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## **Public Sector Restructuring and Regional Development:**

the impact of Compulsory Competitive Tendering in the UK

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Pinch P.L. and Patterson A. (2000) Public sector restructuring and regional development: the impact of Compulsory Competitive Tendering in the UK, *Reg. Studies* 34, 000-000. This paper contributes to the analysis of contemporary public sector restructuring in the UK through an evaluation of the impact of the introduction of compulsory competitive tendering (CCT) for the provision of local public services. Public services play an important stabilising role in regional economic development but the introduction of CCT has undermined that role. Public service workers have suffered deteriorating levels of pay and conditions of service, and the capacity of local authorities to act to support local economic development has been reduced. Thus the introduction of CCT has undermined the contribution of local public services to the maintenance of inter-regional economic stability and to regional development.

best value    competition    contracting    local government    privatisation    public services

## INTRODUCTION

The post-war expansion of public sector services was a significant contributor to inter-regional economic stability and employment due to both its scale and its relative geographical evenness throughout the regions of the UK (Allen, 1988; Begg, 1993). More recently, consecutive Conservative governments sought to restructure these services, and the introduction of compulsory competitive tendering (CCT) formed one of the central strategies in these attempts - particularly within the National Health Service (NHS) and local government. For example, Cousins (1988), Goodwin and Pinch (1995) and Mohan (1995) have examined the implications of these changes for employment and the quality of service provision within the NHS. The consequences of the introduction of CCT for the form and content of work in local government and for the role of local government itself have also been examined (Patterson and Pinch, 1995), and Reimer (1999) has examined the process from the perspective of the private firms that bid for the contracts to run local services. The aim of this paper, however, is to analyse the implications of contemporary public sector restructuring for local and regional economic development. In particular we assess the extent to which CCT has undermined the real and potential contribution of local public services to regional economies.

The paper starts by establishing the importance of services to regional economies, drawing upon the literature on the role of private sector services within regional development, and comparing this role with that of public sector services. The paper then focuses on the specific consequences of the introduction of CCT for local government services. To this end, the legislative background to CCT is outlined, followed by a brief description of the uneven regional and sectoral patterns of private sector success in winning contracts under CCT, and a discussion of some important explanatory variables. A key finding reported in this paper is that, whether contracts are won by private sector firms or are retained in-house by the local authorities own workforce (the Direct Service Organisation, or DSO) the process of CCT itself, coupled with tight fiscal control of local government spending, has had an adverse impact upon local and regional economic development. In particular this paper discusses how the implementation of CCT has:

- produced a systematic worsening of the pay, terms, and conditions of employment of workers providing local public services;
- contributed to a reduction in the scope and power of local government; and
- weakened the stabilising tendencies of public services within local and regional economies.

The new Labour Government has committed itself to the removal of the compulsory element of competitive tendering and plans to replace it with a system known as 'Best Value' (Davis, 1997; DETR, 1998). 'Best Value' will not be fully implemented until 2000, and therefore it is not yet possible to determine precisely how it will operate in practice (although, as discussed below, there are some early indications), but it is clear that the Government intends that

competition and contracting are to be retained as important management tools. This impending change in the legislation provides an opportune moment to review the impact that the introduction of CCT has had upon the provision of local public services, but first it is useful to consider the broader role of services in economic development.

## **SERVICES AND REGIONAL DEVELOPMENT**

Recently, after many years of neglect, there has been increasing attention paid to the role of services in regional development (Damesick, 1986; Marshall, 1988; Hansen, 1990; O'Farrell and Hitchens, 1990; Daniels and Moulaert, 1991; Begg, 1993). The principal focus within this literature, however, has been upon the private sector and particularly upon the contribution of so-called 'producer services'. This category of services has emerged due to organisational changes within firms, specifically the contracting out of activities such as financial, legal, insurance and professional services to specialist support companies, blurring the boundaries between service and manufacturing employment in the process (Wood, 1986). As Begg (1993) suggests, these services have been viewed as structurally more significant to regional economic prosperity and development because of their supposed similarities to manufacturing industries in terms of generative capacity and multiplier effects. Thus, producer services are characterised as identifiably 'tradable' between regions, and therefore as potential export earners; and the high salaries which they can bring to a locality induce spending, and consequently, the growth of other jobs within a range of personal services such as retailing, leisure and entertainment. Private sector producer services (along, potentially, with some consumer services) have also been viewed as *milieux innovateurs* - heightening the attractiveness of a locality to inward investment and strengthening the competitiveness of local firms.

In contrast, the contribution of public services to regional development has received relatively little attention. In part this may merely reflect the tacit recognition of a theme of this paper: that the economic role of public services has been undermined by various processes of state restructuring. Data in Table 1 show that the earlier trend of growth in public sector employment in the UK (in real terms and as a proportion of total employment) was reversed after 1981, since when the proportion of workers in the public sector has fallen from 29% to only 21% in 1995. Much of this decline reflects the privatisation of the former nationalised industries: between 1982 and 1995 some 30 public corporations were transferred to the private sector, contributing to the loss of over 1.4 million employees from this category. However, the reduction in local authority employment is also significant, producing a decline of 255,000 employees between 1981 and 1995.

[table 1 here]

The underplaying of the role of public services also, however, reflects the particular way

in which they are often portrayed in the literature. Thus, in contrast to the positive characteristics ascribed to private sector producer services, public services are seen as *unproductive*, or *passive* (since their level is dependent upon local population characteristics and local prosperity and therefore, by implication, 'real' wealth generating activities which lie elsewhere in the local economy); *non-tradable* (since traditionally they have relied upon proximity between provider and consumer and therefore were rarely traded across regional boundaries); and less *tangible* (that is, they often comprise a labour process with no commodifiable physical output). Consequently, public services are less obviously export earners and, apparently therefore, are seen as less important to regional economic development. In terms of economic base theory they are 'dependent' activities or non-basic industries, which service local markets and circulate money within the economy but, unlike basic industries, do not earn external income or create 'real jobs' (for a critical consideration of this view in relation to services in general see Williams, 1994; see also Bruegel, 1987; de Groot *et al.*, 1987). Furthermore, the occupational profile of public service work, with much of it involving relatively unskilled manual, routine non-manual, and part-time work, may also have contributed to it being deemed less worthy of attention.

This generally negative characterisation of public services and related employment has resulted in a lack of attention to the role of public services in local and regional development. However, to recognise the continuing diminution of the benefits of public service employment as a result of public sector restructuring is one thing, but the lack of debate about the past contribution of public services, and the considerable benefits that remain in many important areas, together with their future potential, is lamentable. For instance, public sector planning, investment and services provide important economic, social and environmental infrastructures for private sector development. While industrial estates, factory premises, transport infrastructures and training are the more readily observable benefits, it is also the case that cultural and arts services attract visitors and income to local businesses, and social services

... play an unquantifiable but undoubtedly important role in ensuring the health and capacity to work of the local labour force (Geddes, 1994, p254).

The local provision of good quality public services also plays an important role in preventing the leakage of capital from local economies by keeping the benefits of expenditure on services within the locality or region (this seems to be better understood in the USA, see Cox, 1990).

In addition, regional economies benefit from the employment generated by public services and there are also important multiplier effects from spending on these services, be it on wages and salaries or local purchasing (Mohan, 1992). Despite the decline in the size of the public sector, it nevertheless still employed almost 5.5 million people in 1995 (see Table 1). Moreover, compared to the uneven spatial divisions of labour in the private sector, the geographical distribution of employment in public sector services has been relatively even (Allen, 1988). Thus, the public sector has tended to contribute to inter-regional economic and social stability. Table 2 provides a

measure of the contribution of the public sector to GDP and employment in each of the UK Standard Regions, and makes clear the relative importance of the public sector to the economy of the UK's peripheral regions. The particular significance of public sector work to women's employment across all UK regions is also notable. Moreover, current trends within producer services, such as increasing industrialisation and competition, may reduce this sector's contribution to regional economic development in the longer term (Marshall *et al.*, 1992; Begg, 1993), making the role and structure of public services of even greater concern in the future.

[table 2 here]

In terms of understanding the trajectories of the UK's regional economies, it is, therefore, becoming increasingly important to monitor and assess the implications of changes to the structure and organisation of public services. Although the remainder of this paper focuses upon the introduction of CCT within local government, it is important to note that changes are being introduced which involve processes of deregulation, privatisation and relocation across a wide range of public services. For instance, the work reported here needs to be considered not only alongside existing work on CCT within the NHS discussed above, but also, for example, that documenting the restructuring of the civil service (Winckler, 1990), water services (Patterson, 1996), former nationalised industries (Hudson, 1988; Fevre, 1989), and public corporations anticipating privatisation (Lucio and Noon, 1994). It is also necessary to note that CCT has not been imposed uniformly on all aspects of local government employment, being confined principally to blue collar work although later introduced into some managerial, professional and planning services. CCT has, however, been one of the more successful attempts to introduce market relations into the public sector in the UK, with over 11,500 contracts initiated by the end of 1996 (LGMB, 1997).

## **LOCAL GOVERNMENT SERVICES AND CCT: THE LEGISLATIVE CONTEXT**

The use of competitive tendering by British local authorities for the provision of goods and services has a long history, but *compulsory* competitive tendering for the provision of local government services was first introduced in the 1980 Local Government, Planning and Land Act. The CCT provisions of this Act applied only to local authority construction and maintenance work. Following this legislation a number of local authorities, mostly in the south of England, voluntarily extended the scope of competitive tendering to other services such as refuse collection (see Ascher, 1987; Moon and Parnell, 1986, for details). The 1988 Local Government Act widened the scope of compulsory competitive tendering further to include seven additional specified services: building cleaning; other cleaning (mainly street cleaning); refuse collection; education and welfare catering; other catering (such as staff canteens); grounds maintenance; and vehicle maintenance. Local authority manual work was the principal target of both pieces of legislation, but an eighth service category, management of sports and leisure services, was added through secondary legislation in 1989. This legislation foreshadowed the further extension of CCT in

England to a range of professional services, beginning with housing management, legal services, and construction and property services in 1994, and information technology, finance and personnel services in 1995.

The introduction of CCT for professional services has, however, been complicated by a range of factors, and, to date, its impact has been principally confined to the London Boroughs and Metropolitan District Councils. A number of local authorities preempted the new legislation by entering into a range of voluntary arrangements, including the establishment of agreements with preferred contractors, management buy-outs, and joint venture companies. Moreover, local government reorganisation has led to the relaxation of the implementation timetable in a number of shire counties in England, and produced the suspension of *all* tendering activity in Scotland and Wales. The new Labour government has used this interim period to explore and develop the principles of its 'Best Value' proposals, including the development of a number of pilot schemes, in advance of the introduction of new primary legislation in 1999.

An element common to all the CCT legislation, is that it seriously weakens the competitive position of the local authority's directly employed workforce (usually organised into direct service organisations - DSOs) relative to private contractors. The local authority is prohibited from 'anti-competitive behaviour' and may not reject lower bids from private contractors without 'good reason'<sup>1</sup> (91% of all contracts were awarded to the lowest bidder in the first round of CCT and 85% in the second round (DoE, 1997a) suggesting that price and not quality was the key determinant of success). Moreover, the legislation explicitly defines some matters as 'non-commercial' and local authorities are prevented from taking these into account when awarding contracts (this clause principally excludes consideration of contractors' pay rates, terms and conditions of employment, and more general political issues, such as trade links or political affiliations). Local authorities are also required to set up separate trading accounts for each of the specified services, for building cleaning the trading account must break even, whilst for the others it must make a 5% return on the capital employed. Cross-subsidisation of these trading accounts is not permitted and the Secretary of State has been granted extensive powers to close down a local authority DSO, or direct that a tender be respecified and readvertised.

## **VARIATIONS IN PRIVATE SECTOR SUCCESS**

Despite the legislative restrictions on the competitive ability of the local authorities' own DSOs as outlined above, the Local Government Management Board (LGMB) has found, for those local authority services defined under the 1988 legislation (plus sports and leisure management), that 56.5% of contracts tendered under CCT in England and Wales were won in-house by the local authorities' DSOs (LGMB, 1997). Moreover, the DSOs generally win the higher value contracts, capturing 71% of the estimated £2.4 billion per annum of local authority work under contract at June 1997. The national trend, however,

is that the private sector is gradually winning more contracts over time, and that these contracts are of increasing value (see Table 3).

[table 3 here]

Within this overall trend, however, there are large differences in the degree of private sector success within each service sector and between regions (see Table 4). Of all the services subject to CCT, private firms have been most successful in winning contracts for building cleaning but, as in other sectors, there are considerable regional variations. In broad terms a north-south divide is evident, with the private sector most successful in London, the South East and the South West, moderately so in the East and West Midlands and East Anglia and less so in the three regions in the north of England. Wales and Scotland have the lowest levels of private sector success, although the current moratorium on CCT will be affecting the data here.

[table 4 here]

Geographical variations in the political ideologies of local authorities may influence their approach to CCT, and this can affect the level of private sector competition through the general perception of the authority as either an enabler of, or a reluctant complier with, the CCT regulations (Painter, 1991). However, in seeking to account for the range of regional and sectoral variations it is also important to consider a broader range of attitudes, characteristics, and capacities of both local authorities *and* the relevant private sector contractors, for example, through an examination of the specific way in which contracts are packaged, in terms of their geographical scale, financial value, and duration (for a detailed analysis see Patterson and Pinch, 1995).

Private contractors vary significantly in terms of their location, size, and experience in performing public sector work, and this contributes to geographical variations in private sector interest in bidding for contracts, and influences their competitive position. Although there are a large number of small firms bidding for contracts, a relatively small number of contractors, almost all of which are subsidiaries of large multinational holding companies, dominate private sector involvement in the provision of local government services (see Whitfield, 1992; Davis-Coleman, 1994; Reimer, 1999). This is particularly so with those services with large annual contract values and high capital start-up costs, since such contractors benefit from access to the financial resources and the credit worthiness of their parent companies, as well as the experience of performing work in other sectors or countries. For instance, French and Spanish multinationals have emerged to target UK local authority refuse collection contracts, drawing upon extensive experience gained in their home countries, as have companies from the UK's private sector waste management industry. Moreover, the willingness to bid for local authority contracts will also be influenced by the existing operational reach of private contractors: many have their corporate headquarters in London and the South-East of England and the decision to bid for local authority contracts in particular regions will depend upon the availability of spare capacity in plant, machinery and depot facilities (or the relative cost of providing new capital investment). The

individual geographies of local authorities will be important in this respect. Urban authorities tend to offer higher value contracts and the potential to realise economies of scale through the concentration of depot facilities and access to adjacent local authority contracts. The reverse may be the case in dispersed rural authorities with lower value contracts covering large areas. At the same time, much public service work is labour intensive and therefore the scope for reducing labour costs is often the crucial determinant of the entry of private capital. The potential to extract increases in absolute surplus value varies geographically as the character of local labour markets, in terms of the supply, age and gender composition, and militancy of workers, is reflected in local pay rates, ease of recruitment, and scope for the recomposition of the workforce.

## **CCT AND THE CONSEQUENCES FOR REGIONAL DEVELOPMENT**

The previous discussion suggests that the private sector has made slow progress in some regions, but the wider pervasiveness and consequences of government by contract entail that, even in those areas where local authority DSOs have retained contracts, the process of CCT itself has still had a powerful influence. In an increasingly restrictive financial climate, CCT, because it demands a detailed accounting and specification of services, has provided a powerful mechanism for all local authorities to reduce both service outputs and labour costs. Moreover, managerial control over workers has been strengthened even in those parts of the country where the threat of private sector competition is minimal.

### *The impact on public service workers*

A survey commissioned by the Department of Environment found that, in those services subject to CCT, one in eight jobs had been lost (Walsh and Davis, 1993). But some sectors seem to have suffered more than others: for example, a survey of just 20 local authorities found that during the first round of CCT more than 10,000 part-time jobs were lost in building cleaning, and although almost 400 new full-time jobs had been created in the same period (due to the need for more supervisors and managers as a result of CCT) this still resulted in a net reduction in employment in this sector of 29% (Escott and Whitfield, 1995).

For those public service workers who have retained their jobs, their work has typically become more demanding, less well paid, and increasingly casualised. Labour costs have been cut through a number of mechanisms, with direct cuts in basic pay or overtime rates being common<sup>2</sup>. Some full-time staff transferring to private undertakings, and even some that have been retained in-house, have been forced to accept increases in 'basic' hours (thus reducing or eliminating overtime payments) or reduced holiday entitlements. Work which varies in nature on a seasonal basis, such as grounds maintenance, has also been adversely affected, with reduced bonus payments, the introduction of seasonal variations in the number of hours worked at basic rates (resulting in a large reduction in overtime payments in the summer period) and the requirement that workers take more of their

holidays in the winter period (for details see Patterson and Pinch, 1994). There have also been examples of cleaners and catering staff losing their entitlement to retainers for school holiday periods, so that they are dismissed and rehired up to three times a year, and therefore paid for as few as 39 weeks rather than for the whole year (CPS, 1994). Part-time staff (the majority of whom are women) have been particularly adversely affected by increasing casualisation, and a widely reported practice has been to reduce the normal number of hours worked to below the statutory 16 hour threshold for enhanced employment protection rights - affecting entitlements to redundancy pay, maternity leave, holidays, and holiday pay (SCAT, 1990). If, as a result of these cuts, wages fall below the lower earnings limit employees also lose entitlement to contributory state benefits.

CCT is also leading to a recomposition of public sector workforces. The intensification of work practices and the introduction of performance driven bonus schemes has resulted in the replacement of older staff with younger people more able to cope with the new demands, and this has resulted in the loss of workers with considerable experience of public sector work and trade union involvement. It has also served to reduce costs since younger workers tend to be receive lower wages than the older workers they replace. Moreover, workforce recomposition has not been gender neutral. Doogan (1996) has shown that male full-time manual workers have borne the largest proportion of job losses, contributing toward a wider feminisation of local authority workforces. However, women workers have retained jobs at the expense of a greater deterioration in their pay, terms and conditions and consequently the development of CCT has halted or even reversed moves towards equal opportunities and equal pay policies in the public sector (see Bruegel and Kean, 1995; Escott and Whitfield, 1995). In fact the CCT legislation specifically excludes consideration of the terms and conditions of workers in the preparation of contracts. This has the effect of removing from the conceptualisation of public sector work a concern for the interests of employees.

One potential counterweight to these mechanisms is the 1981 Transfer of Undertakings (Protection of Employment) Regulations (TUPE) which were introduced to comply with European Directive 77/187 (the 'acquired rights directive') which was intended to protect the rights of employees when a business was sold or taken over. The EU directive does not distinguish between public and private sector employment but in the UK the TUPE regulations were originally drawn up to exclude contracted-out public sector services on the grounds that, even if they operated as commercial ventures after they were transferred from the public sector, they did not do so before. However, the European Court has ruled that the UK had incorrectly applied the acquired rights directive, and that the TUPE regulations *should* apply to the contracting out of public services (Labour Research Department, 1994). This means that employees should have been protected from dismissal when private sector companies took over public services, and that employment rights, including their existing terms and conditions, should be have been preserved. Indeed, some workers who were sacked following CCT have subsequently won compensation (Milne, 1994) and, following a test case in the High Court (November,

1997), the new Labour Government has accepted liability for compensation payments to a group of workers whose employment rights were removed following their transfer to a private contractor (Gosling, 1997). However, even given the recent interpretation, TUPE will not prove effective in preserving the pre-existing terms and conditions of workers in services subject to CCT. This is because TUPE does not prevent the managers of private companies from diminishing the pay, terms and conditions of workers after the transfer has taken place by forcing an agreement from a stronger negotiating position (Whitehead and Bennett, 1994). Nor does it prevent DSO managers negotiating such cuts in advance of an in-house bid, and this has been a particularly important means of obtaining cost reductions - even when service provision has not been contracted out.

The process of CCT has weakened the power of labour in the public services through the fragmentation of the workforce, and the exposure of their jobs to competition from a secondary private sector labour market characterised by lower wage rates, poorer working conditions, and insecure employment contracts. This has permitted not only the imposition of cuts in the total number of jobs, but also the intensification of labour processes, reductions in take-home pay, and the casualisation of employment in these services. In turn, this has undermined the role of local public services in contributing to stability in inter-regional employment levels and has damaged local governments' role as a model employer within local and regional labour markets. This leads on to a consideration of the erosion of the capacity of local authorities to act politically in relation to the wider socio-economic and environmental development needs of their jurisdictions.

#### *Government by contract and 'hollowing out' local government*

The CCT legislation embodies the explicit objective of increasing managerial control over local public services. The legislation outlined earlier, and the need for purchaser and provider 'cost centres' to monitor accounts separately, is integral to this. To some, this might be considered as a strengthening of local government rather than a weakening (e.g. DoE, 1997b; Rao, 1996). However, as Stewart (1993) has argued, attempting to govern on the basis of contractual relations between the purchaser of services and their provider generates severe limitations. In particular he notes the creation of barriers to information flows, impediments to the organisational learning process, and problems in securing the continuance of a particular set of values in the mode of delivery of a service. Thus, it is important to recognise that the perceived strengthening of local government associated with CCT occurs only within a tightly defined commercialised and marketised framework which firmly shuts out alternative discourses or frames of reference which embody different value systems (see Pulkingham, 1989). The separation, under CCT, of a concern for the service to be provided from a concern for the people who will provide that service excludes consideration of the pay, terms and conditions of workers providing the service and the activities of the contracting firm in terms of the stance it adopts on economic,

environmental or social issues (including the maintenance of trading arrangements with politically unacceptable regimes).

The impact of the requirement to specify contracts precisely and to monitor the quality of service (which might be seen as contributing to their improvement - and therefore to be a benefit of CCT), is also open to question. For example, Nove (1993) notes that the monitorable targets which are introduced to check on the work of contractors can only be only indirect indicators of efficiency or service quality and that their value can be undermined. The issue is summarised by Milne thus:

... the lack of complete and costless information, and the impossibility of designing a contract that could cover every future eventuality, creates something of a problem for theory as well as practice (1997, p17).

This problem persists despite the recruitment of large numbers of 'contract compliance' officers to monitor the contracted-out public services (Brindle, 1993).

Thus the broader efficacy and political capacity of local government is undermined by CCT, with potentially adverse impacts on local and regional development. One example is provided by the requirement to take the lowest bid (except in exceptional circumstances), which reduces the power of local government to act in support of the local or regional economy by purchasing goods and services from local firms with local purchasing arrangements. Moreover, this constraint also reduces the potential contribution of local authorities to environmentally sustainable development: the introduction of CCT has a number of damaging environmental consequences, in particular making it less likely that local authorities will be able to meet the requirements of Local Agenda 21 (see Patterson and Theobald, 1996; 1999).

Patterson and Pinch (1995) have described how the elected local state in Britain is being 'hollowed out' by the transfer of functions, power, and resources to the centre, to a range of non-elected local and regional agencies (including the new English Regional Development Agencies), to newly developing supra-national systems, and to private firms and voluntary sector organisations. This restructuring of the state has resulted in the increased fragmentation of policy-making and service provision, a reduction in democratic accountability at the local level, and a reduction in the capacity of local authorities to act in the best interests of their local populations.

#### *Inter-regional and intra-regional financial transfers*

Alongside the reductions in local authorities' capacity for proactive economic and environmental interventions within their own areas, CCT can also be seen to be fostering monetary transfers both within and between regions. For instance, reductions in the direct

wages and indirect benefits (including pensions) paid to public sector workers (especially when coupled to a reduction in job security) will lead to a reduction in consumer spending and a negative effect on the economy of that area. However, it is theoretically possible that this could be offset by complementary reductions in local taxation as the labour costs involved in the provision of local public services are reduced. In Britain public services are funded from both local and national taxes, and, if all else remains constant, one result of reductions in the cost of these services will be reductions in the level of either or both of these taxes. This has several important consequences. First, to the extent that there are reductions (or lower increases than would otherwise be required) in local taxes as a result of CCT, there are financial transfers from those workers who experience job losses or reductions in pay to the generality of tax payers within the local authority area. As these job losses or wage reductions serve to reduce the incomes of some of the least well off, the most likely result is an increase in social polarisation. Moreover, in terms of regional multiplier effects the loss of income to less affluent groups will have more impact than if wealthier people lost the same amount.

This effect will be compounded by transfers accruing due to reductions in the level of national taxation as a result of CCT. In this case there are transfers from local public service workers to the generality of national taxpayers. The latter form of transfer is not neutral with regard to the regions. Currently, the distribution of the national contribution to the cost of local services has a roughly progressive redistributive element within it, and therefore reductions in national taxes as a result of local wage cuts resulting from CCT induce a regressive redistribution of wealth back to the more affluent regions.

These fiscal transfers will operate whether job losses or wage cuts for public service workers are introduced by private companies or by public bodies. However, it should be noted that these potential transfers assume that there is indeed a net reduction in costs due to the introduction of CCT. In contrast, it is possible that there is no overall saving in costs because of the additional bureaucracy necessary for contract preparation and monitoring within the local authorities, the demand for the extraction of profits from the companies carrying out the contracts, and increases in nationally funded social security benefits payable to the newly unemployed and to the new cohorts of low paid workers.

There are also other potential transfers of finance and power which occur if the service is provided by a private company based outside the region in which the work is currently carried out. First, trading profits accruing from the contract to carry out public service work may be exported from the region, and, in virtue of the presence of many multi-national companies in this sector, there is the potential for such profits being transferred out of the country entirely. Secondly, there is the transfer of the control functions from the localities and regions concerned - leading to the creation of a new spatial division of labour for the public services more closely approaching that of the private sector. Thirdly, there is the increasing possibility, as more 'white collar' work becomes contracted-out, that the actual work itself could be transferred out of the localities and regions in which it is currently carried out. For example, there is currently some discussion about

the potential for council tax collection to be undertaken by regional or even national collection agencies, and already some services, such as architectural and planning services, are no longer provided locally in some areas. Such moves might be motivated by the higher labour costs experienced by public service providers in growth regions, as employers are unable, or unwilling, to increase wages sufficiently to compete for scarce personnel (see Mohan & Lee, 1989). Whatever the reason, the result of such transfers is the further economic and social impoverishment of some localities and regions as power, finance and employment are removed and new uneven patterns of public service work are created. Even in relatively low cost peripheral regions, which might be the recipient of such transfers, the experience of civil service relocation suggests an accompanying cut in staffing levels and existing terms and conditions (Winckler, 1990)

## CONCLUSIONS

Local public services are clearly important for both local and regional economies, but the introduction of CCT for local government and other public services has not only reduced the income and other entitlements of many public sector employees throughout the UK, while contributing to the creation of a new and uneven pattern of regional economic development, but it has also weakened the capacity of local authorities (individually or collectively) to intervene directly to promote the economic, environmental and social regeneration of their localities and regions.

Given such recent experience, the 'Best Value' system currently being introduced by the new Labour Government looks to be a lost opportunity for more effective local and regional intervention. The stated aim is to increase flexibility in the tendering process, together with improvements to the control and monitoring of service quality, through, for example, greater consultation with service users and providers and the development of management tools such as 'Benchmarking' and 'Partnership Networks' between local authorities and the private sector. Unfortunately however, as the new Local Government Minister has made clear, such moves remain firmly within the existing legislative and discursive framework, since they are to be pursued

... in a manner consistent with the purpose of the CCT legislation, that is that local authorities only carry out work if they do so competitively (DoE, 1997b).

This continuing heavy emphasis on the need for competition and market testing rather than co-operation and co-ordination will simply perpetuate the problems of the past. The 'Best Value' system, while appearing to prioritise the needs of 'consumers', continues to disregard the material disadvantages that CCT has already imposed upon public sector workers. The recent White Paper states that the government will issue guidance on 'Best Value' to local authorities:

The guidance will emphasise that retaining work in-house without subjecting it to real competitive pressure can rarely be justified (DETR, 1998, p72).

It seems that the 'Best Value' system will continue to require local authorities to bear down on the incomes and conditions of employment of the workers that provide local public services, and will perpetuate the fragmentation of local service provision. The new Labour Government needs to acknowledge that the current proposals for 'Best Value' will not address the real problems created for workers, local authorities and regional economies by the operation of the CCT legislation over the past two decades. The challenge is to replace the flawed policy framework of competition and contracting-out with a modern approach to local government that encourages co-operation and the co-ordination of service provision within the public sector.

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## NOTES

1. The prohibition on 'anti-competitive behaviour' is so broadly drawn that it restricts the potential for local authorities to include clauses in tenders which promote locally determined policy objectives, such as the adoption of environmentally sustainable practices in service delivery.
2. In many sectors the greatest part of any overall cost reductions associated with contracting out has been achieved by cutting wages. For example, of the estimated £135 million savings made over six years when London's bus services were contracted out, £110 million (over 80%) has been directly attributed to the imposition of a 14% cut in bus drivers wages (Kennedy, 1997).

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**Table 1: Employment in the UK by sector, 1961-95**

	1961	1981	1995				
	000's	%	000's	%	000's	%	
Private sector	18,598		76	17,313	71	20,278	79
Public sector	5,859	24	7,185	29	5,465 <sup>a</sup>	21	
Public corporations			2,200	9	1,867	8	442
Central government <sup>b</sup>			1,790	7	2,419	10	2,115 <sup>c</sup>
Local authorities <sup>d</sup>			1,869	8	2,899	12	2,644
Total in employment	24,457	100	24,498	100	25,743	100	

Notes:

- a) includes work related government training programmes;
- b) includes NHS;
- c) to facilitate comparison with other years this figure includes NHS trusts which are now officially recorded as public sector corporations and totalled 1,085,000 employees in 1995;
- d) includes police.

Source: derived from *Economic Trends*, February 1996

**Table 2: Public service GDP and employment in the UK Standard Regions**

Region	Public service GDP as % of Regional Total, 1995		Public service employment as % of Regional Total, 1997	
	Men	Women		
North	19.9	18.3	42.2	
North West	18.4	14.8	37.4	
Yorks & Humberside	19.1	14.3	37.3	
East Midlands	16.8	13.4	37.2	
West Midlands		16.8	12.8	35.6
East Anglia	18.0	13.3	35.3	
South East	17.6	15.8	36.8	
Greater London			17.2	15.3 29.4
South West	21.2	16.6	37.7	
England	18.2	14.8	35.8	
Wales	21.6	18.5	42.4	
Scotland		22.2	17.5	36.8
Northern Ireland		30.1	24.7	49.4
UNITED KINGDOM	19.0	15.5	36.5	

Note:

Public service employment consists of SIC categories 'Public administration and defence' and 'Education, social work and health services'. It is acknowledged that this is an imperfect measure which does not capture the full extent of public service work.

Source: Derived from *Regional Trends* 1997, Tables 12.4 and 5.

**Table 3: CCT contracts held by private sector firms, England and Wales, 1991 & 1997**

Category of contract	%	%	%	%	Volume of Contracts		Value of Contracts	
					1991	1997	1991	1997
Building Cleaning			40.2	56.2	14.1	30.7		
Refuse Collection			27.2	38.5	21.3	36.6		
Other Cleaning			24.8	36.0	19.0	29.9		
Vehicle Maintenance			23.1	30.1	14.3	24.3		
Catering (Education & Welfare)					1.5	29.7	0.6	22.1
Catering (Other)			24.6	40.9	21.1	29.0		
Grounds Maintenance			31.4	46.9	17.8	32.3		
Sports & Leisure Management					n/a	25.8	n/a	15.7
All Contracts	30.3	43.5	15.7	29.0				

Note:

Professional services are not included since the full impact remains uncertain.

Source: derived from Local Government Management Board (1991; 1997)

**Table 4: CCT contracts won by private sector companies by region, June 1997**

	BC	RC	OC	VM	CE	CO	GM	SL	AV		
	%	%	%	%	%	%	%	%	%		
North	24.1	21.4	19.0	8.3	52.4	35.7	25.6	19.4	25.7		
Yorks & Humberside			30.6	16.7	0.0	0.0	34.5	12.5	25.3	5.9	15.6
North West		20.7	33.3	8.0	0.0	11.8	14.8	21.8	6.2	14.6	
East Midlands		65.0	32.5	25.0	40.0	24.0	47.4	42.1	26.2	37.8	
West Midlands			46.2	25.0	33.3	46.7	8.0	18.2	59.6	8.5	30.7
East Anglia		29.3	40.0	51.7	81.8	0.0	50.0	38.3	23.8	39.4	
South East		70.0	38.9	63.2	42.1	40.9	55.6	65.4	42.1	52.3	
Greater London			61.9	50.0	48.4	40.9	44.0	48.4	53.9	45.5	49.1
South West		65.8	52.4	34.4	45.5	47.1	71.4	54.1	36.4	50.9	
Wales	22.4	2.9	7.1	4.5	0.0	28.6	19.2	8.7	11.7		
Scotland		7.5	10.6	0.0	9.5	7.7	57.1	10.5	1.6	13.1	

**Key:**

BC - Building Cleaning

RC - Refuse Collection

OC - Other Cleaning

VM - Vehicle Maintenance

CE - Catering (Education and Welfare)

CO - Catering (Other)

GM - Grounds Maintenance

SL - Sports & Leisure Management

AV - Average of all Contracts

Source: derived from Local Government Management Board (1997)