

# Restoring Public Values in Public Services

A route map for national, municipal and citizen action



**CLES**  
progressive economics  
for people and place

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We believe that equality, human dignity, stewardship of the environment and the redistribution of resources for everyone's benefit, must be at the heart of a vision for the future of public services.

We argue that a deepening of democratic ownership and operation, which embodies genuine citizen agency and collectivism, is the only way to counteract the commercialisation of essential public goods.

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# Introduction

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## About this publication

This publication is for anyone who uses, commissions or informs the delivery of public services. It begins by describing the challenge we face, outlining the key characteristics of the landscape of public services in the UK today. It then goes on to call for the restoration of public values, and proposes a route map for government, municipal and citizen innovation, which includes policy steps designed to inspire confident action.

## Why Public Values need restoring

Public services are based upon the notion of a unique set of public values, distinct from the personal or commercial, representing the common good, democracy, public interest and social cohesion.

Over the last three decades, however, these unique public values have been eroded. Many of our public services have been outsourced to the commercial sector, and private sector management values have intruded into much of the UK public sector. The widespread use of a New Public Management approach has produced a generation of public servants schooled in a notion that cost is the key proxy for value. Similarly, the relationship of the public servant to the citizen has shifted towards viewing citizens not as people with rights to public goods but as consumers of services procured on their behalf.

This erosion of public values has come with the large-scale displacement of the public sector from the provision of public services in favour of the private sector. This shift has resulted in the extraction of public money by a few large market players operating in virtual monopolies. It has also commercialised the relationship between the local and national state and citizens, which is now often indistinguishable from that of producer and consumer. As a consequence, the democratic nature of public services has been severely undermined.

Blind faith in the idea that 'private is best' has not only had negative impacts on the democratic integrity of public services but threatened their sustainability and long-term survival. The increased dependence on private finance initiative (PFI) schemes designed to leverage private finance for public goods, such as the construction of hospitals and roads, is just one example of privatisation leading to spiralling and unmanageable costs - which then leads to further compromising of values. Furthermore, the collapse of private outsourcing behemoths who, in a race to the bottom on cost and short-term shareholder return,<sup>1</sup> have compromised their own financial health, failed to act in the public interest and jeopardised the safety and dignity of people who rely on these services.

The Social Value Act 2012, has served to soften some of the sharpest edges of this erosion of public values. However, by merely requiring public bodies to consider social value, rather than enforcing it, there are variations in how the Act has been implemented. Indeed, it has become for some a mere tick box exercise, with an unclear process of contractor monitoring and social value enforcement.

# Public Service Landscape

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Three decades of outsourcing, commercialisation and, more recently, unprecedented austerity, have eroded the concept of public values. Below we describe the impact of this loss on the public services landscape.

## 1. Extraction of wealth

In their unquestioning and rigid belief in the ability of outsourcing to drive efficiency, successive governments have pursued a model of privatisation. The results of this approach have seen public funding channelled to shareholder profits while wages have stagnated, terms and conditions have been eroded and tax payers have been left to pick up the bill when companies collapse. The market for public services has become increasingly dominated by a small number of large firms, who attempt to deliver high returns for investors by driving down overheads. Many of these firms use complex corporate structures registered in multiple tax jurisdictions, including tax havens, to maximise these returns further. This means that wealth generated from public service contracts flows out of local communities into an opaque system, which impedes the government's ability to track flows of money and therefore to tax it.<sup>2</sup>

Furthermore, the operating models pursued by some of these companies are inherently risky. With companies financing expansion through ever-increasing borrowing and debt, vulnerable service users, employees and the government - rather than the owners of the businesses - have been left exposed. The collapse of Carillion, G4S and others, are devastating but sadly unexceptional examples of the consequences of this model.<sup>3</sup>

## 2. Commercialisation

The logic of austerity and commercialisation now permeates the public sector. The spending of public money is understood first and foremost as a commercial market transaction with civil servants and local government officer's duty bound to ensure the much prized 'value for money'. Commissioning (a term more properly used to describe the processes of assessing needs and designing ways to meet them) has been reduced to a competitive tendering activity, often framed by a rigid set of costed outputs and complex contract conditions.

This rigid adherence to a commercial style of contracting often blinds commissioners to the common cause that exists between the public and social sector providers.<sup>4</sup> The government has gone some way to acknowledging this issue in its Civil Society Strategy (published in August 2018), noting that increased competition in the supply of public services has resulted in "an often rigid focus on numbers, including budgets, volumes and timescales, rather than a focus on the relationships and flexibility which people and communities need".<sup>5</sup> The strategy heralds a revival in grant-making to broaden the range of funding options for community initiatives, which is a welcome proposition. But there is a deep dissonance here. The Strategy fails to address the context of local austerity and the dominant ideology of outsourcing and commercialisation within

which grant-making has withered. Consequently, without further action, any revival in grant-making will remain a marginal sport.

Attempts to curb the influence of far-reaching commercialisation has in many ways served to camouflage the extent of the damage done to public values. The Social Value Act 2012 is a powerful example of this. Requiring all public bodies to consider social value in their procurement activity, the Act has been enthusiastically taken up by organisations seeking to leverage real social, economic and environmental benefit for local people. A significant 'industry' has emerged around social value, with various commercial offerings as to how it is measured and accounted for. Positively, some public bodies have adopted a bullish approach, with mandatory percentage weighting for social value incorporated into their contract awarding procedures.<sup>6</sup> However, by merely requiring public bodies to consider social value, rather than enforcing it, there are large variations in how the Act has been implemented. In some cases, it is a mere tick box exercise, with an unclear process of contractor compliance<sup>7</sup>.

We believe that if we are to see the real restoration of public values in public services, we must go beyond the idea that social value is a marginal benefit that can be weakly upheld or vaguely complied with. Instead, we need to rebuild our systems and processes so that the creation of social value is the primary function of public services and it is complied with clearly and universally.

### **3. Undermining of democracy**

The marketisation of public services has severed democratic accountability between citizens and public service providers. Unique public values and citizens' affinity with them have been too often reduced to contractual relationships. This poses two powerful threats to democratic accountability.

#### **3.1 Neutrality**

The first threat is the blurring of the relationship between the state and large corporations, which undermines claims to neutrality and fair dealings by civil servants and politicians. At an individual level, senior bureaucrats move between top posts in government and major public service contractor firms. At a policy level, extensive and well-resourced political lobbying enables large corporates to wield significant influence on public policy debates, arguing for models of provision which generate profit but are not well suited to respond to key social challenges.<sup>8</sup> At the same time, the opaque nature of outsourcing arrangements (such as PFI schemes) and corporate structures of many large outsourcing companies are largely impenetrable, making it extremely difficult to scrutinise the terms of contracts and the flows of money involved.

#### **3.2 'Consumers' not 'citizens'**

The second threat is the shift towards viewing citizens not as people with rights to public goods, and a say in how they are procured and delivered, but as consumers of services procured on their behalf. For example, up until 2010, local authorities had responsibility for the majority of secondary schools in their area. If a parent had a concern about their child's school they could petition their local councillor. Ultimately, the parent could decide that they were dissatisfied with the results of the councillor's intervention and either vote to replace them at the next election or, more powerfully, organise with other parents to create a louder lobby to bring about change. However, since the transfer of large numbers of secondary schools to independent Academy chains (not a process of privatisation but

one firmly rooted in the logic of commercialisation),<sup>9</sup> the levers available to councillors to deal with failing schools are weaker and more remote, relying on them petitioning Ofsted or the distant Department of Education. In this situation, the lobbying of councillors has much less impact. This goes to the heart of the democratic issue – for democracy to thrive, citizens need to have access to, and take up, opportunities to organise around shared interests and be able to advance these as political demands.

Fundamental to understanding these threats is observing how they play out at a local level. In many ways local government remains our most vital democratic space; it affects us all, and we all have some direct, everyday connection to it. Ordinary people continue to be elected to office on the back of activist platforms, local issues matter and councils are also less prone to the distorting effects of close relationships with big business. But rather than building on this democratic potential, local government has been subject to waves of centralisation, with government directed privatisation and austerity greatly reducing its ability to address concerns about public services that have been raised by citizens. The much hyped devolution, under the shroud of austerity, still sees devolution to city regions fettered by a lack of fiscal powers and underwhelming influence over many issues which affect local place and people.<sup>10</sup>

# A call for the restoration of public values

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A thriving society is founded on the mutual coexistence of the private, public and social sectors – each with distinct and recognised qualities.

In simple terms, the private sector traditionally brings exchange and wealth creation; the public sector equality and a degree of redistribution; and the social sector civic ties and social diversity, imbued with reciprocity and solidarity. The interplay between these sectors is the basis of a ‘good society’. Public values and the associated public services are fundamental to this. The ideal is that public services distribute goods and services on the basis of need, not the ability to pay or according to where you live. Public values are not built on personal and familial ties or on the workings of the market. Instead, they reflect a unique and distinctive space in which citizens ‘meet’ each other as fair and equal partners in the common interests of society.

## Time to act

The time is now ripe to reverse the assault and restore the primacy of public values in the provision of public services. We believe that equality, human dignity, good stewardship of the environment and redistribution of resources for everyone’s benefit must be at the heart of a vision for the future of public services.

**We believe that to restore public values, and to make them the animating force of public services, requires action at three levels.**

## We call for:

1. The restoration of the authority and capacity of the state to dictate the terms on which public services are provided, with **authorities** acting to regulate the market in public services.
2. The charging of the **local state** to animate a plurality of providers of public services through a root and branch change in the way public services are framed and commissioned.
3. A democratisation of public services which embodies genuine **citizen agency** and collectivism.

# Policy steps to restore public values

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To address the challenges outlined overleaf, and to enable the restoration of public values in public services, we propose a three-fold programme of action by national and local government, as well as citizens.

## Government – a new regulatory role

### Stop extraction of public money to distant shareholders

- **Regulate to prevent companies with parent or subsidiary companies registered in tax havens from tendering for public service contracts.** While the complexity and opacity of corporate structures make this a significant challenge, the need to open up accounting by international firms is a global democratic, as well as economic, priority.
- **Recognise the level of risk in different types of public service provision and reflect this in the price paid.** There needs to be minimum pricing for services so that companies are not able to extract high rates of return at the expense of public budgets and employee terms and conditions.
- **Adopt procurement processes which enable small and medium-sized enterprises (SMEs) and voluntary and community sector organisations to compete on fair terms for public contracts.**<sup>11</sup>

### Reassert the highest ethical standards of employment for those providing public services.

- Through post-Brexit legislation, public service contracts must require employers to pay a real Living Wage and demonstrate how they will guarantee fair working conditions for their employees, of the type which have been proposed by Scotland's Fair Work Convention.<sup>12</sup>

### Legislate for Public Values

- 'Social Value' is a catch-all phrase, which can often mean nothing more than a standard private provider ticking a few CSR boxes. The Social Value Act fails to confront the market liberal and New Public Management orthodoxies which undermine public values. The Act should therefore be amended or potentially replaced with a Public Values Act, requiring all providers of public services to adopt Public Values. This would become a red line, where non-compliance means that providers will not be permitted to deliver the public service.
- A Public Values Act should be linked to a process of social licensing, whereby the right to deliver public services would be dependent on the discharge of clear social obligations around areas such as the real Living Wage, for example.
- A Public Values Act must provide capacity for public value compliance to be monitored.



## Strengthen democracy through new models of public ownership

- Where the state provide services (either through insourcing, nationalisation or municipal enterprise), these must adopt governance structures which include direct workers and service user representation. This should also include the meaningful input of citizens into the service.

## Devolution to an empowered local state

- Devolve greater power to Local Authorities and Combined Authorities, and develop a 'double devolution' by deepening devolution to people, neighbourhoods and communities and the social sector.

## Local government – a new municipalism

### Boost insourcing and municipal enterprise

- Local government should empower, coordinate and up-scale social innovation. In this, developing a range of alternate providers of foundational goods and services (such as electricity, water provision, public transport and retail).
- To ensure stability and accountability for core public goods (including healthcare, education, care services for the most vulnerable, pensions and welfare benefits), the default should be public provision.
- Where the market is failing, the local state must be empowered to act, instigating a new era of insourcing and municipal enterprise.

## Citizen agency

- Embed coproduction with citizens throughout the commissioning process, from defining the service to the evaluation of providers and monitoring of the service – with a requirement on all providers to demonstrate how they animate these values in their work.
- Local government should provide support to the social sector to embrace models of ownership and control which maximises the role of users and workers – particularly those providing public services.

## Working in harmony

- A new approach to public values will only be deeply embedded when all stakeholders - central and local government, public service providers, users and citizens - are actively engaged in a shared process. A deepening of democratic ownership and operation which embodies genuine citizen agency and collectivism, is the only way to counteract the commercialisation of fundamental public goods.

# What next?

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CLES is working on a range of projects with partners from the UK and beyond to demonstrate proven alternatives to our failing economic system. As part of this CLES is committed to working towards the restoration of public values.

To find out more about our work or ways to get involved please email [info@cles.org](mailto:info@cles.org) or telephone 0161 832 7871.

# Endnotes

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<sup>1</sup> National Audit Office. (2018). *Investigation into the government's handling of the collapse of Carillion*. Available at: <https://www.nao.org.uk/report/investigation-into-the-governments-handling-of-the-collapse-of-carillion/>

<sup>2</sup> Research by the Tax Research Network identified that of ten firms they identified as actively pursuing contracts from the NHS, only ten paid any tax in the UK and all ten made use of tax havens. Available at: <http://www.taxresearch.org.uk/Documents/UniteTTIP.pdf>

<sup>3</sup> Carillion held £1.7 billion of public contracts, cost UK taxpayers around £148 million and left more than 2,300 people out of work. See: National Audit Office. (2018). *Investigation into the government's handling of the collapse of Carillion*.

Available at: <https://www.nao.org.uk/report/investigation-into-the-governments-handling-of-the-collapse-of-carillion/>

<sup>4</sup> This was the focus for work between CLES and The Big Life Group. CLES and The Big Life Group (2018). *Putting public value back into public service*. Available at:

<https://www.thebiglifegroup.com/wp-content/uploads/2018/09/CLES-thought-paper.pdf>

<sup>5</sup> HM Government. (2018). *Civil Society Strategy: Building a Future that Works for Everyone*.

Available at: <https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>

<sup>6</sup> CLES. (2017). *The Power of Procurement II. The policy & practice of Manchester City Council - 10 years on*. Available at: [https://cles.org.uk/wp-content/uploads/2017/02/The-Power-of-Procurement-II-the-policy-and-practice-of-Manchester-City-Council-10-years-on\\_web-version.pdf](https://cles.org.uk/wp-content/uploads/2017/02/The-Power-of-Procurement-II-the-policy-and-practice-of-Manchester-City-Council-10-years-on_web-version.pdf)

<sup>7</sup> Harrison and Edwards. (2018). *Making Procurement Work for All: Procurement practices as a route to fulfilling work in North East England*.

Available at: <https://www.carnegieuktrust.org.uk/publications/making-procurement-work-for-all/>

<sup>8</sup> A stark example of this was the behaviour of Four Seasons, the UK's largest residential care provider which in 2015 resourced a high-profile media campaign to have the price paid to them for care of older and vulnerable people increased, despite continuing to take a 12% profit. Four Seasons operate large scale, purpose-built care homes quite distinct from the community settings which it is widely agreed are a more suitable response to the needs of an ageing population. See: Burns *et al.* (2016). *'Where does the Money Go? Financialised chains and the crisis in residential care.'* CRESC Public Interest Report. Available at:

<http://hummedia.manchester.ac.uk/institutes/cresc/research/WDTMG%20FINAL%20-01-3-2016.pdf>

<sup>9</sup> National Audit Office. (2018). *Converting maintained schools to academies*.

Available at: <https://www.nao.org.uk/report/converting-maintained-schools-to-academies/>

<sup>10</sup> Ford. (2018). *Burnham calls for transfer of powers from 'dysfunctional' Westminster*. Municipal Journal, November 16<sup>th</sup> 2018. Available at: <https://www.themj.co.uk/Burnham-calls-for-transfer-of-powers-from-dysfunctional-Westminster/212313>

<sup>11</sup> CLES. (2017). *The Power of Procurement II. The policy & practice of Manchester City Council - 10 years on*. Available at: <https://cles.org.uk/publications/the-power-of-procurement-2/>

<sup>12</sup> Available at: <http://www.fairworkconvention.scot/framework.php>

## About this publication

This policy proposal is for anyone who uses, commissions or informs the delivery of public goods and services. It emerges in response to the significant failings of marketisation, which have been exacerbated by a decade of crippling austerity measures.

The proposal identifies three major challenges faced by public services in the UK today, and outlines a route map to address them. It seeks to galvanise support for the restoration of public values - the foundation on which our public services are based - and to demonstrate how and why a new central and local government framing of our public services, with new democratic and citizen models of ownership, must be the solution.

It has been produced through the collaborative efforts of a number of CLES staff.

## Centre for Local Economic Strategies

CLES is the UK's leading, independent think and do tank realising progressive economics for people and place. Our aim is to achieve social justice, good local economies and effective public services for everyone, everywhere.

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Centre for Local Economic Strategies (CLES)

[info@cles.org.uk](mailto:info@cles.org.uk) | +44 (0) 161 832 7871

[www.cles.org.uk](http://www.cles.org.uk) | @CLEStinkdo

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