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REDEFINING THE ROLE OF GOVERNMENT

The role of government as a provider of public services is being questioned as we look for new models for service delivery. David O'Reilly looks at Tony Blair's approach in the United Kingdom and the problem of bad public relations.

One simple question sits at the heart of the often acrimonious debate currently underway in Britain over the way nations should 'do' government in the 21st century: precisely which public sector institutions, agencies and services would best serve society being managed in partnership with private enterprise?

It's a straightforward question, but no $64,000 one. The price tag here is said to be in the order – in Australian terms – of around $70 billion. And rising. But the implications reach far beyond the calculations of British Treasury book-keepers.

Here is an issue that may have already started reshaping how people all over the world think about the state and see their responsibilities to it. And its to them. Quite simply, it may be helping redefine the very structure of government and, thus, the nature of politics in 21st century liberal democracies like Australia and Britain.

Two acronyms comprise what has been called the defining issue of Tony Blair's second term of Labour Party government in the UK – PFI and PPP. The nation that invented the post-war welfare state and gave Thatcherism to the world is, once again, re-evaluating the role of government in contemporary society, and the means by which its power is deployed. Politicians on the Labour side, led by Mr Blair and his Chancellor of the Exchequer, Gordon Brown, top business leaders and the bosses of powerful trade unions have become more and more absorbed over the past 18 months in the debate over plans to dismantle centralised government in some crucial policy fields and devolve resources, and responsibility, out into the wider community. At issue here is nothing less than a decision about how, and by whom, myriad schools, hospitals, railway systems, transport companies, prisons, power generation facilities, roads and tollways around the United Kingdom, are created, maintained and/or run. The irony, however, is that while the politicians argue the detail, this revolution has been quietly underway for a decade. There may be massive resistance building on the left and among unions, but the wave of change is now inexorably rolling and may be unstoppable. The only questions for the future may well be: how it is to be managed, and how far will it be allowed to extend?

DEVELOPING VISION – AND OPPOSITION

Ten years ago last November, the then British Chancellor, the Conservative Norman Lamont, announced he wanted to invite private companies to finance and, in the short term run, public projects. The Conservative idea of a Private Finance Initiative (PFI) essentially derived from the controversial Thatcherite privatisation program in which, among other things, local councils in the UK were forced to adopt competitive tendering. Mr Lamont said that future governments should actively encourage joint ventures with the private sector where these involved a 'sensible transfer of risk to the private sector'. In Opposition, Gordon Brown embraced the idea and began to argue that a Labour variant would bolster investment and create jobs. The upshot was the emergence of the idea of a Public Private Partnership (PPP) which could take many forms – joint ventures, concessions, franchises and straight service delivery contracts. Basically, the private sector is brought in to design, build, finance and/or maintain a public sector asset in return for long-term contracted payments from the government.

At least four of the Labor state transport ministers have already said they will not accept Minister Anderson's proposed AusLink plan for land transport due to concerns over funding.

Fast forward to the middle of 2001: Messrs Blair and Brown are facing their first election in office and the crucial issue is the state of public services. Trains are crashing with sickening regularity in the UK, killing dozens of innocent people; many schools are said to be failing; a housing crisis looms and the National Health Service (NHS) is reportedly groaning under the pressure of service failure, escalating patient demand, cost inflation and allegedly geriatric management systems. Despite all this, Mr Blair wins the June 2001 election – once again with a whopping majority – in which he has campaigned unambiguously on a pledge to rejuvenate the public services. He proudly boasts that in backing him, the British electorate broke with a tradition – opting for better public services for all, rather than tax cuts in individual pockets. But he walks away from this triumph on notice, and he knows it. In this second term, the perceived decline of public services must be arrested. But is this not a massive task? Which public services, precisely, are to be turned around? And how? Mr Blair begins talking vehemently about the answer lying in injecting still more private sector ideas, expertise and practices into even more spheres of the public realm.

Despite the British PM's evident enthusiasm for PPP, by the middle of 2001 significant opposition to his vision had coalesced. Members of his own government, powerful Labour Party and union figures, in particular, insisted PPP had gone far enough. Figures compiled by the Office of Government Commerce indicated that by late 2002, 250 projects, worth £25 billion, had quietly been financed, designed and built by the private sector across a range of public services in the UK. And another 275 were in the pipeline. These projects ranged from schools and hospitals to training centres for military forces and even police stations. Including 100 new hospitals and 70 schools, for example, the ventures extended from the suburbs of London, north up into big population centres like Liverpool and Manchester and beyond into counties like Yorkshire.

The theory behind PPP is that private companies deliver greater efficiencies, which more than compensate for their higher financing costs. From the government's point of view there is one huge, bottom-line advantage – debt raised by the private partner remains on their own balance sheets, not Treasury's, so improving government financial figures. At a time when governments everywhere are pressured on expenditure, higher taxation is not a political option. In PPPs, politicians and bureaucrats saw an enticing new way forward. Prominent British companies eagerly diversified and lined up with tenders to be part of the burgeoning experiment. Some big name British companies transformed themselves into flexible service providers keen to take advantage of the steady revenue stream that comes with a large PFI project. When a new hospital is required, say, companies are invited to tender for its design, funding, building and/or operation. The winning consortium will typically receive an up-front fee for the project and then a regular monthly service charge, covering the maintenance and running costs of the building for 25 to 30 years.

PPP REPORTCARD

A decade down the track, the PPP saga in the UK undoubtedly offers up significant success stories. A report by PricewaterhouseCoopers claimed many partnerships were already proving highly successful, delivering results on time and on budget. Certainly, 'failing' schools—like King's Manor in Guildford in Surrey, taken over in 1998 by a private company called 3Es—have been turned around, with refurbished buildings, a new 'ethos', innovative ways of teaching and resultant improving student grades. The Health Minister Alan Milburn is pressing ahead with his plan to create 'foundation' hospitals under the NHS, run by autonomous management boards made up of elected people from the local area, staff and even former patients. The boards are able to run their own affairs, owning assets, with independent borrowing powers and retaining financial surpluses for reinvestment. Recently Mr Milburn announced a swathe of new 'safeguards' ensuring hospitals did not 'poach' staff and limiting how much private work they could do. The new hospitals would 'usher in a new era of public ownership where local communities control and own their own hospitals,' Mr Milburn said.

'They will be part of the NHS, providing NHS services according to NHS principles – services free, based on need, not ability to pay. They will be subject to NHS standards, to NSH star ratings and to NHS inspection'.

Despite the optimism of the Blairite ministers, the PricewaterhouseCoopers report argued the successes were being buried under a stream of negative and misleading claims. Assessing the overall success of the PPP idea in Britain does remain difficult, simply because of its scale. There are so many complex new structures being developed by central and local government in communities all around the country, it is hard to keep track. Certainly, positive perceptions are heavily discounted by the high profile publicity attaching to some of the notable disasters.

PROBLEMS WITH 'RISK TRANSFER'

The ceilings in one newly built hospital collapsed because of cheap plastic joints, another had sewerage leaking into an operating theatre. Then there is the disastrous saga of the British rail system. Britons looked on aghast over the past 18 months as Railtrack, the body created to own and manage the actual rail infrastructure while the rail services were separately privatised, finally collapsed into liquidation. It had to be bailed out by Treasury. In the last six months, the PPP cause in the UK has also suffered from the controversy over the plan to break up the London Underground Tube. Under this—reputedly the largest PPP attempted anywhere in the world—train services would be left in the hands of London Underground but tracks, tunnels and signals would be carved up between three private consortia, which would maintain and rebuild the infrastructure on 30-year leases. The Blair government has fought hand-to-hand political and legal combat with the left-wing Labour Mayor of London, Ken Livingstone and his rail chief/guru, the American Bob Kiley, who have passionately argued the plan will create a safety and administrative nightmare. Five years in the making and dogged by one court case after another, the Tube PPP has spawned contracts with two million words and 3,000 mathematical formulae and, staggeringly, legal, accounting and consulting fees reportedly worth almost £1 billion. Recently, the government had to step in to offer the consortium companies £5.4 billion in indemnities from future legal challenges from the city. Here the bottom line criticism against PPP is at its most vivid: that the whole idea of 'risk transfer' is nonsense, because if ever the complex project fell over —just as the massive rail privatisation did— government would have to step in to keep such a vital social resource operational.

Armed with such horror stories, 2002 saw the PPP critics culminate their concerted campaign against the government's further plans. Unions and critics on the left argued that the complex web of contractual arrangements entailed in the partnerships would make accountability difficult. Some warned of the enormous potential for claims of 'commercial confidentiality' becoming smokescreens for dangerous secrecy about the fate of public assets. Unions argued private companies simply did not have the expertise and would poach the best civil service managers. The left argued that once a consortium for a PPP was chosen and had its foot in the door, it could increase prices and reduce services.

CONCESSIONS AND SAFEGUARDS

In the face of such complaint, the government gradually introduced concessions and safeguards, such as the key pledge that there would be no 'two-tier' workforce. A code was drawn up obliging contractors to offer employment to new staff on fair and reasonable terms and conditions broadly comparable to those of employees transferred from the public service. There was a promised three-month review of 'best practice' in local government so councils could not be pressured into accepting cheap tenders. Councils would also be given new powers to borrow to invest in services to facilitate competition with private firms.

Mr Blair repeatedly confronted the charge his government was anti-public service. As a centre-left party, he argued Labour was pursuing economic prosperity and social justice as partners, not opposites.

'Heavens above – the public services are our social justice made real,' he said in mid-2002. 'The child who didn't get a decent education? There can be nothing more unjust than that! The pensioner who didn't get a decent standard of service in the NHS? What greater injustice can there be than that? It goes to the heart of what the Labour Party believes, the values of solidarity and community and society. We are trying to change the public services to make sure people have confidence in them. They are the bringers-together of people in society. They are the visible expression of the principle of solidarity. The notion that the government has gone anti-public service or is privatising public services is fatuous'.

But in the lead up to the 2002 Labour Party national conference, the country's powerful public sector unions demanded a three-month moratorium on PPPs while an independent review was carried out. Gordon Brown rejected this as completely unacceptable because it would just stall important work underway.

'Building sites would be left empty; thousands of construction workers would be left without jobs,' he said. 'And—most importantly—the public would be deprived of the new hospitals, schools and public investment that were promised'.

The Chancellor made two strategic points. One, that Labour was proposing private finance in addition to public investment, not as a replacement. He argued that only under the Tories was PFI seen as an alternative, while public investment was run down. Two, he said for decades it had been private companies that had built Britain's hospitals and schools anyway.

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'Before the PFI, however, private companies handed projects over to the public sector with little or no obligation to repair their own faults, and certainly none for future upkeep. The public sector met the costs of the building and responsibility for its upkeep. The private contractor could walk away with no ongoing responsibility for the quality of their work. So we are using PFI to ensure value for money and that the public interest and public services are properly protected when we increase public investment. And we work to ensure that the rights, conditions and pensions of employees are properly safeguarded.'

POLITICAL SETBACKS – 'WHAT MATTERS IS WHAT WORKS'

All that did not stop the government suffering its biggest party setback since coming to power, when the 2002 Labour conference rejected the PPP idea by a delegate vote margin of 67% to 33%. While Mr Blair and Mr Brown made it clear they would ignore the decision, the Chief Secretary to the Treasury, Paul Boateng, was ritually humiliated by being slow hand-clapped, booed and told to sit down from the podium when he tried to outline the advantages of private finance.

Treading something of a sober, middle path between claim and counter-claim, an influential report from the New Labour think-tank, the Institute of Public Policy Research (IPPR), helpfully observed that while PPPs seemed to have brought important gains in some areas such as roads and prison projects, there had, indeed, been far less achieved to date in the education and health areas. This report very firmly warned that the circumstances of individual PPPs could differ sharply, and had to be approached as such, rather than in a 'one-size-fits-all' manner.

Tony Blair and Gordon Brown know their political futures may depend on shifting hoary old perceptions about run-down public services. They face an important rhetorical dilemma. They must argue the case for change without crushing morale in the public service through their criticisms. Mr Blair himself has deployed two political tactics. One is his insistence to his party critics that if Labour does not go down this route, once back in office the Conservatives will privatise the lot, holus bolus. The other tactic is to insist that Labour's own supporters, some of the most vulnerable in society, want, and deserve, better services. He repeatedly retorts that his government is intent on practical progress, not ideology. What matters is what works, whether it's delivered by public servants or businessmen.

'Anyone knocked down in the street and taken to a brand new PFI hospital, rather than a run-down Victorian one, is probably relieved, rather than angry,' he said recently.

For the immediate future, the issue of PPPs will be fought out on two levels: one the high profile, national political debate through the media where the opposing 'theoretical' cases are put with passionate certainty. But then there is the other terrain, the one that matters – out on the ground among the ordinary people of Britain. Some argue that the crippling complexities of some PPPs are already dampening enthusiasm for the drive forward. Others concede there have been teething problems with some projects, that there will doubtless be more, but that the number of success stories will continue growing. Those 275 new projects are in the pipeline. Unfolding here may indeed be something of a revolution in how society functions, for it is probably too late to unscramble the egg. But on service delivery, the jury will be out for some time. Ultimately, judgements about the viability of this new hybrid rests with the electorate. The public, after all, has the largest stake in all this. For the moment, the political class will continue to focus on the task of differentiating which environments appear to suit PPPs, and which don't.

David O'Reilly's interest in Public Private Partnerships springs from his wide experience in Anglo-Australian politics as a journalist and academic. For many years he worked as a foreign correspondent, bureau chief and political correspondent for *The Australian* newspaper and became Political Editor of the Bulletin magazine in Canberra in the mid-1980s. After working as an aide to both Federal and State government ministers, his research at Sydney University analysed the relationship between politics and the media. His last book was a biography of Cheryl Kernot. Currently based at the Menzies Centre, Kings College, London, he is completing the British end of his latest research project, a comparative study of international labour politics. Email: karinya5@onetel.net.au