly been ruled out, private sector firms will move in on lucrative inner city business mail deliveries if the government carries out its threat to remove the Post Office's monopoly on handling all inland mail posted for under £1. The Post Office would still have to provide rural delivery services and some estimates put the likely price of a first class stamp under that regime at 75p. Post Office Parcels already operates against very tough private competition.

Post Office management had planned to transform its network of 21,000 main or crown offices and privately-owned franchised 'sub-offices' into a computerised, financial services and stationery retail chain. The plan clearly aimed to appeal to the government by developing the organisation along 'more profit' lines and effectively privatising some of it by 'regrading'

another 750 of the 1500 crown post offices into privately-run 'sub-offices'. New business activity was to include selling insurance travel documents,



The Post Office presents itself as a shopping list.

handling building society accounts, and selling more stationery items like greeting cards.

### GIROBANK

Girobank is likely to be sold for between £120 and £300 millions. The bank, set up by the Labour government in 1968, is the country's sixth largest bank with two million customers. It directly employs 6,500 people and made a pre-tax profit of £23.1 m last year.

Possible contenders to buy Girobank include:

- the American **Citibank** and other foreign banks
- the **Bank of Scotland**
- a consortium comprising the post office workers' Union of Communication Workers, the trade union financial institution **Unity Trust** and the **Co-op Bank**.
- the National Federation of Sub Postmasters, representing small businesses which run post office agencies in their shops.

The government is likely to favour a single institutional investor over a joint bid, particularly from labour movement organisations. Because Girobank has no separate high street outlets of its own, its fate is also linked to the eventual sale of Post Office Counters. Current indications are, however, that the Government will not allow any one private interest to buy both branches of the Post Office's operations, putting Girobank's viability in jeopardy.

## National Bus Company

# END OF THE ROAD

The recent £10 million management buy-out of Birmingham-based National Express was part of wrapping up the massive privatisation of the National Bus Company (NBC).

The government has quietly pocketed £325 million and another £50 million left in the employees pension fund in the largely unsung scandal of the sell-off of 72 NBC subsidiaries. It has resolutely ignored early evidence of an immediate deterioration of the level and quality of the services.

The joint local authority and trade union transport alliance, the Public Transport Campaign Group, points out that about half of the subsidiaries were bought by "big-money bidders" from outside the industry. They included a second-hand bus salesman, a Canadian oil magnate, and an American industrial and cleaning conglomerate. The campaign is concerned that "entrepreneurs"

attracted by privatisation will cut costs in the pursuit of profits, endangering passengers lives by slashing workers wages and lowering vehicle and maintenance standards.

About 40 of the subsidiaries were sold to management buy-outs, many at "bargain basement" rates which made the managers millionaires overnight. Many sales, including the final bus company London Country North East, included the hiving off of garages and depots, often to speculators.

NBC ran almost all of Britain's buses outside the metropolitan areas since its formation as a nationalised industry in 1973. The 1985 Transport Act split the company into 73 subsidiaries for sell-

off. A list detailing all sales is available from the Public Transport Information Unit, 308 Grays Inn Road, London WC1X 8DY. Tel: 01-837 4053.

### SCOTTISH BUSES

The **Scottish Bus Group** is to be privatised as ten separate companies, the Scottish Secretary Malcolm Rifkind has decided. This rejects pleas from management and unions for the group to be sold as one unit. Rifkind claims the bus group would be "too dominant to allow for fair competition with other bus companies".

The fate of the other arm of the Scottish Transport Group, the **Caledonian MacBrayne** ferry company, remains uncertain. Rifkind refuses to rule out its eventual sale but says the company does not constitute a straightforward case for privatisation. (See PSA 35).

## Housing

# WE ARE NOT FOR SALE

### DEVELOPERS BACK OFF

Three out of five developers invited to tender for barter scheme on the Walerton and Elgin estates in Westminster have sent the documents back unread. **Ideal**, owned by **Trafalgar House**, and **Harp** a central heating firm are still left – but this is not enough to make a ‘competitive’ bid and Westminster may have to start again. It has already cost £350,000 in consultants fees to draw up this tender.

**Regalian** said they would not waste the £5000 it would cost to read the 18” thick documents. **Lovell** said they were “stunned” by the invitation. **Wates** described it as “horrendous”. All these developers have had flying visits from coachloads of tenants to inform them that they do not want developers on their estate. (see PSA 32).

### CASE TO COURT

Milton Keynes CASE are supporting a tenant’s legal challenge to the Development Corporation’s decision to unilaterally terminate the agency management agreement with the local council, and hand over the tenants to local housing associations.

### STATE SUBSIDISED RACHMANISM

Private companies will soon be able to get 40 per cent tax relief on investment in rented housing. And if they evict the tenants and sell the property after four years they will not have to pay tax on the profits. The Government estimates it will cost the tax payer £40m.

The Government plans to extend the Business Expansion Scheme to companies letting with assured tenancies. This scheme has already been used to fund private health and social services (see PSA 21). In order to get the money the company has to have no experience of housing management, and cannot be used to buy tenanted property.

### QUALITY STREET?

The **Nationwide Building Society** has set up **Quality Street** a new private company with Paul Mugnanoni, ex-Director of Housing in Glasgow with £600m to spend over five years on becoming a private landlord. It aims to have 40,000 homes by 1990, by ‘winning’ 5 per cent of the rented market outside London and 1 per cent inside London. Although they deny that they are after public sector housing, they are currently bidding £91m for all Torbay’s housing and are in discussions with tenants on the Hayles Estate in Southwark about the transfer of their estate.

### MANAGEMENT SELL OUT

In Guidelines issued by the DOE covering the voluntary sale of a local councils whole stock, the main criteria for approval by the DOE is that the new landlord should be completely outside the control or influence of the local authority.

- In Rochford – see PSA 35 - the ballot has been delayed, and tenants are confident that opposition to the idea is growing.

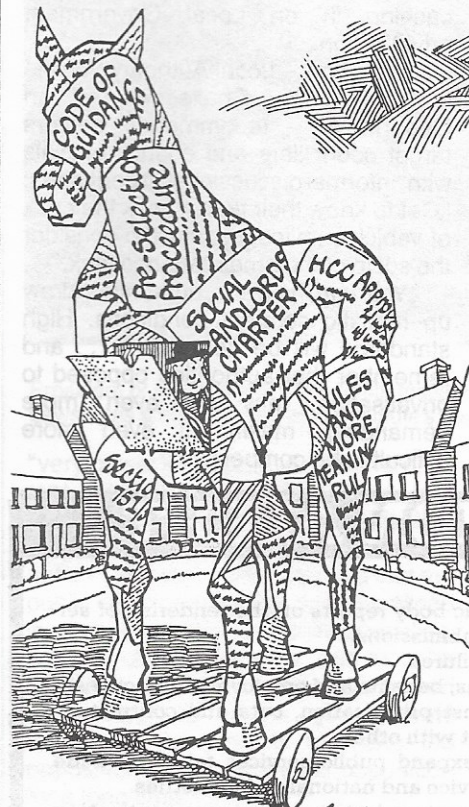
- Gloucester is planning to sell their entire stock to North Housing Association – if they can persuade tenants to vote for it.

- Torbay has put their entire stock out to competitive tender – and the highest bid wins.

- Salisbury is discussing setting up a non-profit making company as an Industrial & Friendly Provident Society.

- Yyns Mon is setting up a private company controlled by its assistant housing manager.

These deals are mainly being promoted and developed by senior housing management



The Papier-Maché Horse

## HOUSING BILL UPDATE

In spite of all the hullabaloo, no substantial changes have been made to the Housing Bill as it has gone through the Commons.

### TENANTS CHOICE?

- The Pick a tenant procedure (see PSA 32) now has a ‘pre-selection procedure’. The Housing Corporation will carry out an ‘informal’ consultation to see which of the competing landlords should be put to the ballot. The DOE proposal promises that where there is no support for any of the landlords the balloting procedure will not go ahead – so tenants organised opposition continues to be vital. The totally undemocratic ballot procedure remains.

- Tenants in blocks of flats who ‘choose’ in such a ballot to remain with the council will have to pay the private landlords higher rents unless the council can afford to pay the difference.

- The Social Landlords Charter is much as predicted in PSA 32. Landlords will only be allowed to take over council housing if they are approved by the Housing Corporation because they agree to abide by the Charter. However a private landlord or non-registered housing association can ignore the Charter once they own an estate, and it will be up to the tenants to try and enforce that agreement through the courts.

### HOUSING ACTION TRUSTS

There are no real changes to HATs: they remain totally undemocratic. But the DOE has so far failed to persuade any tenants to agree to a HAT on their estate, and they want tenant co-operation to undermine local council opposition.

- Tenants who remain ‘unsold’ at the end of the life of the HAT will be able to choose to go back to the Council – but only if they can afford to buy the estate back.

- They have to agree to consult local authorities about the local Board members.

Tenants on Hulme estate in Manchester are still refusing to be a HAT even though the DOE is saying the only way that anything will be done about the social and housing conditions on the estate is with HAT money.

- Private sector changes are an attempt to discourage the worst of the inevitable harassment and homelessness without losing the essential nature of assured tenancies – high rents and insecurity.

- Housing Associations have so far not won a special Housing Association tenancy to distinguish them from the rest of the private landlords.

## PUBLIC SERVICE ACTION

### Information

#### SAFE IN WHOSE HANDS? A COHSE Workbook on Health Care Planning and Finance.

If you have never quite understood NHS finances or the planning and decision making processes, this is the book to get. Written by the COHSE Education Department to help branch activists campaigning on cuts and closures, it describes the NHS management procedures and where trade unions can intervene, what information to demand, how to use DHA papers plus Action checklists. Invaluable for all NHS activists.

Available from COHSE, Glen House, High Street, Banstead, Surrey SM7 2LH. £2.50.

#### REVIEWING THE NHS: Health Care 2000 or Back to the Thirties?

NHS Unlimited, the research group to combat private medicine, has published a 27 page booklet rebutting the ideas of the 'new right' about the future of health care in Britain.

The booklet covers arguments getting a hearing through Thatcher's review of the NHS and include internal markets, the role of charity fundraising, income generation, charges and opting out. It effectively highlights the failures of the US health system, seen as a model by the free marketeers.

Copies available from NHS Unlimited, c/o Frank Dobson MP, House of Commons, London SW1 0AA. £2 each.

#### CUTTING THE LIFELINE: the fight for the NHS by John Lister

A summary of the 40 year history of the NHS and the struggles to defend it. It includes contributions from a range of activists and trade unionists on the current issues. Good background reading for the fight to defend the NHS.

Available from Journeyman Press Ltd, 97 Ferme Park Road, London N8 9SA £3.50.

## INFORMATION ALERT

#### Public Service Action urgently needs:

- Copies of council, NHS and other public body reports on the tendering of services, cost comparisons and trade union submissions.
- Information on contractors' fines and failures.
- Details of contractors' wages, conditions, benefits and employment practices.
- Regular news about campaigns against privatisation, cuts and contractors. Share your ideas, tactics and lessons learnt with others.
- Details of initiatives to improve and expand public services taken by trade unions, local authorities, the NHS, civil service and nationalised industries.
- Information about new plans or schemes to privatise services, eg contracting out, use of volunteers, expansion of private services etc.

Please write to Public Service Action, 15 Micawber Street, London N1 7TB or telephone (01) 253 3627.

## ADT

### BET CLEANS UP

The Bermuda-based conglomerate ADT has sold its European commercial cleaning operations to its major British competitor. BET is buying Pritchard Services, Provincial Cleaning Services and a number of smaller operations in the Netherlands and Spain for £44 million in cash. ADT is keeping its hospital cleaning company Mediclean. BET estimates its enlarged business will hold a 19 per cent share of the contracted-out commercial cleaning market worth about £1bn.

BET – whose subsidiaries include the Initial, Biffa and Exclusive companies

– has announced a 31 per cent increase in operating profit. Pre-tax profits to £216.4 million on a turnover of 2.13 billion. Recent acquisitions have included Reckitt Cleaning Service, the Blue Arrow cleaning business, and Endless and Ailsa which were all merged with Initial Contract Services.

BET's market strategy of concentrating on 'industrial services' has seen the company sell about 40 companies and buy another 150 since 1983. Interests sold have included stakes in Wembley Stadium, North Sea Oil and South African bus companies.

### More News

#### ATTWOODS FUNDRAISING

The rubbish disposal company Attwoods, which ADT owns 24 per cent of, is asking its shareholders for £40 million. The money is to be used to help buy more businesses particularly in the US, where Attwoods is snapping up small waste businesses. The company is raising money by asking existing shareholders, including Dennis Thatcher, to buy a special new issue of shares.

#### CAR DEALERS

The multinational car company Ford has issued its dealers with a guide on how to improve their chances of cashing in on Local Government privatisation.

The report – Local Authority Vehicle Maintenance – Challenge and an Opportunity – recommends dealers target councillors and council officials with 'informal discussions'. It continues: "Get to know their fleet: check their mix of vehicles, mileages, start to consider the scale of their maintenance task."

"You can help the authorities draw up realistic contract conditions. High standards will be demanded . . . and remember that authorities opposed to privatisation may be even more demanding, making it even more difficult to be competitive".

#### COOPERS FEES BONANZA

The accountancy and consultancy firm Coopers and Lybrand boosted its fee income by 20 per cent to £172 million last year. Coopers consultancy practice brought in £47 million.

## PUBLIC SERVICE ACTION

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