15. Austerity, privatization and levelling down: Public sector reforms in the United Kingdom

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1. INTRODUCTION

The United Kingdom is witnessing a prolonged economic depression. The level of GDP during the first quarter of 2012 was still 4 per cent lower than the pre-recession peak recorded in early 2008 and it is expected that the period of recovery will be the longest of any crisis since the end of the First World War (NIESR 2011). Policy reforms designed to encourage a recovery of the economy came in the wake of the financial crash of 2008–09, but were in fact steered away from attempts at reforming the evident failures in the UK’s neoliberal model of finance-led capitalism; a wide-ranging government review of banking (‘Project Merlin’) concluded by supporting the status quo, arguing against a re-regulation of the industry and rejecting a tax on banks or on bonuses (King et al. 2012). Instead, in a context of an escalating sovereign debt crisis in Europe, a newly elected Conservative-led coalition government is arguing that economic recovery depends upon a radical reform of the state’s role in delivering public services in order both to reduce the structural deficit and to open up new opportunities for private sector investment and job growth. Both claims are hotly contested. As in other European countries, attempts at fiscal consolidation are backfiring: economic growth has stalled in the six quarters since the new government came to power; levels of employment and hours worked fell during 2011 (after a modest recovery in 2010); businesses report a sustained pessimistic outlook; and unemployment among men and women has increased further to new highs.

The current public sector reforms have three characteristics: they impose a downwards quantitative adjustment in activity, involve transferring activity to the private sector and in several areas entail the ending of services provision. This chapter examines these characteristics (Section 3) and explores their consequences for employment, pay and pensions.
(Section 4). In addition, two case studies (Section 5) are presented that examine the consequences of, and new tensions arising from (i) privatization of welfare-to-work services and (ii) downsizing of local government. Section 6 concludes. We begin with a critical assessment of the economic and political factors driving current reforms to shrink the state.

2. SHRINKING THE STATE: AUSTERITY CRISIS AND NEOLIBERAL IDEOLOGY

The programme of fiscal consolidation introduced in 2010 in the UK is underpinned by two interlinked visions – mainstream economic theory about the role of government budget deficits and right-wing political ideology about the appropriate role of the state in the economy. We begin by assessing the merits of these visions.

2.1 A Flawed Economic Vision

The economic argument is that unless radical fiscal consolidation is applied, the UK will witness rising interest rates on government bonds leading to larger debt, rises in interest rates and falling business confidence which in turn will crowd out private sector investment and raise the risk of a default on debt payments. Government ministers have regularly played on doomsday scenarios of the responses of credit rating agencies to justify their belief that ‘there is no alternative’ to fast fiscal consolidation. Until late 2011 the British public and the popular media largely supported this view, but opinions turned during 2012. The spending cuts announced in the 2010 budget set a target to balance the ‘structural budget’ over a six-year period – to reduce ‘cyclically adjusted net borrowing’ from 8.7 per cent of GDP in 2009–10 to 0.3 per cent in 2015–16 (HM Treasury 2010). Then in late 2011, the government extended the period of spending cuts by a further two years, which provided fiscal balance for a controversial decision in March 2012 to cut the top rate of tax from 50 to 45 per cent. The government has remained rigid in its approach. It argued prematurely in August 2010 that thanks to its deficit reduction plan, ‘The much-needed rebalancing of our indebted economy – away from government and towards the private sector, away from consumption and towards business demand, away from imports and towards exports – is beginning’ (George Osborne, August 2010).2

The government’s economic approach is questionable on several fronts. First, it goes too far, too fast. Although the government has counted the OECD among its supporters,3 a closer reading of OECD analyses
indicates its nuanced position. In its *Economic Outlook*, the OECD identified the UK as in a potentially risky position, at the head of a sample of 12 countries with front-loaded consolidation involving the largest adjustment in spending; it argues, ‘Fast consolidation has the advantage that it may reduce the overall scale of required consolidation and reassure financial markets, but it also increases the risk of adversely affecting the recovery particularly if monetary policy is constrained’ (2011c: 227 and table 4.5). Furthermore, it recognizes the problem of an assumed one-way causation – that debt is necessarily the driver of slower growth rather than the other way.4 The position of the UK government is also questioned by an IMF report (IMF 2010) which rejects the hypothesis that spending cuts are expansionary in a context of low interest rates; it states that, ‘a budget cut equal to 1 per cent of GDP typically reduces domestic demand by about 1 per cent and raises the unemployment rate by 0.3 percentage points’ (cited in Fontana and Sawyer 2011: 48).

Second, government estimations about the structural budget deficit rely on imprecisely justified estimates of the gap between potential and actual output. In a detailed analysis, the macroeconomist, Malcolm Sawyer (2012), shows that the Coalition government has reduced its estimate of the UK’s potential output by around 6 per cent by cutting expected capital investment and assuming a higher level of ‘natural unemployment’. However, Sawyer argues that it makes no sense to use a decline in the potential output of the private sector to motivate ‘the knee-jerk reaction’ of public spending cuts. To do so ignores the damaging impact of reduced government spending and investment on productive activity. Spending cuts will massively reduce public sector output, he argues, thereby ‘compounding the losses of productive activity’ (p.215).

Third, fiscal consolidation has failed in the short to medium term and there are serious questions regarding medium-to-long-term prospects. Forecasts of GDP growth have been significantly curtailed in response to the unexpected downturn at the end of 2010 and stalled growth in 2011/early 2012. The June 2010 pre-budget forecast issued by the independent Office for Budget Responsibility (OBR) centred on estimates of GDP growth of 2.6 per cent (2011) and 2.8 per cent (2012). Within 18 months, however, by November 2011 the revised estimates were 0.9 per cent (2011) and 0.7 per cent (2012). Unemployment figures were also revised, from a forecast falling unemployment rate of 7.9 per cent in 2011 and 7.4 per cent in 2012 to a forecast rise from 8.1 per cent to 8.7 per cent (Table 15.1). In fact, the ongoing depression (the period when GDP remains below its pre-recession peak) has already exceeded in duration that experienced during the 1930–34 depression (Myers 2012). Moreover, consecutive falls in the last quarter of 2011 and first quarter of 2012 caused a double-dip
United Kingdom

Table 15.1 Changes in official forecasts of GDP growth, employment and unemployment, UK, 2010–2013 (%)

<table>
<thead>
<tr>
<th>Percentage change in GDP</th>
<th>Employment, millions (unemployment rate, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-budget June 2010</td>
<td>1.3</td>
</tr>
<tr>
<td>June 2010</td>
<td>1.2</td>
</tr>
<tr>
<td>Nov. 2010</td>
<td>1.8</td>
</tr>
<tr>
<td>March 2011</td>
<td>1.3</td>
</tr>
<tr>
<td>Nov. 2011</td>
<td>1.8</td>
</tr>
</tbody>
</table>


recession. By the end of 2011, GDP still lagged 4 percentage points below its previous peak (Figure 15.1).

A fourth problem is the rigidity of the government’s economic position. All economic forecasts of GDP growth are made within a range of probabilities but the government has stuck to a rigid objective of balancing the structural deficit. The austerity measures set out in 2010 were founded on overoptimistic forecasts of economic performance yet the government refuses to budge, despite warnings. In its review of failed IMF programmes of macroeconomic reforms in 70 countries, a recent UNCTAD report argues for lessons to be learned – ‘Mis-judging the effects of fiscal tightening seems to be the rule rather than the exception . . . In country after country where fiscal tightening was expected to both reduce the budget deficit and boost investment and economic growth, the opposite happened’ (UNCTAD 2011: 65). The opposition Labour Party accuses the Coalition government of being ‘growth-deniers’:

We have a Chancellor who believes that he can slash public spending, raise VAT and cut benefits . . . and none of this will have any impact on unemployment or growth. Against all the evidence . . . he argues the private sector will somehow rush to fill the void left by government and consumer spending.5

2.2 Resurgence of Neoliberal Ideology

Running parallel with the Coalition government’s flawed economic vision is an ideological vision that seeks to radically reduce what is perceived to be an oversized and overcentralized public sector said to be crowding
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out private sector activity and supporting a unionized and ‘privileged’
public sector workforce. At times, the rhetoric against the public sector is
tied to the state of the economy, at other times it is singled out in purely
negative terms. In early 2010, David Cameron argued that ‘In some parts
of the country the state accounts for a bigger share of the economy than
it did in the communist countries in the old eastern bloc. This is clearly
unsustainable’.6

More generally, the spending cuts fit with the argument that the post-
war welfare settlement of universal public services and benefits needs to be
diminished in scale and replaced by a stronger private sector and new forms
of copayments for users. Since 2010, the government and media have bom-
barded the public with reports of ‘golden-plated’ pensions and privileged
employment conditions among public sector workers and have carefully
constructed the impression that public spending increases during 1999–2009
under the New Labour government were wasted. Of course, it is no accident

Note: The 2008–09 trend runs from 2008Q1 to 2012Q1.

Source: Office for National Statistics.

Figure 15.1 Comparison of GDP fall and recovery with previous
recessions, UK
that the attacks challenge trade union heartlands. More than three-fifths of union members were in the public sector in 2010 (62 per cent, up from 52 per cent in 1995) despite it accounting for less than three-tenths of total employment; levels of union density are triple (for men) and nearly five times (for women) those in the private sector (Figure 15.2). Unlike other European countries, social dialogue – including a formal role for trade unions – has not been integral to the shaping of government fiscal policy. Instead, unions have exerted influence through a series of national and local protests and strike actions, as well as local negotiations with public sector employers over the design and implementation of cuts (Box 15.1).

The government has thus acted on the back of its fiscal consolidation approach to pursue a right-wing assault on the welfare state, the collective provision of public services and the jointly regulated protection of terms and conditions of employment. Even the governor of the Bank of England expressed concern about switching the blame from the banking bailout to the public sector. He told the Treasury Select Committee in 2011 that the billions spent bailing out the banks and the emphasis on public spending


Figure 15.2  Segmented patterns of trade union density, public and private sectors, UK, 1995–2010
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cuts were the fault of the financial services sector: ‘The price of this financial crisis is being borne by people who absolutely did not cause it . . . Now is the period when the cost is being paid, I’m surprised that the degree of public anger has not been greater than it has’. The attack on the public sector appears to have overwhelmed all areas of government, such that the widely accepted need for a rebalancing of the economy appears in practice to involve only a downsizing of the public sector rather than expanding exports and reducing reliance on financial services. As two well-known UK social and government policy experts put it:

Few can deny that Britain needs a new growth model but building a green economy, a greater export capacity or a larger manufacturing base is something that has to be planned and worked for over decades. It is unlikely to be delivered by massive cuts in the supporting physical and human infrastructure and investment. (Taylor-Gooby and Stoker 2011: 3)

3. THE CHARACTER OF PUBLIC SECTOR REFORMS

During the 2000s the public sector’s challenge was to deliver more and better services with rising revenues. The policy approach tied higher spending with two conditions: (i) performance targets and implementation
of monitoring systems across different parts of the public sector; and (ii) ‘quasi markets’ that enforced competition among public sector providers and blurred the interface with private and voluntary sectors. Since 2010, spending cuts mean that the challenge now is to deliver the same (or less) for less money (Table 15.2). There is more focus on engaging the private sector in delivering public services. And there is a new rhetoric about moving away from centralized government control to a decentralized, local governance system with a ‘big society’ of voluntary and community organizations involved in public services.

Box 15.2 summarizes the composition of the public sector.

Table 15.2  Key characteristics of public sector governance in 2000s and 2010s, UK

<table>
<thead>
<tr>
<th></th>
<th>2000s (New Labour government)</th>
<th>2010s (Conservative-led Coalition)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public spending</td>
<td>Strong record of spending increases, continued during the recession – rise from 38.2 to 47.3% of GDP</td>
<td>Deep and sustained spending cuts, despite absence of economic recovery – forecast drop from 47.3 to 39.8% of GDP</td>
</tr>
<tr>
<td>Public–private mix trend</td>
<td>Continued Margaret Thatcher’s programme of incremental privatization with increased outsourcing and subcontracting</td>
<td>Intensified approach supported by ideological stance against ‘monopoly state’ provision and a new presumption that all public services should be open to private sector providers</td>
</tr>
<tr>
<td>Examples</td>
<td>Private Finance Initiative (building programme and outsourcing of ancillary services); new privately owned Independent Treatment Centres in health services; some prisons privatized; introduction of student fees in higher education; continued privatization of social care</td>
<td>Privatization of health services under ‘Any Willing Provider’ (including private firms taking over ‘failing’ public hospitals); privatization of welfare-to-work programme; privatization of higher education (including tripling of fees); failed attempt to privatize English forests; ‘Big Society’ programme forces opening of local government services to new providers; accelerated privatization of prisons</td>
</tr>
<tr>
<td>Issues</td>
<td>Inefficient service procurement from private sector, spiralling costs of mega-contracts, two-tier employment conditions</td>
<td>Trade union protests and strikes against privatization agenda; controversial implementation of payment-by-results</td>
</tr>
</tbody>
</table>
BOX 15.2 COMPOSITION OF THE UK PUBLIC SECTOR

The UK public sector encompasses both general government activities and market activities controlled by government. It is defined in the UK National Accounts following the categories set out in the 1996 regulation from the Council of the European Union. Altogether, the Office for National Statistics (October 2011) lists some 2,391 separate public sector organizations, set under four headings:

- **central government**: includes government departments, executive agencies, non-departmental public bodies and other non-market bodies controlled and mainly financed by central government;
- **local government**: includes public administration organizations that cover only a specific locality and any non-market bodies controlled and mainly financed by them;
- **public financial corporations**: market bodies operating in the financial sector controlled by either central or local government. These can include government-owned companies and trading funds; and
- **public non-financial corporations**: market bodies in the non-financial sector controlled by either central or local government.

Classification of organizations as public sector depends on government’s right to exercise control. The BBC, for example, is established under Royal Charter and its governors are appointed by the Queen on advice from ministers. Another television channel, Channel 4, is also a public sector body since the board is appointed by Ofcom (the public sector regulator) subject to the approval of the government. During the crisis many banks were redefined as public sector organizations following government interventions. For example, the Northern Rock bank was classified as public sector in October 2007 since it received substantial liquidity support from the Bank of England and new clauses give government power to control its general corporate policy. The major organizations, as well as selected examples of other minor organizations, included in each category are shown below:
United Kingdom

<table>
<thead>
<tr>
<th>Central government</th>
<th>Local government</th>
<th>Public financial corporations</th>
<th>Public non-financial corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>● 12 government depts</td>
<td>● 353 councils in England</td>
<td>● Bank of England</td>
<td>● BNFL</td>
</tr>
<tr>
<td>● HM Treasury</td>
<td>● 32 councils in Scotland</td>
<td>● Financial Services Authority</td>
<td>- British Council</td>
</tr>
<tr>
<td>● HM prisons</td>
<td>● 22 councils in Wales</td>
<td>○ Banks, including:</td>
<td>○ Channel 4, Eurostar, Hackney</td>
</tr>
<tr>
<td>● NHS trusts</td>
<td>● 26 councils in N. Ireland</td>
<td>○ Northern Rock Bank</td>
<td>○ Homes, London</td>
</tr>
<tr>
<td>● Agencies (e.g., Benefits, Food standards, Countryside, etc.)</td>
<td></td>
<td>○ Royal Bank of Scotland</td>
<td>○ London underground, Manchester</td>
</tr>
<tr>
<td>● Scotland organizations</td>
<td></td>
<td>○ NatWest Bank</td>
<td>○ airport, NHS Blood and transplant, OGC buying solutions, Partnerships UK, Post</td>
</tr>
<tr>
<td>● Wales organizations</td>
<td></td>
<td>○ Lloyds TSB Bank</td>
<td>○ Office Counters, Remploy Ltd, Royal Mint, Stockport</td>
</tr>
<tr>
<td>● Northern Ireland</td>
<td></td>
<td>○ Scottish Widows’ Bank</td>
<td>○ Homes, Yorkshire</td>
</tr>
<tr>
<td>Other examples:</td>
<td></td>
<td>○ Ulster Bank</td>
<td>○ Metro</td>
</tr>
<tr>
<td>● BBC, Agricultural Wages Board, British Library, Gangmasters’ Licensing Authority, Low Pay Commission, Medical Research Council bodies, National Audit Office, UK Film Council</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

3.1 Deep and Fast-paced Spending Cuts

Forecast spending cuts for the five-year period from 2010 follow the pattern of previous Conservative party governments when sustained cuts reduced spending as a share of GDP by 9 percentage points (1982–89) and seven percentage points (1992–2000). The current forecast cuts are estimated to reduce spending from 47.5 per cent of GDP to 39.8 per cent. While consistent with past Conservative government cuts, current plans will have a more radical impact because they follow an 11-year period of sustained growth in public spending (Figure 15.3). It is notable that public spending continued to increase as a share of GDP during the 2008–09 recession under the New Labour government. This was not simply the result of automatic stabilizers. Spending rises in education and health were especially significant, suggesting that Gordon Brown and his team were applying Keynesian demand management, albeit in a relatively weak form.

Against a changed backdrop of austerity crisis during spring 2010 (including the first hints of a sovereign debt crisis in Europe and the risk of default by the government in Greece) the incoming Coalition government announced a medium-term plan of spending cuts with the goal of eliminating the structural deficit by 2015–16, which had ballooned due to both the costs of the banking bailout and adjustment of the UK’s ‘potential output’ (see above). Tax rises play a minor role in Britain’s austerity plans – outweighed by spending cuts by a factor of four to one. By 2014–15 it is forecast that social security spending will have lost £4 billion in real terms, education £3 billion, defence £6 billion and local government £6 billion. In percentage terms, local government and defence are by far the most impacted; the Coalition government will cut 21 per cent from local government spending by 2014–15.

3.2 Privatization: Repeating Past Mistakes

The second feature of public sector reform is privatization (Table 15.2). Since 2010, the Coalition has sought to create open markets for procurement of public services from the private and voluntary sectors. While the foundations for marketization were laid under Margaret Thatcher and Tony Blair, especially with the privatization of elderly-care services, the private finance initiative and various forms of outsourcing of ancillary services across the public sector, current reforms promise to go much further. The 2011 White Paper states that the new privatization programme ‘will switch the default from one where the state provides the service itself to one where the state commissions the service from a range
In the health sector, 2012 legislation will, on one hand, establish consortia of doctors who will be responsible for commissioning services from ‘any qualified provider’ with the explicit aim of ‘liberating provision of National Health Service...”}

Figure 15.3  Long-run trend in public spending – real, nominal and as a percentage of GDP, UK, 1971–2016 (forecast from 2011)
services’ and, on the other, expand the role of the regulatory body to ensure free competition in health service procurement. Prior to implementation, this reform faced sustained criticism in the media and opposition from all major professional associations and trade unions involved in health and social care. For example, Unison argues that the revised Bill:

continues to permit competition in the health service based on price, encouraging private companies into the service to engage in a cost cutting frenzy that damages patient care. And the legislation continues to point a dagger at the NHS principles of equity and fairness, with private companies allowed to walk off with the most profitable contracts and private patients jumping the queue on NHS patients.13

More open commissioning of services is also being applied to a range of central and local government services where it is expected to bring ‘a host of benefits’ by encouraging the entry of ‘new, innovative providers to compete for contracts’ (ibid.: 29). In most cases, in line with EU Procurement Directives, services are advertised on the website for EU tenders.14 Local government services are said to have strong privatization potential, including customer relations, planning, property and facilities management, back-office transactional services, housing and family support (ibid.: 30–31).

A major weakness of the privatization programme is the need for a large upfront spend to deliver the anticipated longer-term savings. The partial privatization of health services is estimated to require £600 million to £1.2 billion in redundancy costs alone associated with closures of Primary Care Trusts and Strategic Health Authorities.15 A second problem is that forecast savings have limited supporting evidence. In the opinion of a leading expert on public policy, ‘There is little systematic evidence about the overall effects of such reforms on cost saving, and certainly no consensus among policy experts or in the academic world that such reforms have significantly cut costs overall’ (Hood 2010: 6). One question is the extent to which under a new regime of cost-cutting central government works harder at getting better procurement deals with the private sector, an issue that has been the object of past critical assessments (Grimshaw et al. 2002), including a recent government commissioned review (Green 2010).

Other limitations of the privatization programme include the use of ‘partnership’ as a model for public services procurement (Erridge and Greer 2002; Kirkpatrick 1999; Lonsdale et al. 2010). In social care, research casts doubt on whether longer-term relationships have developed; contracts continue to be short term and cost focused with limited involvement of contractors in shaping delivery (Rubery et al. 2013). In IT
services procurement, public sector organizations are at risk of becoming ‘locked in’ with specialist providers and lack the expertise to re-specify contracts to adapt to fast-changing information and communication technologies (Grimshaw et al. 2002). Also, Private Finance Initiative partnerships do not necessarily deliver value for money: risk can be inappropriately distributed and some contracts appear to be awarded in response to lobbying of powerful private sector firms (Froud and Shaoul 2001; Crouch 2003).

**4. IMPACT OF REFORMS ON PAY AND EMPLOYMENT**

The reforms are different in type. Some involve a quantitative adjustment – a reduction in spending that may mean job cuts or a pay freeze. Others require qualitative change such as the redesign and streamlining of services provision or withdrawal from provision altogether. In his assessment of possible reforms, Hood (2010) distinguishes three types. First, ‘resetting’ existing practices includes a continuation of existing policy but with a downwards quantitative adjustment, whether in, for example, capital spending, maintenance spending or workforce labour costs. Second, ‘system redesign’ involves the re-engineering of existing services ostensibly to improve value for money, service quality and user experience (for example, IT projects to re-engineer the user experience, privatization, outsourcing and ‘Big Society’ projects). And the third type is the withdrawal of services. Each reform type has specific employment, pay and pension effects (Table 15.3). See Table 15.5 for a fuller listing of public policy reforms.

**4.1 Employment Effects**

Reduction in public sector employment has been a planned component of the government’s austerity budgets since 2010. The 2010 budget forecast a reduction of close to 10 per cent (490,000 jobs) in public sector employment over five years (OBR 2010: table 1). Data available up to the first quarter of 2012, less than two years after the introduction of austerity measures, demonstrate that this forecast will in fact be substantially exceeded (Table 15.4). Approximately 420,000 jobs have already been cut in just eight quarters since the start of 2010, an average rate of 53,000 per quarter, and it is notable that the scale of cuts was ratcheted up in 2011 to an average 69,000 per quarter. If this average rate of job loss since early 2010 continues, then the UK will witness a net cull from the public sector.
Public sector shock

Table 15.3  Characterizing the pay and employment effects of austerity measures, UK

<table>
<thead>
<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Downwards quantitative adjustment</td>
<td>Re-engineering of services to improve value for money</td>
<td>Elimination of services</td>
</tr>
<tr>
<td><strong>Employment effects</strong></td>
<td>Reduced employment throughout public sector exceeds original 2010 budget forecast, particularly in local/central government (to date)</td>
<td>Shift of jobs to ‘public services industry’ (private/voluntary firms) through staff transfer (protected by TUPE*) and direct recruitment</td>
<td>Downsizing of workforces by collective dismissals (closed childcare centres, libraries, care homes, career services)</td>
</tr>
<tr>
<td><strong>Pay effects</strong></td>
<td>Pay freeze for all except the lowest paid who mostly receive a small flat rate supplement</td>
<td>Reduces likelihood of coverage by joint regulation/trade unions; efforts to level down raw wage premium and other benefits</td>
<td>Increased wage–income insecurity</td>
</tr>
<tr>
<td><strong>Pension effects</strong></td>
<td>Proposed rise in pension contributions/retirement age</td>
<td>Switch from a final salary to a career average pension</td>
<td>–</td>
</tr>
</tbody>
</table>

* Transfer of Undertakings (Protection of Employment) regulations.

Source: Author’s elaboration using Hood’s (2010) three categories.

of 640,000 jobs by the first quarter of 2013 and 850,000 jobs by early 2014 – that is, almost double the forecast number even before the ending of the period of austerity measures.

The largest reduction, by headcount, is in public administration (central government civil service and local government) where there has already been an 11 per cent reduction in just eight quarters – 134,000 jobs. Education has witnessed a 5 per cent cut (approximately in line with the overall 6 per cent real spending cut, Figure 15.3). And it is notable that the National Health Service (NHS) has lost 45,000 jobs, 3 per cent of the workforce. The Coalition government has repeatedly claimed that frontline health-care
**Table 15.4  Trends in public sector employment, disaggregated by industry, UK, 1999–2012 Q1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Army (including civilians)</th>
<th>Police</th>
<th>Public admin.</th>
<th>Education</th>
<th>NHS</th>
<th>Other health &amp; social work</th>
<th>Publicly owned financial corp.</th>
<th>Other public sector</th>
<th>Total public sector emp.*</th>
<th>% of total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>218</td>
<td>230</td>
<td>1,181</td>
<td>1,395</td>
<td>1,212</td>
<td>392</td>
<td>–</td>
<td>609</td>
<td>5,469</td>
<td>20.2</td>
</tr>
<tr>
<td>2000</td>
<td>217</td>
<td>229</td>
<td>1,187</td>
<td>1,450</td>
<td>1,239</td>
<td>388</td>
<td>–</td>
<td>611</td>
<td>5,550</td>
<td>20.2</td>
</tr>
<tr>
<td>2001</td>
<td>214</td>
<td>232</td>
<td>1,193</td>
<td>1,475</td>
<td>1,285</td>
<td>375</td>
<td>–</td>
<td>639</td>
<td>5,642</td>
<td>20.4</td>
</tr>
<tr>
<td>2002</td>
<td>214</td>
<td>241</td>
<td>1,221</td>
<td>1,482</td>
<td>1,348</td>
<td>368</td>
<td>–</td>
<td>656</td>
<td>5,749</td>
<td>20.6</td>
</tr>
<tr>
<td>2003</td>
<td>223</td>
<td>251</td>
<td>1,265</td>
<td>1,538</td>
<td>1,417</td>
<td>347</td>
<td>–</td>
<td>658</td>
<td>5,912</td>
<td>21.0</td>
</tr>
<tr>
<td>2004</td>
<td>218</td>
<td>266</td>
<td>1,278</td>
<td>1,575</td>
<td>1,475</td>
<td>361</td>
<td>–</td>
<td>648</td>
<td>6,030</td>
<td>21.2</td>
</tr>
<tr>
<td>2005</td>
<td>210</td>
<td>274</td>
<td>1,297</td>
<td>1,595</td>
<td>1,528</td>
<td>368</td>
<td>–</td>
<td>660</td>
<td>6,133</td>
<td>21.3</td>
</tr>
<tr>
<td>2006</td>
<td>204</td>
<td>275</td>
<td>1,293</td>
<td>1,622</td>
<td>1,522</td>
<td>361</td>
<td>–</td>
<td>631</td>
<td>6,096</td>
<td>21.0</td>
</tr>
<tr>
<td>2007</td>
<td>197</td>
<td>284</td>
<td>1,280</td>
<td>1,633</td>
<td>1,486</td>
<td>358</td>
<td>–</td>
<td>621</td>
<td>6,039</td>
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</tr>
<tr>
<td>2008</td>
<td>193</td>
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<td>1,236</td>
<td>1,641</td>
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<td>197</td>
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<tr>
<td>2010Q1</td>
<td>199</td>
<td>294</td>
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<td>1,606</td>
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<td>218</td>
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<td>2010Q2</td>
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<td>285</td>
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<td>1,665</td>
<td>1,595</td>
<td>350</td>
<td>218</td>
<td>548</td>
<td>6,214</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>Army (including civilians)</td>
<td>Police</td>
<td>Public admin.</td>
<td>Education</td>
<td>NHS</td>
<td>Other health &amp; social work</td>
<td>Publicly owned financial corp.</td>
<td>Other public sector</td>
<td>Total public sector emp.*</td>
<td>% of total employment</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------</td>
<td>--------</td>
<td>---------------</td>
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<td>---------------------</td>
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<tr>
<td>2011Q1</td>
<td>194</td>
<td>282</td>
<td>1,176</td>
<td>1,652</td>
<td>1,591</td>
<td>349</td>
<td>213</td>
<td>557</td>
<td>6,177</td>
<td>21.1</td>
</tr>
<tr>
<td>2011Q2</td>
<td>193</td>
<td>277</td>
<td>1,133</td>
<td>1,632</td>
<td>1,565</td>
<td>342</td>
<td>214</td>
<td>537</td>
<td>6,054</td>
<td>20.8</td>
</tr>
<tr>
<td>2011Q3</td>
<td>191</td>
<td>271</td>
<td>1,117</td>
<td>1,603</td>
<td>1,557</td>
<td>330</td>
<td>207</td>
<td>534</td>
<td>5,979</td>
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<tr>
<td>2011Q4</td>
<td>189</td>
<td>267</td>
<td>1,102</td>
<td>1,595</td>
<td>1,561</td>
<td>333</td>
<td>212</td>
<td>520</td>
<td>5,938</td>
<td>20.4</td>
</tr>
<tr>
<td>2012Q1</td>
<td>187</td>
<td>262</td>
<td>1,091</td>
<td>1,600</td>
<td>1,561</td>
<td>323</td>
<td>202</td>
<td>516</td>
<td>5,899</td>
<td>20.1</td>
</tr>
<tr>
<td>Change since 2010Q1</td>
<td>-12</td>
<td>-32</td>
<td>-134</td>
<td>-75</td>
<td>-45</td>
<td>-36</td>
<td>-16</td>
<td>-52</td>
<td>-424</td>
<td>-1.8 pp</td>
</tr>
<tr>
<td>% change</td>
<td>-6.0</td>
<td>-10.9</td>
<td>-10.9</td>
<td>-4.5</td>
<td>-2.8</td>
<td>-10.0</td>
<td>-7.3</td>
<td>-9.2</td>
<td>-6.7</td>
<td>-8.3</td>
</tr>
</tbody>
</table>

**Note:** *Includes publicly owned financial corporations – Royal Bank of Scotland Group plc, Lloyds Banking Group plc and Northern Rock from 2009. Figures for ‘public sector construction workers’ not shown here but included in the total (42,000 in 2012Q1).*

**Source:** ONS Public sector employment by industry, June 2012 release (www.ons.gov.uk/ons/rel/pse/public-sector-employment/q1-2012/stb-pse-2012q1.html, accessed 14 February 2012).
jobs in the NHS would be protected, but survey data suggest more than half planned job cuts in early 2011 were clinical, frontline posts.\textsuperscript{16}

The gender impact of public sector job cuts is skewed against women due to their disproportionate share of the public sector workforce. Women experienced nearly three in five of the jobs lost – amounting to 185,000 and 130,000 jobs for women and men, respectively. In fact, women’s share of job cuts is marginally less than their share of public sector jobs, which has remained at around 65 per cent during 2010–11. From the end of 2009 to the third quarter of 2011, women’s employment fell by 4.0 per cent and men’s employment by 5.2 per cent.

Figure 15.4 displays the employment impacts by major occupational groups and by full- and part-time employment for the prior five-year period of expansion and the period of austerity. Public sector employment increased prior to 2009, especially among female full-timers, although these women experienced a polarization between growth among professional and managerial jobs and among personal service occupations but a major loss of jobs among administrative and secretarial jobs. During the period of cuts the share of job losses has been largest among female part-timers and male full-timers. Surprisingly, female part-time employment increased among the higher-paid managerial and professional and associate professional jobs by 5 per cent; also, full-time jobs increased for men and women in lower-paid sales/customer service jobs (men and women) and personal service (men) jobs.

A separate data source\textsuperscript{17} clarifies what has happened across different subsectors (Figure 15.5). The largest single employment loss during the five quarters from early 2010 to the second quarter of 2011 was among female part-timers in education, a fall of 69,000 – likely to involve reductions in teaching assistants who provide supplementary (sometimes specialist) assistance in school classrooms. The second largest drops were shared by male and female full-timers in public administration (around 40,000 each). A third significant loss was among female part-timers in health, 36,000 employees. Again, these data show that across all four areas of the public sector, women have experienced the brunt of employment cuts. These cuts are especially significant during a period when across all sectors of the economy there has been no significant change in numbers employed. Small rises in male full- and part-time employment, along with female part-time employment have been offset by a net reduction in female full-time employment by 2.1 per cent, or 147,000. Here is further clear evidence of the unequal adverse impact of public spending job cuts on women’s employment opportunities.

‘System redesign’ policies (Table 15.3) have generated particular types of employment effects. Programmes of outsourcing and privatization,
Note: SOC 1–3 includes managers and senior officials, professional occupations and associate and technical; SOC 4–5 includes administrative and secretarial and skilled trades occupations and SOC 6–9 includes personal service occupations, sales and customer service occupations and process, plant and machine operatives.

Source: LFS data (specially requested tables). Author’s compilation.

Figure 15.4 Change in public sector employment by major occupational group, sex and full-time/part-time, UK, 2004–2009 and 2009–2011
United Kingdom

transform public sector employment by blurring the boundaries with the private sector. Government websites now routinely refer to the fast-expanding ‘public services industry’. Current government reforms build on previous policy but are accelerating the pace of change. There are limited publicly available data to illuminate this important policy trend. One source suggests that the market for public services has expanded quickly in recent years. In 2007–08 it was estimated that the government purchased services from the private and voluntary sectors at a cost of £79 billion, double the figure spent (in real terms) in 1995–96, and estimated to account for one-third of spending on public services (Julius 2008: 11–13). On the demand side, most spending is for health services (30 per cent), followed by social protection, defence and education. On the supply side, the major activities are ‘managed services’ (for example, running prisons, welfare-to-work services, childcare services), facilities management, ICT services and business process outsourcing (ibid.: 21).

This expanding market is forecast to support 1.3 million jobs in 2010–11 (ibid.: 18), one-fifth of the 6 million public sector workforce. Trade unions are doing their best to monitor the employment impacts of current reforms but it is difficult because of the fragmented and uncoordinated character of change. The lessons of previous evaluations of privatization and outsourcing (for example, Walsh and Davis 1993) are that reforms are likely to mean job cuts either prior to or following transfer of services to the private sector and heightened concerns over job security. Recent studies attest to the increased job churning. A 2004 National Audit Office survey of 43 public–private partnerships found that thousands of workers are routinely transferred from the public sector to the private sector contractor and then there is a rapid fallout from the workforce through voluntary quits and redundancies. The survey results show that of the 3,200 people who left after transferring from the public sector, 17 per cent were made redundant or were dismissed and 66 per cent resigned voluntarily (NAO 2008: table 6).

‘Withdrawal’ of public services means downsizing of employment since it cannot be achieved through natural wastage or a recruitment freeze. In local government, budgets have been cut but organizations have been granted more discretion in how to tailor services to budgets by the removal of ring-fenced services provision – such as childcare for deprived neighbourhoods, for example, or local career services for young people. Examples of abolished local services include:

- **Childcare centres** Closure of 124 Sure Start centres (from 3,631 in April 2010 to 3,507 in September 2011).
- **Libraries** Withdrawal of 95 library services, which includes the closure of 33 library buildings (including 13 in Leeds and six in...
Public administration, defence, social security (SIC 84)

Education (SIC 85)
Note: The data do not separate out public sector from the small share of private sector employment.


Figure 15.5 Jobs trends in four sectors by sex and full-/part-time, UK, 1999–2011
Brent) and 43 mobile libraries, the substitution of volunteers for paid librarians in 14 library buildings and the takeover of five libraries by social enterprises or the local church.

- **Career services** An estimated 8,000 job cuts associated with cuts and closures of careers services provided by local authorities, including the closure in East Sussex, Essex and Lewisham.

- **Care homes** Six homes to close in Leeds with job cuts.

Downsizing is nevertheless a costly practice. Severance payments mean that many public sector organizations are unlikely to achieve their desired spending cuts in the short term.

### 4.2 Pay Effects

‘Resetting’ through spending cuts is also achieved by cutting the real level of public sector pay. Pay policy had already been a key focus during the recession under the New Labour government with press releases in late 2009 warning of problems of a ‘culture of excess’ among some higher-paid groups (senior civil servants, judges and doctors). Ignoring the recommendations of the independent senior salary pay review body, it implemented a pay freeze in 2010–11, followed by a two-year cap of 1 per cent, estimated at the time to save £3.4 billion (Table 15.5).

Table 15.6 lists the main public policy changes and their impacts.

The policy of a nominal pay freeze was picked up by the coalition government and applied across all areas of the public sector for two years from 2011 to 2012. The one exception was the recommendation that a small fixed annual supplement of ‘at least £250’ be awarded to the lowest paid (defined as having annual earnings less than £21,000). What is interesting about the policy is that it received support by the ostensibly independent pay review bodies (separately constituted for the various professions, including teachers, health service workers, prison staff and so on), which caused an outcry from trade unions on the basis that the pay bodies had failed to question government thinking and had thereby compromised their independent status. With inflation at around 6 per cent in 2011, the pay freeze (with or without the small £250 supplement) caused a significant erosion in real earnings; in the meantime, the private sector median pay settlement was around 2.5 per cent in 2011.

Figure 15.6 shows trends in nominal and real median earnings in the public sector compared to the private sector for different workforce groups. The trend in real earnings tended to be flat during 2005–09, although women in public sector part-time jobs did quite well. During 2009–10, the year following the recession, the UK economy was deflation-
ary (retail price inflation was around –5 per cent) and as such all workforce groups experienced rising real earnings, even male full-time workers in the private sector who were the only group to experience a cut in nominal earnings that year. But with a return to high inflation in 2010–11, all workers experienced a significant fall in real pay, ranging from a cut of

Table 15.5 Summary of public sector pay reforms and their effects during the crisis, UK, 2010–2012

<table>
<thead>
<tr>
<th>Pay issue</th>
<th>Pay reform</th>
<th>Effects on wage levels and wage structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual pay settlement</td>
<td>Unilateral government imposition of a 2-year freeze (most from April 2011), followed by 2-year imposed 1% limit</td>
<td>3% cut in public sector real earnings 2010–11; likely to be higher in 2011–12; falling real pay will continue until at least 2014–15; cut in ‘raw unadjusted gap’ between public and private sector</td>
</tr>
<tr>
<td>High-wage earners</td>
<td>High-profile independent review commissioned to examine ‘culture of excess’ in public sector, but no mention in 2012 budget</td>
<td>None to date</td>
</tr>
<tr>
<td>Low-wage earners</td>
<td>Government provision of £250 fixed supplement for earnings &lt; £21k</td>
<td>Limited impact in reducing real pay cut among lowest paid. But not applied in local government due to refusal of employer body</td>
</tr>
<tr>
<td>Local pay</td>
<td>Government aims to dismantle national agreements and hopes to implement local/ regional pay</td>
<td>Already planned for civil service from April 2012; awaiting responses from pay review bodies for health, education, prisons. Motivated by goal to cut public wage premium (unadjusted) in regions outside London but government propaganda obscures complex issues; will increase public sector wage inequality, widen interregional income inequality and worsen pay for the lowest skilled who are least protected</td>
</tr>
<tr>
<td>Automatic pay increments (seniority)</td>
<td>Government pressure on pay bodies to freeze pay increments</td>
<td>Mixture of responses – e.g., no increments for civil servants at the Dept for Work and Pensions but honoured for prison service workers</td>
</tr>
</tbody>
</table>
Table 15.6  **Main public policy changes and their impacts on workers and citizens, UK, 2010–2012**

<table>
<thead>
<tr>
<th>Policy reform</th>
<th>Impacts on public sector workforce</th>
<th>Impacts on all workers</th>
<th>Impacts on public services and citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public spending cuts (9.5% cut in departmental real expenditures; 3.3% cut in total real expenditures, 2010–11 to 2014–15)</strong></td>
<td>Cuts in pay and employment, as well as reduced career prospects</td>
<td>Likely reduced budgets for commissioning of public services from private sector</td>
<td>Diminished quantity and quality of public services across all areas signifies deterioration in the social settlement for UK citizens; especially negative shock in deprived regions</td>
</tr>
<tr>
<td><strong>Cut corporation tax to 27% (2011–12), 26% (2012–13), 25% (2013–14), 24% (2014–15)</strong></td>
<td>Massive reduction in tax base (estimated £4.1bn) means less revenues to fund pay and employment</td>
<td>Shifts balance of tax payments from employers to workers</td>
<td>Likely decline in quantity resulting from reduced tax revenues</td>
</tr>
<tr>
<td><strong>Increased tax-free income allowance from £6475 in 2010–11 to £9,205 in 2013–14</strong></td>
<td>Increases net earnings for a small group of low-wage workers not in receipt of tax credits</td>
<td>Same impact as public sector workers</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>Increased income taxes for many workers (higher share covered by the 40% income tax bracket caused by lower minimum threshold – from £37,401–150,000 in 2010–11 to £32,245–150,000 in 2013–14)</strong></td>
<td>Reduced net income for middle-to-high wage earners</td>
<td>Same impact as public sector workers</td>
<td>N.A.</td>
</tr>
<tr>
<td><strong>Reduced income tax for the highest-paid workers (£150,001+), from 50 to 45% from April 2013</strong></td>
<td>Only applicable to a handful of very senior managers</td>
<td>Benefits many workers at the top of the pay distribution</td>
<td>N.A.</td>
</tr>
</tbody>
</table>
Public sector pay freeze, 2010–11 to 2012–13 with possible £250 supplement for lowest paid
Public sector pay limit of 1%

Reduction* in real level of adult National Minimum Wage in 2010 (−2.3%), 2011 (−2.9%) and 2012 (forecast −1.8%)

Planned public sector workforce cuts (estimated 490,000 or 10% 2010–11 to 2015–16)

Privatization and outsourcing of public services through new programmes in health care (‘Any Willing Provider’), welfare-to-work (‘Work Programme’), prisons and ‘failing’ schools

Real wage cuts. Varied timeline of implementation; £250 for local government workers refused by employer body Pulls down base rates in public sector pay agreements, especially local government where rate is lowest Very likely to exceed forecast 10% cut. Job cuts include ‘frontline’ posts in NHS. Disproportionate impact on women, local government, deprived regions Further cuts encouraged in public sector employment; reduced numbers with terms and conditions protected by joint employer–union regulations

Only affects public sector

Real wage cuts. Varied timeline of implementation; £250 for local government workers refused by employer body Pulls down base rates in public sector pay agreements, especially local government where rate is lowest Very likely to exceed forecast 10% cut. Job cuts include ‘frontline’ posts in NHS. Disproportionate impact on women, local government, deprived regions Further cuts encouraged in public sector employment; reduced numbers with terms and conditions protected by joint employer–union regulations

Recruitment and retention problems expected – likely to aggravate management of public services delivery

Major adverse impact on minimum wage workers; reduces real living standards Adds to unemployment, increasing competition for job vacancies. Especially problematic in regions with a weak private sector New job opportunities; unions find it difficult to mobilize members in private firms providing public services; evidence of a reduced ‘public service ethos’ in privatized prisons (Koumenta 2011)

Reduced wage floor likely to increase incentives to outsource public services to private sector where many firms use the minimum wage as the going rate of pay Worsening of public services provision, especially difficult in a period of rising poverty, homelessness, ageing population and an increase in cohort of young children Likely reduction in universal provision of public services with focus among private firms on most profitable activities; already some evidence of conflicts of interest/corruption among private firm managers and shareholders; weaker democratic governance arrangements to monitor public services quality; evidence of user dissatisfaction in privatized social care for the elderly (Rubery et al. 2013)
<table>
<thead>
<tr>
<th>Policy reform</th>
<th>Impacts on public sector workforce</th>
<th>Impacts on all workers</th>
<th>Impacts on public services and citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abolition of ‘two-tier code’ that underpinned agreed extensions of terms and conditions to workers in private sector contractors</td>
<td>No immediate impact but likely medium-term impact of increased public–private gap in terms and conditions among lowest paid</td>
<td>Removes basis for negotiated protection of workers in private sector providers of outsourced public services</td>
<td>Likely to encourage higher incidence of minimum wage jobs in private sector providers of public services</td>
</tr>
<tr>
<td>High pay reforms – government departments asked to consider proposals of 2011 Hutton report</td>
<td>No publicized progress on issue of high pay</td>
<td>Only applicable to public sector</td>
<td>N.A.</td>
</tr>
<tr>
<td>Pension reforms include: raised employee contributions; replacing final salary scheme with average salary scheme; normal pension age aligned with state pension age; indexed to CPI</td>
<td>Varied agreements by subsector on details of new defined benefit schemes; national strikes over increased pension contributions and increased normal pension age rise (for many from 60 to 68); protected deals for those within 10 years of retirement</td>
<td>All workers affected by changes to state pension and retirement age</td>
<td>Radical change in intergenerational income distribution; younger workers expected ‘to work longer, pay more and get less’</td>
</tr>
<tr>
<td>Review of Transfer of Undertakings (Protection of Employment) regulations (known as TUPE) with aim of abolition</td>
<td>Threat of driving down outsourcing costs by targeting employees’ terms and conditions</td>
<td>Affects all workers by lowering the wage floor in public services labour market</td>
<td>Risks adverse impact on public services quality through lowest-cost outsourcing and worsening employment conditions</td>
</tr>
<tr>
<td>Policy Change</td>
<td>Impact</td>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Reduced entitlement to redundancy compensation and unfair dismissal (from</td>
<td>Same impact as public sector workers</td>
<td>Representative of further shift towards employer-focused labour market flexibility irrespective of workers’ socioeconomic needs</td>
<td></td>
</tr>
<tr>
<td>2011, 24 months’ tenure required instead of 12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abolished major £1bn Future Jobs Fund and replaced with limited spending on</td>
<td>Unlikely to have significant impact</td>
<td>Represents a major shift away from the active promotion of youth employment opportunities</td>
<td></td>
</tr>
<tr>
<td>‘new’ apprenticeships and work experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Removed entitlement to universal child benefits from families with a higher</td>
<td>Same impact as public sector workers</td>
<td>Brains a symbolic universal right to a welfare benefit</td>
<td></td>
</tr>
<tr>
<td>earner from 2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working tax credit cuts for low-income households: a 3-year freeze,</td>
<td>Same impact as public sector workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>reduction in childcare element and reduced entitlement to part-time workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with children (&lt;24 hours)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** * Adjusted by change in the retail price index for the 12 months up to October each year (ONS Statistical Bulletin, p. 24); 2012 figure based on forecast RPI of 3.6% (www.xperthr.co.uk).

**Sources:** HM Treasury Budget 2011, 2012 and June Budget 2010.
Nominal earnings

Real earnings

Source: Annual Survey of Hours and Earnings (ASHE) (ONS pay data). Gross hourly earnings for all employees excluding overtime.

Figure 15.6 Change in median gross hourly pay, public and private sectors, UK, 2005–2011
2 per cent for female full-timers in the private sector to almost 5 per cent for male full-timers in the public sector.

The government’s approach to pay reforms is shaped by an ideological ambition to level down what are perceived as ‘privileged’ conditions of employment. Much has been made of the apparent wage premium earned in the public sector. As the table of data in Figure 15.6 shows, median pay remained significantly higher in the public than the private sector during 2005–10 for men, women, full-timers and part-timers: the ‘raw’ public sector median pay premium in 2011 was 28 per cent (male full-time), 43 per cent (female full-time) and 43 per cent (female part-time). However, comparison of unadjusted wage levels is not appropriate under any circumstances. First, it does not account for differences in composition of workers by level of skill and qualification. Decomposition of the wage gap after controlling for differences in years of schooling, age and qualifications suggests that approximately half the premium is associated with the higher share of professionally qualified and higher-skilled employees in the public sector; in one study the raw gap was 25 percentage points and the adjusted gap 12 points (Bozio and Disney 2011); education differences are especially significant for women (Table 15.7).

Second, median private sector pay is significantly reduced by the employer practice of setting pay for low-level employees at or close to the statutory minimum wage – that is, misuse of the minimum wage as the going rate of pay instead of setting pay in line with the varying skill, qualification and performance characteristics of the job or individual. In 2011, around 6 per cent of private sector jobs were minimum wage compared to less than 1 per cent in the public sector (LPC 2011: figure 2.1). Throughout 2005–11 the bottom decile wage of female part-timers in the private sector was equivalent to the statutory minimum; in the public sector by contrast there was a premium of between 10 and 15 per cent (Table 15.8). The bulk of minimum wage jobs are in the private sectors of hospitality, retail, cleaning and social care (LPC 2011).

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**Figure 15.6** (continued)

<table>
<thead>
<tr>
<th>Year</th>
<th>Public MFT</th>
<th>Public FFT</th>
<th>Public FPT</th>
<th>Private MFT</th>
<th>Private FFT</th>
<th>Private FPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>£13.20</td>
<td>£11.89</td>
<td>£7.99</td>
<td>£10.62</td>
<td>£8.50</td>
<td>£5.93</td>
</tr>
<tr>
<td>2006</td>
<td>£13.48</td>
<td>£12.18</td>
<td>£8.28</td>
<td>£11.04</td>
<td>£8.79</td>
<td>£6.20</td>
</tr>
<tr>
<td>2007</td>
<td>£14.04</td>
<td>£12.56</td>
<td>£8.56</td>
<td>£11.31</td>
<td>£9.08</td>
<td>£6.43</td>
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<tr>
<td>2008</td>
<td>£14.64</td>
<td>£13.00</td>
<td>£8.83</td>
<td>£11.84</td>
<td>£9.48</td>
<td>£6.57</td>
</tr>
<tr>
<td>2009</td>
<td>£15.25</td>
<td>£13.50</td>
<td>£9.39</td>
<td>£12.18</td>
<td>£9.64</td>
<td>£6.78</td>
</tr>
<tr>
<td>2010</td>
<td>£15.65</td>
<td>£14.08</td>
<td>£9.77</td>
<td>£12.15</td>
<td>£9.75</td>
<td>£6.96</td>
</tr>
</tbody>
</table>
Third, static comparison wrongly presumes similarity of age–earnings profiles. Wages are more compressed in the public sector than the private sector for men and women (Table 15.8), suggestive of less steep age–earnings profiles; in fact, among female full-timers in the public sector, the D9–D1 differential decreased during 2005–11. One novel decomposition analysis argues that assuming individuals are forward looking, such that employment choices also account for income mobility, volatility and security, means that wage gaps ought to be computed over an individual’s life cycle; the estimates suggest a public sector pay premium of 2–3 per cent and this reduces to 0 per cent for individuals with a low risk of unemploy-
One factor is different returns to experience; returns in the public sector are smaller but follow a U-shape relative to the private sector – returns for men in the private sector are steeper from a lower base but then tail off sooner (ibid.). A fourth problem with government rhetoric about the public sector wage premium is that pay is only one part of the reward package. Workers in the public and private sectors have varying access to bonuses, overtime pay, fringe benefits (for example, car and travel expenses), annual leave, company share schemes and pensions.

4.3 Pension Effects

The coalition government intends to generate savings in pensions and has followed a course of first publicly attacking what it calls ‘gold-plated’ public sector pensions and then setting out a policy, prior to negotiations with unions, which seeks to increase workers’ pension contributions and decrease the payouts, switching from a final salary scheme to a career average calculation. The proposed rises are tiered for different income groups – in 2012–13 for civil servants, teachers and health workers this means no change for incomes less than £15,000, up to 0.6 per cent rise for £15,000–£21,000 and up to 2.4 per cent for the rest. The proposed payout is known as the ‘career average revalued earnings’ (CARE) scheme.

Again, as with debates over pay, the government agenda is framed by an apparent ambition to downgrade the status of public sector employees. The problem with UK pensions, however, is that the bulk of private sector workers in the UK are not members of an employer-sponsored pension – less than 35 per cent compared to 85 per cent of public sector workers (Hutton 2011: 25), although membership among the lowest-paid and part-time workers is significantly lower (ibid.: chart 3H). Also, pensions paid to public sector workers are generally higher than in the private sector but are still very low: in 2009–10 the median public sector pension was around £5,600 a year and the median private sector pension for a single pensioner (sum of occupational and personal pension income) was around £3,900. In local government the average pension is just £4,200 a year and among women members of the pension scheme it is £2,870 (Unison 2011a).

A further problem confronting policymakers is that the system of contributions to pensions are very fragmented across the different public sector groups. Prior to the reforms, the teachers’ pension scheme, for example, required contributions of 6.4 per cent from members and 14.1 per cent from the employers. By contrast, in the civil service scheme members contribute between 1.5 and 3.5 per cent and the employer an average rate of 19 per cent (Hutton 2011: table 3G).
Key changes include:

- The normal pension age is expected to move in line with changes in male and female state pension age: for men it increases from 65 to 66 by 2018–20, to 67 by 2034–36 and 68 by 2044–46; for women the change is more dramatic since it involves an increase from the present retirement age of 60 years.
- For teachers, from April 2012, increased contributions are broadly in line with Hutton’s recommendations of tiered changes, ranging from no increase for salaries less than £15,000 and a 0.6 per cent increase for salaries of £15,000–26,000 up to a 2.4 per cent increase for salaries of more than £112,000.24
- Pensions to be uprated in line with earnings during the accrual phase but prices after payment (Hutton recommendation).

5. CASE STUDIES

5.1 Case Study 1: Privatizing Welfare-to-work Services

Building on earlier smaller-scale privatizations of welfare-to-work services (Box 15.3), in 2011 the Coalition government implemented the ‘Work Programme’, which outsources a significant proportion of job search services to the private sector and is said to be ‘the centre-piece’ of welfare-to-work reforms (DWP 2010: 2). The government issued 40 regional contracts to 19 organizations at a total estimated cost of £3–5 billion over five years (NAO 2012: 17). The public sector body previously charged with managing this work, Job Centre Plus, remains but in a reduced form (Figure 15.7). It is still the principal service for most adult claimants during their first 12 months, for young people for the first nine months and people on incapacity benefits the first three months. Thereafter it provides a referral service to alternative providers. It nevertheless still assumes responsibility for issuing benefit payments and applying sanctions for the entire unemployment period of claimants.

An innovative contractual feature is payment by results. Contractors are paid to find work for the unemployed on a sliding scale according to the length of time they remain in work and the unemployment group they come from. A three-tier payment system involves: an attachment fee when a user is referred; a job outcome fee (after 13 or 26 weeks in a job according to type of claimant); and a continued employment fee (every four weeks up to 18 months). The emphasis on sustained job outcomes is novel and in principle provides contractors an incentive both to ensure a good match...
It was in fact Tony Blair who endorsed the recommendations of a report commissioned from a retired City banker to examine reforms to welfare to work and who implemented these in partial form as the Flexible New Deal. The report (Freud 2007: 6) argued for privatization of job search services, replacing activities undertaken by Job Centre Plus:

This arrangement could in principle apply to all benefit recipients, including people on incapacity benefits, lone parents and partners of benefit claimants, but excluding carers. The private and voluntary sector would be responsible for intensive case management and for providing individual, tailored help for individuals to re-engage with the labour market.

The report also set out the key principles subsequently applied in the 2010 government legislation. The contracts would: apply on a regional basis; include a payment-by-results system; and be awarded to a small number of prime contractors who would subcontract to ‘an appropriate blend of subcontractors’ (ibid.: 7). The 2007 report advertises the promise of a ‘multi-million’ market for new business providers but also carries the warning that the government must develop a world-class contracting capability to ensure its ‘complex social goals were met without compromising the robustness of the outcome focus’.

The report’s author, Lord Freud, collaborated closely in his new position as Minister for Welfare Reform with the current Minister for Employment to implement the £5 billion programme, live from June 2011. The government selected 19 prime contractors for 18 regional contracts organized in pairs (in 14 regions) and threes (in four regions). The government makes the bold claim that having at least two job search organizations in each region ‘will ensure there is ongoing competition between providers to drive up performance’ (DWP 2010: 6). Despite its aim to open up the market to voluntary and charity providers only one prime contractor is from the voluntary sector (Rehab) and one from the public sector (Newcastle College). There is also already evidence of preferred supplier status with seven contracts won by Ingeus (50 per cent
owned by Deloitte), five by A4e, four by Seetec and three by Avanta, G4S and Working Links.

Sources: Various including Centre for Economic and Social Inclusion (www.cesi.org.uk/NewPolicy/news/wp_results_april11) and the official DWP website (www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/work-programme/).

Figure 15.7 Changing the structure of welfare-to-work services provision: the new Work Programme, UK, 2011

between job seeker and job vacancy and to support the person’s trajectory over a short period. In practice, the definition of continued employment is loose. It allows for discontinuous periods of employment such that the 13-week fee, for example, could be paid to the contractor for posting someone.
in three different jobs that sum to 13 weeks employment but with periods of job search in between:

Churn is a feature of the labour market. I had this conversation with a job seeker who rang me up and asked ‘Isn’t the Work Programme about sustainable employment?’ I said, ‘Yes it is. But it doesn’t necessarily mean the same job. It doesn’t mean we get you into the perfect job and keep you there. It might mean that over two years we get you into two or three jobs.’ . . . The nature of the labour market these days is that nothing is permanent, nothing is settled. (Prime manager 3)

Differences in fees are designed to reflect savings to the government in benefit payments. For example, the total payment accrued for an unemployed person with a disability (on Employment Support Allowance benefits) is around £14,000, while for an unemployed person described as ‘easy-to-help’, the payment averages £4,000–7,000 (NAO 2012: figure 4). The government emphasizes the generous benefits to business the new model provides and expects contractors to make a 10 per cent return on investment. The employment minister stated, ‘What we have tried to do is create a situation where our interests and the interests of providers are really aligned. They can make shedloads of money by doing the things we would absolutely love them to do’.25

There is insufficient space here to detail the full range of issues involved in this major area of policy reform.26 It is also too early to provide an evaluation. Nevertheless, drawing on our interview data,27 we briefly review three key issues where contradictions in policy and practice may undermine the performance of privatized services and may introduce new risks in sustaining the quality of welfare-to-work services.

5.1.1 Building a new workforce: transfers and redundancies
The first issue concerns the question of how private sector contractors were able, at very short notice, to establish teams of staff with the required expertise and skill to deliver complex job search services for the long-term unemployed. The new Work Programme involved cancelling the smaller FND contracts. Staff in many FND organizations were entitled to TUPE transfer rights once the new Work Programme contracts were signed. However, they had no right to choose which organization they would transfer to. In the local region investigated, transferring employees were randomly split among the three prime contractors and these contractors, in turn, allocated staff among organizations in their supply chain. There was a great deal of turbulence as a result.

From the perspective of the prime contractors, TUPE transfers meant they were forced to shoulder a fair amount of risk in taking on people
potentially not equipped for the tasks required of the Work Programme. There was a strong partnership approach among public and private sector employers to avoid pre-transfer redundancies, but once transferred each contractor began a process of staff selection and redundancies:

On our side, anyone who wanted to TUPE did TUPE. That doesn’t mean to say that ultimately they kept their job because once they had TUPEd then we had to go through a process of selection. . . . We picked those staff who best matched the requirements of the Work Programme and the other people we had to let go as part of our redundancy scheme if indeed they were entitled to it because some people weren’t. (Prime manager 1)

An important policy reform introduced quickly by the Coalition government when elected in 2010 was reduced rights to redundancy compensation by requiring 24 months’ rather than 12 months’ job tenure. This certainly facilitated the turbulent pattern of job changes sparked by the Work Programme. Many transferring staff lacked 24 months’ employment experience and therefore did not qualify for redundancy compensation.

The turbulence is ongoing. One prime contractor estimates that around 30 per cent of the staff in post immediately after the transfer process subsequently exited. Nevertheless, it had not planned for the high staff attrition and nine months after the initial period of ‘overstaffing’ this company in fact faced a staffing shortfall.

5.1.2 Cost-led Performance Management Systems

One major rationale of government for bringing in the private sector to manage welfare-to-work services is their assumed greater expertise in performance management and ability to deliver cost savings. Prime contractors are expected both to performance manage the subcontractors in their supply chain and to performance manage their own staff. Whereas underperforming public sector organizations are slow to reform systems, so the argument goes, the private sector enacts change quickly. Whether or not this is true, it raises the question as to the unintended consequences of tightly managed performance systems, particularly where it leads to the loss of organizational and individual expertise and experience in cases where underperformance results from exogenous factors.

While all prime contractors use performance management software systems that are able to scrutinize the conversion rates of unemployed referrals to job outcomes for each subcontractor (and for each individual adviser employed in the various subcontractor organizations), none accounts for differences in levels and trends in local labour market conditions. This means that job brokers in high unemployment areas are
evaluated against the same performance targets as job brokers in low unemployment rate localities. The ability of job brokers to ‘convert’ customers from unemployed to job status depends on various factors outside their control including the local unemployment rate, the entry of new employers (such as a new supermarket, for example) and competition with other job brokers for job vacancies. But is it possible to design a performance management system to account for these factors?

One prime contractor manager argued that this would be ‘one level of complexity too far’. For a system designed to monitor day-to-day performance it would be difficult to know how to build in delayed knowledge about local unemployment, or to have up-to-date information on new employers in the area, and so on. Surprisingly, the view among managers was that unemployment was not the key driver of performance.

One manager did, however, point to the new problem created by privatization of welfare-to-work services where multiple job brokers now have to compete against each other in the local area for vacancies:

Imagine a new Asda [supermarket chain] is opening, you’ve got every training provider, ever, and the job centre and possibly the local council that is lottery funded, all bombarding the employer saying let us help you recruit. . . . If there could be some way of making more cohesive the offer to the employer. Because eventually the employer gets fed up. (Prime manager 1)

5.1.3 Privatization and ongoing public–private sector conflicts

The effectiveness of the Work Programme depends on the overall functioning of the web of organizations and their relationships with each other. However, the policy has been controversial and has generated tensions between private sector prime contractors and the public sector Job Centre Plus (JCP) organizations. The data reveal two conflicts. First, a backlash against privatization appears to be impeding the smooth coordination of services provision across JCP and contractor organizations. JCP personnel are required to refer claimants to a prime contractor and follow up with details via a tailor-made software system. While computer-based data entry is the primary feature of the relationship, there are typically further issues to be resolved and questions arising about claimants that require either a conversation or additional exchange of data. However, staff in the private sector contractors said this additional effort could be difficult:

In many [JCP] offices they are very reluctant to share information. Some of that is driven by data protection. Some of it is driven by Work Programme protocol. And some of it is driven by ‘Why should I help you when you have got our jobs?’ . . . There is a feeling among some JCP advisers that these large contractors [it] is a move to privatize some of the JCP service. (Prime manager 1)
Second, a proportion of the second tier of organizations delivering job search and specialist services for the unemployed are public sector organizations, but they now have to bend to the performance management rules of prime contractors. One prime contractor, which has four local authority organizations in its supply chain of nine job brokers, had experienced ongoing problems and was at the point of cancelling contracts with two of them just eight months into a five-year contract.

There are some real management challenges emerging for us about how we can help . . . public sector organizations deliver better performance. In terms of performance management of staff, their speed of movement . . . their willingness to implement change . . . We have a tremendous sense of urgency to make the Work Programme work. . . . So there is quite a clash of cultures there. (Prime manager 3)

Overall this case is illustrative of the government’s ambition to privatize core areas of the public sector. It has all the hallmarks of the so-called ‘modernization agenda’: to bring in the large business service providers; to emphasize private sector performance management systems; and to inject turbulence in labour mobility and retention among public services workers. Moreover, the reform appears rushed, with risks to both service users (the unemployed) and the continued goodwill among managers and employees in the partner job centres.

5.2 Case Study 2: Local Government Downsizing

The second case study concerns local government. Local government merits special attention for several reasons: the Coalition government has targeted it as a primary area for spending cuts; its workforce already suffered a pay freeze in 2010, one year before the rest of the public sector; its employer association has refused to pay the £250 low-wage supplement; and it accounts for a disproportionately high share of public sector job losses. A recent Audit Commission report describes the situation in blunt terms:

Government funding for local government will fall by 26 per cent or £5.5 billion over the period covered by the Spending Review (2011/12 to 2014/15), and councils must find most of the savings in the first two years. Because staff account for nearly half of spending by councils, workforce costs have to come down. (Audit Commission 2011: 3)

Excluding fire service staff and school teachers whose pay is negotiated separately, the local government workforce includes school support staff
and social care workers, as well as employees who deliver essential local services in libraries, sport, environmental health, planning and development. It is strongly female dominated; prior to austerity (first quarter 2010) women accounted for 75 per cent of all jobs and women in part-time jobs accounted for almost half of the workforce (47 per cent). Cuts to local government spending ought therefore to be interpreted as having a direct adverse impact on women’s pay and employment prospects.

5.2.1 Cutting real pay in the lowest-paid segment of the public sector
Pay for local government workers is settled through national-level collective bargaining in a forum known as the National Joint Council for Local Government Services. The main trade union representing local government workers is Unison, with around 700,000 members, along with GMB (approximately 100,000 members) and Unite (30,000). Despite national-level coverage, high trade union density and a forum for collective bargaining, unions have not been able to protect the living standards of local government workers in recent years. Moreover, the evidence suggests that the deterioration in local government pay is worse than in other areas of the public sector.

A pay freeze was imposed by employers first in 2010, again in 2011 (the year when most other public sector employers imposed the first year of a pay freeze) and for a third consecutive year in 2012. Moreover, while the Coalition government promised that low-wage public sector workers would be partially protected from the cut in real wages by the payment of a fixed annual sum of £250, this was rejected by local government employers. In their defence, the government made a controversial U-turn by arguing that in practice local government workers were in fact not necessarily eligible for the £250 because they were not directly employed by central government. At a time of high inflation, the three-year pay freeze means that local government workers’ pay will have fallen by 13 per cent by the end of 2012.30

The size of pay cut is substantial by any standard. It is especially significant in local government because pay is low compared to other parts of the public sector (Figure 15.8). The bottom rate of pay set in the local government collective agreement in 2010–11 was just £6.30 per hour compared to the then statutory minimum wage of £5.93. The NHS pay agreement, which set a bottom rate at £7.11, has been far more effective thanks to the success of the same union, Unison, in applying a clear egalitarian pay bargaining approach (Grimshaw et al. 2010). The key difference, however, is the capacity and willingness of the NHS employers to approve of better protection for the low paid and the intransigence of the local government employer body.
5.2.2 No trade-off with protecting jobs

Analysis of local government employment data shows that the spending cuts have had a dramatic effect on the size of the workforce. In the four years prior to 2010 local government employment fluctuated around 2.25 and 2.30 million (England and Wales only). Then, from the first quarter of 2010 it started to drop, down to 2.2 million by the start of 2011 and then further at an accelerating pace as local authorities reacted to the growing budget pressures, leading to a drop of 180,000 employees during the four quarters of 2011. The net change is an 11 per cent reduction in the local government workforce between the first quarters of 2010 and 2012.

The workforce cuts have affected women more than men because of women’s overrepresentation in the sector. Two in three jobs (67 per cent) cut were women’s jobs, amounting to 159,000 over the two-year period. Moreover, women in full-time jobs were more likely to be impacted than women in part-time jobs, respective cuts of 12 and 8 per cent during

Note: Pay rates refer to individual settlements for different groups during late 2010/early 2011 with the exceptions of sixth form colleges (1 September 2011), firefighters (1 July 2011), probation (1 April 2010) and DWP (1 July 2011).

Source: Unison (2011b: table 3); author’s compilation.

Figure 15.8 Minimum pay rates compared across different groups of the public sector, UK, 2010–2011
2010–12 (Figure 15.9). Among men, overall job losses were less but in fact the percentage cut was significant – a 15 per cent fall in male full-time employment and 11 per cent in male part-time employment, some 78,000 jobs altogether.

The unevenness of job cuts by gender and full-time/part-time is further illustrated in Figure 15.10. Given that women comprised 75 per cent of the local government workforce in 2010, they were in fact slightly underrepresented among employment losses despite experiencing the bulk of job cuts. Most jobs lost were full-time and this has caused a further increase in the representation of part-time jobs in local authorities, which by early 2012 accounted for more than half (55 per cent) of all jobs.

The overall figure of an 11 per cent job cut across England and Wales hides significant variation across different regions of the country. Job losses were unevenly distributed across regions with some evidence of a north–south divide, albeit with some exceptions to this usual trend, most notably with the South West region having experienced to date the largest job cuts (Table 15.9). Nevertheless, London and the South
East, the two most populous southern regions, both experienced below-average job cuts in local government. Across the 10 regions in England and Wales, the reduction in numbers employed varies from 4 per cent in Wales to 19 per cent in the South West. Most regions tended to reduce the number of full-time jobs more than part-time jobs. It also appears that one region, the East Midlands, made a partial switch of male employment from full- to part-time jobs. Also, there is no common pattern in job cuts of permanent as opposed to temporary workers; it is surprising that in three regions (Wales, East Midlands and West Midlands) permanent workers were more likely to lose jobs than temporary workers.

We also know that there is strong regional variation in the spending cuts in direct proportion to the level of deprivation in localities. The recent study by Hastings et al. (2012), funded by the Joseph Rowntree Foundation, maps the level of spending cuts experienced by individual local authorities against an official index of multiple deprivation (collected by the government’s Department for Communities and Local Government). It finds a striking negative correlation of –0.89 between the level of spending change during 2010–11 to 2011–12 and the index of multiple deprivation, such that larger spending cuts were experienced in localities with higher levels of multiple deprivation. The reasons for the


Figure 15.10 Composition of local government employment losses by sex and full-time/part-time, 2010Q1 to 2012Q1 (England and Wales)
<table>
<thead>
<tr>
<th>Region</th>
<th>Headcount</th>
<th>Male FT</th>
<th>Female FT</th>
<th>Male PT</th>
<th>Female PT</th>
<th>Permanent</th>
<th>Temp/ Casual</th>
<th>F share of job losses</th>
<th>F share of employment in 2010</th>
</tr>
</thead>
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<tr>
<td>South West</td>
<td>–19.0</td>
<td>–24.8</td>
<td>–21.8</td>
<td>–25.0</td>
<td>–15.1</td>
<td>–18.9</td>
<td>–19.9</td>
<td>67.7</td>
<td>75.1</td>
</tr>
<tr>
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<td>–14.6</td>
<td>–15.0</td>
<td>–11.9</td>
<td>–25.6</td>
<td>–14.8</td>
<td>–8.5</td>
<td>–41.3</td>
<td>67.2</td>
<td>72.1</td>
</tr>
<tr>
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<td>–16.8</td>
<td>–13.5</td>
<td>–20.0</td>
<td>–12.4</td>
<td>–13.9</td>
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<td>70.6</td>
<td>76.9</td>
</tr>
<tr>
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<td>–10.0</td>
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<td>–10.7</td>
<td>64.1</td>
<td>75.2</td>
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<td>–12.6</td>
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<td>–11.4</td>
<td>–5.6</td>
<td>–7.7</td>
<td>–8.2</td>
<td>–19.3</td>
<td>67.5</td>
<td>75.3</td>
</tr>
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<td>–17.1</td>
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<tr>
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<td>–1.8</td>
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<td>–6.3</td>
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<td>–4.4</td>
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<td>–2.6</td>
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<tr>
<td>England &amp; Wales</td>
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<td>–10.3</td>
<td>–12.4</td>
<td>67.2</td>
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skewed impact are complex but concern the greater dependency of poorer localities on grant income from government and their lesser ability to raise local property tax revenues, as well as the scrapping of special grants (ibid.).

In practice, approaches to downsizing are varied across local authorities. As with other public sector organizations, there is evidence of management willingness to use alternatives to compulsory redundancy, including early retirements, holding unfilled vacancies and outsourcing staff, but the practice of compulsory redundancies has nevertheless been a strong feature. An Audit Commission report (2011) suggests that local authorities are downsizing employment as part of a wider restructuring that involves reducing the number of departments, shared services between local authorities, delayering management layers and outsourcing. Alternatives to redundancies (ibid.) include the following:

- recruitment freeze (although less effective in a recession since staff turnover tends to decline);
- switching staff from full- to part-time employment, especially older staff close to retirement;
- flexible working (such as offering staff the option to work during school terms only, in exchange for a reduction in salary);
- redeploying staff (useful to fill skill needs usually filled by spending on temporary agency staff); and
- pooling and sharing of staff between councils and departments.

In sum, local government spending cuts are having a massively adverse impact on workers’ pay and conditions, jobs and local services. This brief case study has not included many other challenges facing local government, such as the conditions in deprived localities, the fragility of current national pay arrangements and evidence of some local authorities cutting sickness benefits and maternity leave. A further extensive study is required to follow the current reforms. Moreover, we know little at present about the wider implications of the spending cuts on working conditions (levels of work intensity and stress for example), on changes in working hours and their relationship with less generous criteria for claiming tax credits, or about the damage to women’s equality of pay and employment. Local government is without doubt the area of the public sector that is most ravaged by ongoing Coalition government spending cuts.
6. CONCLUSION

The radical public sector reforms being implemented by the Coalition government are not a solution to the UK’s ongoing economic depression. Nor, in their present design, are they a constructive component in a wider effort to balance the economy towards less dependence on a bloated financial services sector, more exports and a boost to innovative, knowledge-intensive industries in manufacturing and services. The planned cuts in public spending promise to take the UK to a position where spending as a share of GDP will be lower than that in the United States within five years (Taylor-Gooby and Stoker 2011). Moreover, in qualitative terms, the cuts represent an assault on the incremental development of publicly provided services to UK citizens, and are already undermining (and conflicting with) expectations about the country’s social settlement in terms of the quid pro quo between payments of taxes and social security contributions and the state’s accountability for provision of universal public services of appropriate quality. The scale and speed of changes has proved to be very controversial, with public sector strikes and large-scale public protests throughout 2011 and more planned for 2012.

As the UK economy continues to falter, the economic vision underpinning reforms is being dismissed by more and more commentators as misguided. This is especially the case in regions of the UK where the public sector accounts for a high share of the economy and a very high share of local job growth. Beatty et al.’s (2011) pre-recession analysis showed that a strong public sector is especially important in local areas characterized by above-average levels of deprivation and unemployment. They show that job growth in these local regions was far more reliant on public sector than private sector employers, by a ratio, on average, of seven to two during the decade preceding the recession (ibid.: Table 15.8). As these authors put it, ‘This does not augur well for an era of public spending cuts. But most particularly, the trends up to 2008 in the weaker local economies outside London do not inspire confidence that job growth in the private sector will easily take over from the public sector’ (p. 20).

What is needed now are renewed critical analyses of the neoliberal principles that underpin government policy towards the downgrading of public sector employment terms and conditions and the privatization of public services provision. To some extent, the reforms continue a tradition of interventions set out by the Thatcher and Blair governments and there are already valuable critiques of privatization and the adverse consequences of outsourcing as a race to the bottom. However, a renewed critique is needed alongside a constructive framework for alternative policy interventions. Such policy actions need to address six key areas of socioeconomic need:
the need for democratically accountable provision of public services (at national and local levels) that delivers value to economy and society;

the need to invest in a public sector as a site of professional and knowledge-intensive services;

the need to establish a responsive system of public sector employment that incorporates effective social dialogue with employees;

the need to defend and reinforce the UK’s tradition of using the public sector to set gender equality standards in pay and employment practices;

the need for public sector organizations to play a core role in local regions, contributing to income generation and investment; and

the need for decent and equal work to be a foundation stone of a renewed public sector with a reassertion of the ethics of public sector bureaucracy, a defence against the intrusion of crude private sector performance managerialism and a triumphing of equality measures and outcomes.

NOTES

1. Office for National Statistics (ONS) data show 2012 first quarter GDP was 95.6 per cent of the pre-recession peak recorded in the first quarter of 2008. Had annual growth continued its 1997–2007 trend then GDP would have been 9 per cent higher than that recorded for 2011.


3. At critical points during 2011, the OECD released favourable assessments of UK reforms. Prior to the 2011 budget, the headline statement from the OECD’s UK survey was that while fiscal consolidation was ‘generating headwinds for the recovery . . . inaction would have been worse. . . . Early and resolute action ensures that debt will stop growing and help contain upward pressure on interest rates’ (OECD 2011a). Then, during post-budget debates in the British press, the OECD reaffirmed its support: ‘The current fiscal consolidation strikes the right balance and should continue in line with the government’s medium-term plan to eliminate the deficit, while allowing the automatic stabilisers to work’ (OECD 2011b).

4. It argues, ‘There is unfortunately a trade-off between slowing the accumulation of government debt to stave off its possible negative effect on growth, and the risks that fiscal consolidation itself may create sustained headwinds on the recovery and lead to stagnation’ (OECD 2011c: 247).


7. 2010 LFS data records 4,068,000 union members in the public sector (density of 56 per cent) and 2,467,000 members in the private sector (density of 14 per cent) (Achur 2011: table 1.4).

9. Conservative government spending cuts were controversially continued during the first two years of the Labour government, 1997–99.

10. The 2008–09 recession witnessed rises in real spending of 5.1 and 6.9 per cent in education and 3.1 and 5.0 per cent in health. This followed the pre-recession trend: during 1999–2000 to 2007–08 annual spending increases averaged 6.4 and 5.2 per cent, respectively. Data refer to ‘total managed expenditures’, Public Expenditures Statistical Analyses (2009, www.hm-treasury.gov.uk).

11. In the 2010 budget, forecast spending cuts accounted for 77 per cent of total planned consolidation over five years and a net tax increase of 23 per cent (HM Treasury 2010: table 1.1). The plans estimate a reduction of £128 billion by 2015–16 – spending cuts of £99 billion and a £29 billion net increase of taxes (ibid.).

12. Five principles are said to underpin current reforms: (i) increased choice; (ii) decentralized provision; (iii) a mix of providers; (iv) fair access; and (v) accountability to users and taxpayers (HM Government 2011).

13. See www.unison.org.uk/healthcare/pages_view.asp?did=13427. Government has already granted private firms the right to take over ‘failing hospitals’. The first contract was agreed in November 2011 with Circle Healthcare at Hinchingbrooke hospital (The Guardian 11 November 2011).


16. Evidence from the Royal College of Nursing’s survey of 21 NHS trusts in England, reported April 2011, found that 54 per cent of approximately 10,000 planned job cuts were frontline clinical posts: www.rcn.org.uk/news/events/news/article/ more_than_half_of_nhs_job_cuts_are_on_clinical_frontline (accessed 14 February 2012).

17. The data in Figure 15.5 do not separate out the small number of private sector employees in these four areas.

18. While the ONS redefines bailed-out banks within the National Accounts and their workforce as part of public sector employment, it would be useful if it would also categorize separately the number of workers who provide public services within public sector establishments and are employed by a private sector company reliant on public sector funding.

19. This estimation derives from total current spending excluding transfer payments, debt interest and procurement of goods (Julius 2008: 13).


22. Unison said the NHS Pay Review Body was ‘hidebound’ by government ‘diktat’, the National Union of Teachers said the School Teachers’ Pay Review Body had ‘colluded’ with ministers and the Prison Officers’ Association argued the pay review body had failed in its duties by not compensating for prison officers’ inability to take strike action (Public Finance 21 March 2011, www.publicfinance.co.uk/news/2011/).

23. In the three months to September 2011, the median private sector settlement was 2.6 per cent and that in the public sector was 0.0 per cent.


26. For example, how is a job defined? What happens when an unemployed person takes up self-employment? Under what conditions can sanctions be applied? What are the rules defining what job and under what conditions have to be accepted, including travel time, skill match, working hours, multiple part-time positions?
27. Case study data include interviews with senior managers in three ‘prime contractors’ and Job Centre Plus in one UK region, an interview with a senior researcher at the Department for Work and Pensions and documentary information.

28. One prime contractor, which outsources all its welfare-to-work services and only takes charge of supply chain management, argued that the government wanted ‘to outsource outsourcing’.

29. Job brokers provide the core welfare-to-work services such as job search, CV support and motivation building. Another tier of suppliers provides specialist services such as mental health services, drug and alcohol advice.

30. Annual inflation (retail price index) of 4.8 per cent (2010), 5.3 per cent (2011) (www.ons.gov.uk) and forecast 3.6 per cent for 2012 (www.xperthr.co.uk) (accessed 30 March 2012).

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