NORTHERN TUC

Speaking up for Public Services

TUC SPEAK UP FOR PUBLIC SERVICES

Making the case in the Northern Region

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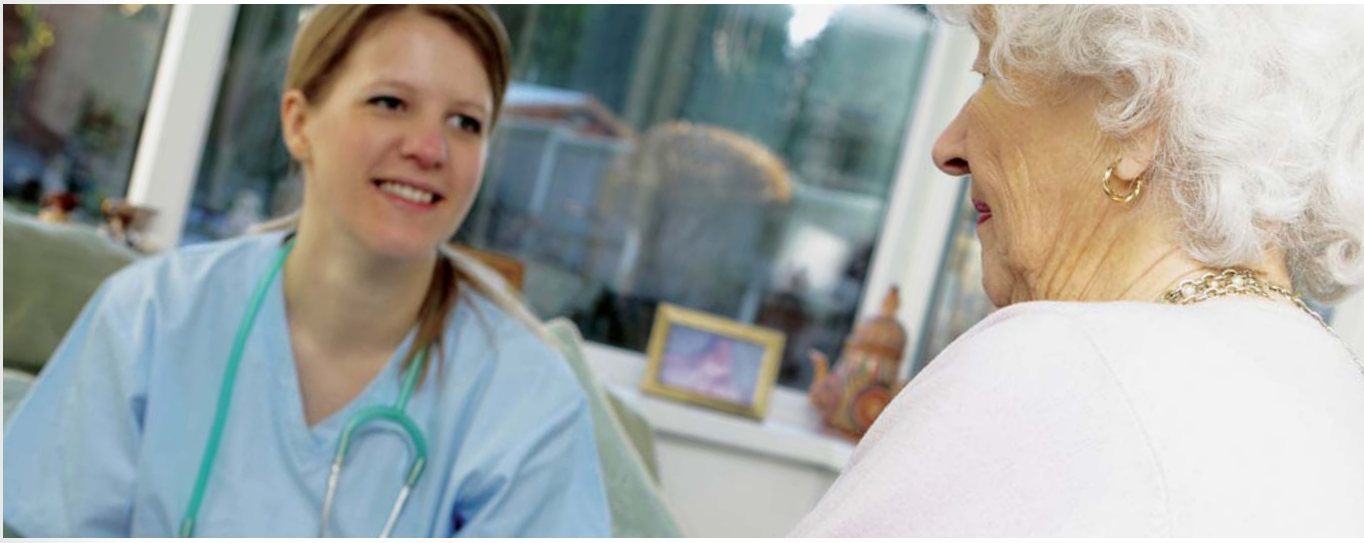

There can be no doubt that public services are under the cosh. In the wake of a global recession caused by the insufficiently regulated, greed fuelled, morally bankrupt world of corporate finance it is public spending that is coming under attack – and that means public sector workers and vital public services are firmly in the firing line.

The reality is that the economic crisis is far from over and the real danger is that cuts in public services and reductions in public sector jobs could lead to a 'double-dip' recession, prolonging the damage to the economy and exacerbating the impact on families and communities throughout the UK, but perhaps most dramatically in regions with a heavier dependence on public sector jobs.

The despair is certainly not over for the hundreds of thousands of people who have already lost their jobs, or who are fearful of being made unemployed. It is not over for those millions of young people who cannot find work. Tackling current and preventing further unemployment should be our highest priority.

Premature calls to reduce the public sector deficit are threatening to derail the effective attempts to stimulate the economy and address unemployment caused by the downturn. Evidence clearly demonstrates that, while severe, the impact of the 2009-10 recession has not been as dramatic in terms of unemployment and business failure as the 1990s economic collapse, even though this recession has been even more extreme.

The political debate has been allowed, somehow, to move from how we deal with the economic crisis to how to reduce the debt by cutting public spending and services. Business leaders and some politicians are making elaborate claims that it is the public sector that will have to face the consequence of this recession, even though we all know that it originated in the bank boardrooms. Those who depend on public services and public service workers did not cause this crisis, but they are being made to bear the brunt of the problem. Slash-and-burn public spending cuts will do irreparable harm to our economy and society. Our vital services are necessary to help individuals, communities and businesses out of the recession and prepare for recovery. *Speaking up for Public Services*[1] demonstrates the real value of the public sector, particularly how it supports local economies and provides decent jobs. It also shows how cuts and pay freezes will take household demand out of the economy and inhibit recovery.

Of course, in the longer term, the deficit must start to come down. The best way to do this is through economic growth, the provision of good quality employment and a progressive tax regime that asks

[1] *Public Services, touchstone pamphlet, TUC, 2010*

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those who did well out of the economic boom times to contribute more than those who fared less well. Our public services have undoubtedly improved over the last decade or so, thanks to extra investment in infrastructure, services and people. We cannot let this progress be damaged by knee-jerk calls for spending cuts, pay freezes and privatisation, our public services are too important for that.

The total national debt at the end of July 2009 was just over £800bn, or 58.8 per cent of national Gross Domestic Product (GDP). Excluding the cost of financial sector intervention, public sector debt stood at £658.1bn, or 46.6 per cent of GDP. The national debt rose from the very low level of 30 per cent of GDP in 2002 to 37 per cent in 2007, mainly due to increased investment in health and education. The sharp rise since 2008 has been caused entirely by the recession in terms of lower tax receipts, higher spending on benefits and the cost of the financial bailout of banks and financial institutions. Even at the current levels it is below the national debt of Japan (194 per cent of GDP), Italy (100 per cent) and the United States (71 per cent). Indeed, it is worth bearing in mind that at the end of the Second World War, the national UK debt was 150 per cent of GDP. There is an obvious need to keep a clear perspective on the issue of national debt and its relationship with spending on public services.

Public spending cuts would only add to economic decline at this stage. Adding redundant public sector workers to the already swollen ranks of the unemployed will impose additional pressures on benefit budgets and further reduce spending power within the economy as a whole. The public sector is an important lynchpin not just in itself but also in terms of the wider economy.

The involvement of private and third sector bodies in the delivery of public services, for instance, has continued to grow over the past decade, producing nearly 6 per cent of GDP and employing over 1.2 million people. This interdependence of public, private and third sectors makes it difficult to consider public spending cuts without appreciating the impact upon the wider economy and those private and third sector organisations that deliver essential public services.

Not only would public sector workers and public services suffer from spending cuts. The business community, in particular the North East Chamber of Commerce, has acknowledged that the wider economy would also take a hit from cuts to public expenditure through the inevitable impact on the £125bn spent annually on public sector procurement. Cuts may help balance the books in the medium term, but the impact on business, employment and essential services would increase economic and social costs very quickly and would result in serious, long term, structural damage.

Now is the time to see public services and public spending as part of the solution, not part of the problem. The public sector has provided a much needed safety net against the economic and social damage of the recession. It will be an essential part of the route-map out of the downturn, helping individuals, families and businesses recover through direct employment, employability support and creating the infrastructure for commerce to prosper. **Now, more than ever, it's time to Speak up for Public Services.**

Kevin Rowan

Regional Secretary Northern TUC

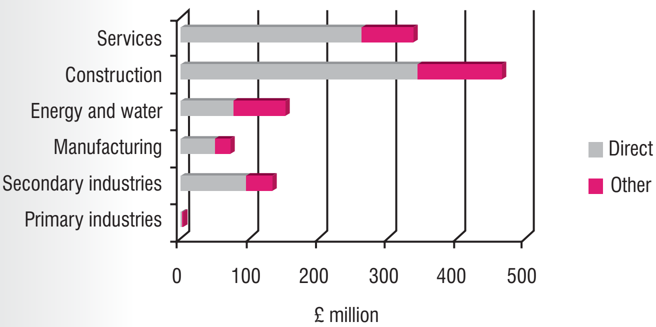
The importance of Public Services In the Northern Region

In the North East approximately one in three workers are employed in the public sector. Estimates vary, but according to a 2008 North East Labour Market Review 31.9 per cent of the region's working age population are employed in the public sector, roughly 266,000 people.

The public sector is clearly of substantial importance to the North East. In addition to this direct employment it accounts for 30.2 per cent of total regional GVA and spends a massive £3.45bn, much of which goes directly to businesses in the region.

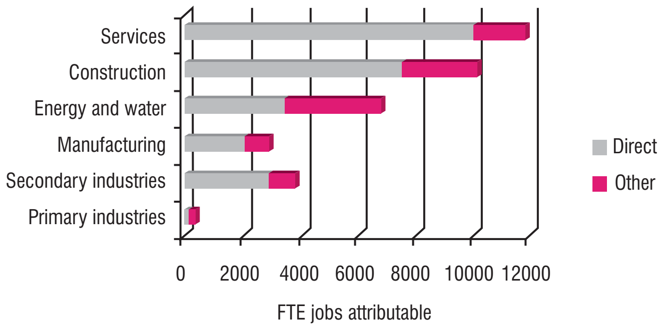
Local authorities and the Fire and Rescue Service alone spend £1.5bn on goods and services annually.

Baseline GVA £3.4b and 45% respend



This secondary spend in the private sector equates to significant additional levels of employment equivalent to over 35,000 jobs, employment that would be directly under threat from public spending cuts.

Baseline FTE £3.4b and 45% respend



Effectively, close to 300,000 jobs in the North East are dependent upon public spending, either through direct employment or through public sector procurement. This equivalent of over £6bn in wages alone, spent mostly in the regional economy, at risk from public spending cuts.

Defining the current Pressure Points

There is a national tenor to the squeeze public sector spending, fuelled by the economic presumption of reduced borrowing and cutting the deficit. Much of this discourse has prompted an inclination toward privatisation and marketisation of public service provision and a specific focus on seeking to undermine public sector pensions. These issues are covered in subsequent sections.

Arguments between local and central government around funding local services are common and increasingly public, the pressure on civil servants' employment and terms and conditions has reached boiling point demonstrably in the current dispute over changes to the compensation scheme, while financial pressures on the National Health Service are already impacting upon patient services according to a recent survey by the think-tank Civitas[2] which suggests that Primary Care Trusts are reducing health care provision due to costs running £130m over budget this year alone.

The role of the public sector in the Northern Region, both in terms of direct employment and demand for public services, is particularly critical and this does mean that reductions in public spend impact relatively more dramatically than in other regions. Some of the current pressure points are highlighted below, emphasising that the potential cost to the regional economy is already dramatic, the impact on the fragile recovery is likely to be substantial, risking long-term harm to a region that has never fully recovered from previous economic shocks.

Although the major political parties have made public pledges not to cut the NHS, all Trusts need to save 20 per cent out of their budgets over the next four years as part of a national requirement to reduce costs. While no job losses or service cuts have been announced, most Trusts in the region have started discussions with trade union representatives on how these savings can be made without affecting frontline services; an aspiration trade union representatives believe to be virtually impossible.How these pressures are manifesting in the North East is already raising serious concerns within the health sector in the region. The North East Ambulance Service is looking to save £4 million, a reduction in spending that is almost certain to result in fewer ambulances and crews, exposing patients to increased risks.

Northumbria Healthcare Trust is under pressure to make a massive £60 million saving required over the next 4 years and Mental Health Trusts in both Northumberland Tyne and Wear and Tees Esk and Wear Valley have already resorted to outsourcing to the private sector for some services in order to make savings, somewhat undermining the Secretary of State's aspirations for 'in-house' services to be the preferred option.

Local government is the major employer of public service workers in the North East, employing close to 120,000 workers, and is a major procurer of services from the private sector. Collectively, local authorities in the North East are facing a massive budget shortfall of over £120 million for the next financial year and predictions of even more severe financial restrictions in 2011/12.

Unison, GMB and Unite report all Local Authorities are planning job cuts, the scale of job losses could reach an unprecedented scale in 2011 with predicted budget reductions of over £250m over the next two years. Northumberland has only just agreed a budget after much dispute with the Labour Group but has already cut over 800 jobs and has plans for a further 300 job losses, Newcastle have reduced their employment levels by 500 and South Tyneside are currently losing 350 jobs.

[2] *The Impact of the NHS Market, Civitas, 2010*

Elsewhere across the north east too, councils are also looking to cut spending to achieve government efficiency targets over a 3 year period: Sunderland is looking to achieve £3.98m this year (£35m over five years) and looking to shift backroom staff to front-line services. Gateshead's projected savings will be in the region of £50-60m over 3 years and 60 jobs in Home Care are already predicted to go. In North Tyneside the Tory-controlled council has cut £126m from the council budget over a five-year period with £21m of that in 2010/2011. The new Durham unitary authority is planning to reduce its budget by £60m over the 3 years to 2013 with a 2% cut this year and while unions have been told that there will be no cuts to frontline staff, the impact on staff of on-going Service Improvement Plans and the LGR-related changes remains to be seen. In the south of the region Hartlepool's £7m deficit is predicted to lead to 90 job losses over 3 years with over 20 already notified. Middlesbrough is looking at £6.8m of cuts though as yet the precise impact on jobs is unknown; Redcar & Cleveland are looking at £3.2m reduction with a potential loss of up to 140 posts and Stockton are looking at cuts of £18-19m with the impact on jobs and services as yet unknown. Darlington's £3.5m budget shortfall is expected to lead to the loss of 59 jobs.

Job Losses and Spending Cuts, Local Government 2010

AUTHORITY	2010/11 BUDGET SHORTFALL	JOB LOSSES
City of Sunderland	£3.98 million	Unknown
Darlington	£3.5 million	59
Durham	2%	Unknown
Gateshead	£50-60m over 3 years	60 in Homecare
Hartlepool	£7 million	90 (over 3 years)
Middlesbrough	£6.8 million	None to date
Newcastle	£12 million	81 (68 net)
North Tyneside	No information to date	
Northumberland	£30 million	242
Redcar and Cleveland	£3.2 million	Potential 140
South Tyneside	£10 million	350
Stockton	£18-19 million	Not known

Unison report growing anger at Cleveland Police' decision to outsource its entire back-office functions, affecting up to 500 police civilian staff working for the force. UNISON is campaigning to prevent the transfer even at this late stage, arguing that it is essential that back-office functions should continue to be fully integrated with front-line police services.

In addition to these job losses all services are increasingly subject to market-testing, privatisation and cuts. On top of all of this, local government employers are seeking to impose this year a real terms pay cut for some of the lowest paid and most popular public servants in the country.

No local authority area will be able to escape extremely difficult choices between job cuts, service reductions, council tax rises and attempts to balance the books. In many parts of the region Local Government is not just the key employer, local authority services are central to community life. The combination of job cuts and service reductions could have a devastating impact on the socio-economic wellbeing of entire communities.

In the Northern Region there are 33,000 workers in the Civil Service, with around 3,000 jobs having already been lost in this sector in the past five years in government attempts to force efficiency savings and reduce the size of the civil service.

Those seeking to slash Civil Service jobs have portrayed these workers as 'bowler-hatted Sir Humphreys' in pin-striped suits with clipped accents. In reality these are dedicated public service workers, the majority of whom are in-fact women, providing advice and guidance on pensions, enabling people back into work, supplying citizens with passports, tackling people-traffickers on our borders and earning far from glamourous wages - one in five civil service workers earn less than £15,000 per year.

Defining the current Pressure Points

Future closures include both Sunderland HMRC offices, one in Washington and two offices in Middlesbrough. HMRC have announced a huge 10 per cent job cuts target on processing in 2010, and 10-15 per cent in the customer contact centres. Many of these are likely to be fixed term appointment staff who will have no entitlement to redundancy pay. There are also real concerns for staff working in the Regional Development Agency, as the Conservatives appear dead set on closing these organisations despite overwhelming support for One NorthEast from all partners. Over 100 full-time equivalent jobs are also to be lost at the Rural Payments Agency in Newcastle.

As if it wasn't enough to be losing your job, on top of all of these cuts the Cabinet Office is seeking to implement dramatic changes to the civil service compensation scheme that would leave many workers tens of thousands of pounds worse off in the event of redundancy. These proposals fall well short of the best settlement that could have been achieved. However, the employer has refused to put a further offer that would have given some protection during transitional arrangements when PCS was not prepared to be coerced into giving an undertaking to recommend acceptance.

For many members this will mean that their entitlement to redundancy pay is slashed by a year's pay or even more with no access to enhanced and early payment of pensions to those over 50. There are some people who will benefit,especially those over 60 or under 35. But even the under 35s will lose out as under the present terms they would have become entitled to better terms as their age and service increased. Under the new arrangements it will not.

What this could mean for workers

For someone aged 41 who earns £24,000 and has 20 years' service, their current entitlement if made compulsorily redundant would be £72,000. Under the changes proposed by the Cabinet Office it would be capped at £60,000.

For someone aged 51 who earns £24,000 and has 20 years' service their current entitlement if made compulsorily redundant is for an enhanced lump sum of £24,000, an additional lump sum of £12,000 and an immediate payment of enhanced pension of £8,000 p.a.

Under the new terms there would be some protection possible but only if made 'compulsorily redundant' as defined by the employer and everything frozen as at March 2010. Otherwise pension and lump sum is frozen until 60 and a lump sum of 2 years pay maximum.

Someone who began work pre 1987 with reserved rights and is 46 earning £24,000 with 26 years' service is entitled to £106,000. Under the new arrangements this would reduce by 20% each year until they reach 50 and it would be capped at 2 years pay.

The Fire Brigades Union are currently challenging the belligerent decision by Government to reduce the number of Emergency Fire Control Rooms from 46 to just 9, (one in each Government Region). In the North East this will mean reducing the number of control rooms from 4 to 1, with an immediate reduction to 83 jobs from 113, with further job cuts planned later. The irony of this is that the FBU believe this will place additional costs on Fire Services and Local Authorities, fuelled by the current delays to May 2011 before these centres become operational, although it is likely that even further delays are to be announced.

An additional issue is emerging from the development of 'co-responding' with the Ambulance Service. The idea being pursued in Northumberland, essentially seeks to require the Fire and Rescue to respond to medical emergencies – a situation for which they are not equipped or trained. Further losses of fire engines and firefighters also on the cards. Cleveland Fire Service are removing 50 per cent of fire engine cover in Billingham, an area with one of the largest petrochemical industries in the UK and a storage facility 100 times the size of the largest involved in the Buncefield incident, with the loss of 22 operational firefighter posts.

The Communications Workers Union report that over 30,000 jobs have already been lost in the postal sector, 2,800 of those in the North East, although a large number of these workers have been able to move into part-time work with Royal Mail.

At the time of writing it appears the CWU have managed to reach an agreement with their employer, involving a shorter working week and increased investment in new technology to manage performance. There is still a degree of uncertainty about the Government's commitment to covering the enormous pensions deficit and there remains a large number of Employment Tribunals following the last period of dispute in which the employers were deliberately and clearly unlawfully stopping the wages of workers who refused to cross a picket line, deducting a full day's pay even if the worker refused to cross picket lines at the end of their shift.

Despite the repeated emphasis on the critical role of investing in skills and education to enable workers and the economy to recover and prosper, the University and College Union reports real financial pressures are starting to affect the availability of learning provision as Colleges and Universities receive reduced budgets for the next academic year. At the moment institutions which are announcing redundancies are Cumbria University (up to 200), Bishop Auckland College (up to 100 redundancies), Newcastle College (numbers unclear) and in the Prison Education service. What is clear is that after Easter most, if not all, Further Education colleges will be considering significant redundancies and reductions in course provision.

Representatives of over half the colleges in the region all indicated that they were currently anticipating redundancies. Many colleges are being told that they have to cut their Adult Education budget by over 20 per cent with further cuts in store for 14-19 students.

In Higher Education the biggest threat at the moment is to jobs and courses in Cumbria University. Unions have been given a notice of a possible 200 job losses and it is clear that sections of Senior

Management envisage more jobs to go. The University is intending to close its campuses in Ambleside (the former Charlotte Mason College) and in Penrith (the former Newton Rigg College). This will have a major impact on those rural communities where the University is a major employer and the withdrawal of students from the areas will further depress these towns economically, Cumbria already suffers more than most the 'brain-drain' of the most talented and youngest workers. The University of Cumbria was formed only two and a half years ago as an institution to serve the local communities, recognising that the percentage of the Cumbrian population able to access Higher Education was small. There is now likely to very soon be less Further and Higher Education provision in the County than prior to its formation.

Teesside University are facing cuts equating to 5 per cent, although there is a view this could be offset by increasing the participation of overseas students and no staffing cuts are envisaged. Sunderland and Northumbria Universities are currently under provisional review, furthermore health spending cuts are already impacting on University provision with a significant projected skills shortfall in the NHS. Sunderland College have announced a need to make savings of almost £4.5 million, cuts in staffing and services seem inevitable.

In response to this the UCU and UNISON branches are campaigning in conjunction with the NUS around a theme of "Our University, our community, our future" seeking to build the broadest alliance to protect higher education in the county.

The impact of Public Sector spending cuts in the Northern Region

It is the case that those areas and nations with relatively large public sectors have fared better during the recession and downturn than those without and there are increasing concerns that reducing public spending, reducing the deficit before economic growth kicks in, could seriously exacerbate the impact of the recession.

The public sector provides an important social and economic anchor for most communities, as individuals, businesses and other organisations all look to public services for support during and after the recession.

The North East already has high levels of unemployment and endures the highest levels of child poverty outside London, the economic downturn and the reaction to it risks the livelihoods of many and threatens to further entrench social inequalities in Britain. The clamour to balance budgets by cutting back on vital public services and protections just as they are needed most must be resisted.

Unemployment costs the Treasury around £8,000 per unemployed person per year, while long periods of unemployment reduce lifetime earnings by around 10–12 per cent, since many individuals resume work in low-paid jobs with less secure tenure. This has a significant impact on the kind of society, as well as the type of economy, we enjoy. Unemployment and poverty also have a cost to the public purse in terms of social breakdown, crime, education, housing, family problems, health inequalities, damaged life chances and aspirations, educational attainment and community cohesion.

Every job lost in the public sector loses a salary spent mainly locally and adds the cost of unemployment and other benefits; Compass have estimated the total saving to the Treasury to be less than £2000[3], much less than is spent in the local economy. Lessons must be learned from previous recessions in the UK, which show that unemployment can double the risk of premature death within 10 years. The current recession is already leading to increased physical and mental ill-health, suicide and premature deaths and recessions exacerbate social inequalities. Unequal societies are bad for almost everyone within them, including the well-off as well as the poor.

Maintaining public services is more necessary than ever to minimise both the social and economic impact of the recession for generations to come. As Professor Colin Talbot, of Manchester University Business School and Member of the Treasury Select Committee noted,

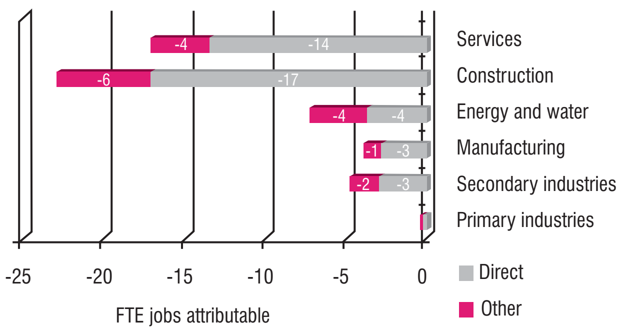
> “The public sector helps us be a civilised society. In order to deal with short-term financial crisis we end up cutting things that do long-term damage to society...there is a real danger that the combination of big cuts in the public sector mean inequalities could get even worse when we are pretty low down the international league table already. That is not a bleeding heart argument; it costs to have people unemployed and locked up. There is a real danger that we end up repeating what happened in the 1980s when a whole generation was unemployed long term.”

[3] *Compass, In place of cuts, 2009*

In addition to the relatively obvious and direct impact of public sector spending cuts there is a clear, if slightly less apparent, impact on the region’s economy from reduced public spending in the private sector.

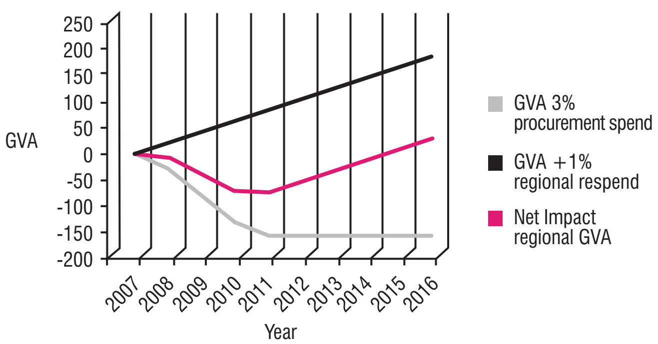
The already battered construction sector could see a shrinkage of over 20 per cent of its share of the region's GVA with other services falling by almost 20 per cent and manufacturing, clearly identified as a key 'recovery' sector facing a further significant reduction.

Cumulative net impact on GVA



The potential for a double-dip recession in the North East from drastic public spending cuts is a real and imminent risk for policy-makers.

Comparison net impact on GVA 3% x 3 years reduction in public procurement versus 1% annual increase in respend



In addition to these immediate impacts of declining employment and the knock-on-effect in the broader economy, it is also the case that much of the region's progress in key areas of social policy are dramatically threatened by a reduction in public spending.

The North East has been a beneficiary in increased spending in health care. The last ten years has seen investment in health increase from 5.4 per cent of GDP in 1997/8 to 7.3 per cent, with spending per capita in the North East growing dramatically. The outcomes from this investment have not been negligible, 21 of 23 health trusts have been rated 'good' or 'excellent' for quality of service and 17 got the same rating for use of resources.

In that period we have seen life expectancy increase, mortality rates fall, teenage pregnancy fall, smoking cessation increase, the health and wellbeing of the region is now centre stage of both economic and social progress. The North East has been at the bottom of health league tables, but things have started to change dramatically for the better; reduction in public spending in this area would clearly threaten continued progress and could see the health and wellbeing of citizens in the region become worse again fuelled by the double-whammy of increased need caused by the recession and increase in unemployment and reduced supply caused by budget constraints.

The North East especially has carried the burden of high levels of structural unemployment and economic inactivity and, as such, has rightly received relatively high levels of government spending per head on employment policies and social protection. Prior to the recession this investment was delivering significant improvements for the people of the region, the unemployment rate fell from over 9 per cent in 1997 to below 6 per cent in 2005, with the claimant count halving from 6 per cent in 1997 to 3 per cent in 2006, with all of the economic and social advantages that this brings.

It is guaranteed that demand for these areas of public spending are likely to continue for some time. The government have made a strong commitment to investing in employment support for young workers and those in deprived areas especially, the Future Jobs Fund element of the Young Person’s Guarantee has been especially

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welcomed by trade unions and provides significant opportunities for around 100,000 young people.

The Conservatives have threatened to scrap this support.

It is right that the government continue to support those in most need and focus significant resource on young workers to avoid the 'lost generation' that emerged following the last recession. It is clear, however, that the tail of unemployment that will follow last year's recession will be long and painful for many families and communities throughout the northern region, across all age ranges.

The unemployment rate has shot back up to 9 per cent a lot quicker than it fell from that figure. The need for focused, targeted and effective investment in employability support is critical to halt the already apparent growth in long-term unemployment, to equip workers with the skills and competencies to thrive in the new economy and to enable potential employers to be able to expand into future economic opportunities with a skilled and committed workforce.

Now would be precisely the wrong time to reduce spending in these areas and condemn families and communities to long-term depravation and poverty.

The move to Regional Fire Control Centres, with a consequent cut in excess of 25% of Emergency Fire Control staff answering same number of emergency calls can only equate to delays in handling emergency calls compared to current standards. The move to a single Regional Control Centre, rather than making public spending savings, will actually cost Local Authorities over £600,000 per year more than the current system of four local Brigade Emergency Fire Control Rooms. Local fire calls could be handled by operators as far away as Taunton, Somerset, some 335 miles from Newcastle.

The ‘Co-responding’ proposals by Fire Services to respond to medical emergencies and meet ambulance service response times will clearly affect quality of service as well as employment. Firefighters are not trained to deal with medical emergencies to the standard of ambulance crews, the public rightly have an expectation to receive a suitable standard of response to medical emergencies, this means appropriately trained paramedics on properly resourced vehicles designed for the task.

Public spending cuts in response to the economic crisis could quite simply lead to increased risks for the whole community. In areas of higher social depravation it is a fact that the community are at greater risk from incidents of fire. In communities suffering higher levels of unemployment we witness more fire incidents, these are precisely the areas where Fire Service cuts are likely to bite the hardest. Where households are having to make financial cutbacks, insurance cover is often one of the first items to be cut meaning if a fire does occur the loss is even greater.

A further, perhaps so far unpredicted, outcome of public sector job cuts is the impact upon equality in the labour market, especially in the north east. Women’s employment has grown dramatically in the last 40 years, rising from just over nine million in the 1970s to over 13.5 million today, the employment rate growing to just under 70 per cent today from 56 per cent in that period.

Much of this expansion has been in the public sector where, in September 2009, there were 5.7 million women employed compared to under 2.5 million men. Clearly, any public sector jobs cuts will fall disproportionately on women, affecting their employment directly, but also impacting on inequality in retirement as women in the public sector are much more likely to be in a decent pension scheme than women in the private sector.

This disproportionality is particularly acute in the north east, where on top of already high levels of male unemployment, the public sector proportion of women in work is 46 per cent, compared to 18 per cent for of male employment in the region.[4]

[4] *Women and recession: one year on, TUC, 2010*

Exploding the myths surrounding privatisation

While the recession places increased demand on local public services, they are also under mounting pressure to make savings and become more efficient. One suggestion often put forward to tackle the country's growing debt problem is to outsource or privatise our public services.

This chapter examines this proposition and attempts to explode some of the myths and misconceptions about privatisation to show that it would cause more problems than solutions.

MYTH NUMBER 1:

During the economic downturn, the best way to save money is to privatise public services.

In reality, public money is best kept within the public sector during the downturn.

For every pound of public spending in a local area, this generates an additional 64p. Outsourcing and Public Private Partnerships – often undertaken with large multinational companies – take money out of areas when local economies and communities most need to be supported. Public spending has a stabilising effect, particularly during a recession; privatisation would only undermine this.

MYTH NUMBER 2:

The private sector costs less than the public sector and is more efficient.

In reality, there is no evidence that the private sector is more efficient than the public sector.

Outsourced services are concentrated in a few large firms which dominate the industry and have proved able to earn large profits. PFI projects often go far over budget while contracts are inflexible, binding the public sector into contracts for buildings and services which often later prove unfit for purpose. PPPs and outsourcing are too often the cause of a downward pressure on staff terms and conditions, the fragmentation of services and a divisive effect on public sector ethos.

MYTH NUMBER 3:

Competition is the best way to improve public services.

In reality, public services are too important to compete on price.

Public services reduce inequality, promote economic, social, and environmental security. Competition merely leads to a race to the bottom, with providers racing to compete on costs to the detriment of service quality. Competition leads to the fragmentation of services and increased transaction costs, linked to making and monitoring contracts, accounting, auditing, legal services, advertising and shareholders' profits.

MYTH NUMBER 4:

The private sector is more responsive to service users' individual needs.

In reality, only the public sector can respond to society's collective needs.

Public services must be subject to democratic accountability and transparency. Privatisation erodes this accountability and treats vital services merely as contracts to be bundled up and sold off.

MYTH NUMBER 5:

The public sector has a worse productivity record than the private sector. In reality, public services create public value – but this is hard to measure.

In reality it is notoriously difficult to measure public sector productivity and even harder to compare it to the private sector.

An increased class size might appear to show a teacher working more productively, but it is doubtful this would improve the quality

Exploding the myths surrounding privatisation

of education. Private sector productivity can be assessed by looking at the balance sheet. In the public sector, it is more about public value, with services that respond to the needs of citizens, that are sustainable, provide long-term value for money and are trusted by citizens.

MYTH NUMBER 6:

"Back-office" functions can be outsourced without impacting on the front-line.

In reality, support functions are just as important as the front-line.

Without "back office function", frontline workers would not be able to do their job. The NHS would not be able to survive without the people who book appointments, analyse blood tests, process X-rays or make sure staff get their wages on time. A false division is being created between front-line and support services which is fragmenting and damaging vital public services.

Exploding privatisation myths

The report by insurers Zurich[5] into outsourcing indeed warns against the risk of the outsourcing market consolidating and becoming dominated by a few large providers. It says: 'Big is not always beautiful and can bring risks in itself...co-operation between authorities can in effect force a monolithic market place of suppliers that may give short-term gains but close down future opportunities to spread risk.'

PFI contracts are notoriously inflexible, limiting the ability of public sector bodies to strategically plan for the future as they are contractually bound to pay for a building and a pattern of service provision which could later prove inappropriate and unfit for purpose.

Despite the claims that risk is supposedly transferred from the public to the private sector, experience shows that governments remain accountable to deliver services regardless of how well the PFI project or company fares.

[5] *Zurich Municipal, Public sector supply chain: risks, myths and opportunities, 2009*

The attacks on Public Sector Pensions

Headlines about public sector pensions seem to have been appearing on a daily basis ever since the credit crunch started to bite. Attacks on pensions have been made by the Conservative Party, the Liberal Democrats and the CBI, alongside various newspaper and internet commentators.

These attacks say that public sector workers are unfairly rewarded and benefiting from "gold-plated" pay and pensions. They rightly identify a growing gap between public and private sector pensions caused by the employer retreat from decent pensions in the private sector, but wrongly conclude that the answer is to level down public sector pensions. They say that public sector workers should "share the pain" and that public sector pensions should be cut to the level of the private sector. Unions defend public sector pensions but not as a special case. Trade Unions want to see everyone at work able to look forward to a decent pension when they retire.

In this section we seek to challenge some of the rhetoric espoused around public sector pensions, to expose some of the myths and to forward a more honest appraisal of the reality of public sector pension provision.

MYTH NUMBER 1:

The cost of public sector pensions is spiralling out of control.

In reality, costs are set to increase somewhat (as are all pensions costs), but not by an unsustainable amount.

Many attacks on public sector pensions give a huge number for the cost of future liabilities. But they rarely explain what this means. Public sector pension liabilities go a long way into the future. Young people at work today building up a public sector pension could well live for another eighty years. If you estimate the costs of all public sector pensions for decades into the future and then present it as a bill that has to be paid immediately, then it is hardly surprising that you end up with a frighteningly big number.

The liability to pay public sector pensions is stretched over many, many years – from now until the last existing public sector employees dies. So the proportion of present GDP, as it is often presented, represented by pension liabilities is barely relevant. The Treasury does, however, produce estimates of the cost of paying public sector pensions as a proportion of GDP (not taking into account contributions). They show an increase from 1.5 per cent of GDP to 2 per cent by 2027-28. After this projections show a slight decline in the proportion of GDP taken up by public sector pensions.

It is not surprising that there is some cost increase in the next few decades as we live in an ageing society. Either the cost of pensions will increase or many more pensioners will live in poverty. But public sector pensions take up a much smaller share of GDP than state pensions and long term care – also both set to increase in the face of longer lives and long-term care - both set to increase as people live longer.

The second claim made is that the cost of public service pensions is "out of control". This is simply not the case. Not only is the share of public sector pensions in the country's wealth less than 2 per cent of GDP every year in the Treasury's projections, the changes negotiated in many unfunded schemes caps employer costs with employees picking up the bill if people live longer than expected and pension costs rise more than expected.

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Another way of looking at the cost of pensions is known as the “net public service pensions”. It is the difference between benefits paid out to today’s pensioners from unfunded schemes and current contributions paid by current staff. In the current financial year this is estimated to be £4.1bn or about 0.3 per cent of GDP. This is eminently affordable, but the figure can change a lot from year to year. This is not because of bad planning or anything being "out of control" – simply because it is the difference between two much bigger numbers that are not linked to each in the short term.

These big numbers are:

- **the costs of pensions paid out each year – and pension levels are linked to the cost of living; and**
- **the total contributions paid by staff and employers in the public sector, which is linked to the numbers of staff and the year's pay settlement.**

Over time earnings tend to go up more than prices so this will tend to reduce the net cost of pensions. But there can be sharp variations from year to year – particularly as pay in the public sector is often held back by politicians and then catches up once the damage done to recruitment and retention needs to be mended. In 2009/10, for example, the increase in the cost of benefits will be determined largely by the 5 per cent increase in the cost of living (RPI) in September 2008. But the increase in contribution income will be determined largely by the size of pay increases in the public sector during 2009/10. So when politicians freeze or hold public sector pay below inflation it has the odd effect of appearing to make pensions more expensive, even though those extra costs are more than met by reduced expenditure on the wider wage bill.

Pension Reforms

The Government and trade unions have negotiated various reforms to public sector schemes in recent years. The reforms were made mostly in response to higher demands from increased life expectancy, with schemes now sharing the risk of members living longer. Most public sector pension schemes have increased the normal pension age from 60 to 65 for new entrants, in line with most private sector schemes.

Nurses, teachers and local government employees are now paying more on average towards their pensions than before the reforms. This agreement resulted in an initial increase in member contributions of 0.5 per cent on average with possible further rises when valuations take place every 3 or 4 years. New cost-sharing arrangements were put in place that mean that if higher pension benefits are paid or if life expectancy continues to rise more quickly than expected, the resulting cost will fall mainly on public sector scheme members rather than on the taxpayer. The Pension Policy Institute[6] has estimated the reforms have reduced the immediate cost of benefits by 12.5 per cent and the Government expects the reforms to result in savings of around £13bn on the NHS, teachers’ and civil service schemes, spread over a 50-year period.

MYTH NUMBER 2:

Savings could be made by replacing final salary (defined benefits) schemes by a defined contribution scheme.

In reality scrapping defined benefit pensions would mean increased public spending on public sector pensions in the short and medium term.

The Conservative Party has proposed replacing defined benefit schemes with defined contribution schemes in order to save costs. In defined contribution (DC) schemes (also known as money purchase schemes) the pension payment depends on the value of the investment in the individual’s pension pot upon retirement. Most public sector pensions are final salary schemes (also known as defined benefits schemes) which guarantee a pension based on the number of years worked for the organisation and the final salary upon leaving. If new or existing staff were switched to DC schemes, then spending on pensions would increase. This is because most of the cost of paying pensions at any time is covered by using the contributions paid by or on behalf of current employees.

[6] *Pension Policy Institute (2008) An assessment of the Government’s reforms to public sector pensions*

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If those contributions are instead paid into members' own DC pots then they could not be used to pay for the pensions of already retired public employees. In other words tax payers would be paying at the same time for the pensions of those who have already retired and to build up funds to pay pensions in the future for staff currently working – a double whammy.

If the quality of public sector pensions is substantially reduced this could also lead to many retired public employees becoming reliant on means tested benefits. This is because many public sector employees are low paid workers, already on quite low pensions. Increased spending on means test benefits would offset some of any saving on pension contributions in the longer term.

MYTH NUMBER 3:

The discrepancy between private and public sector pensions needs to be tackled by punishing the public sector.

In reality we should level up pensions – not level them down

Many justify attacks on public sector pensions by the decline in the number and quality of private sector defined benefit pension schemes. Around 85 per cent of public sector employees are members of an employer-sponsored pension scheme, most of whom have a Defined Benefit scheme. However, in the private sector 40 per cent of employees are members of an employer-sponsored pension scheme but only 15 per cent of employees are active members of a Defined Benefit scheme.

Private sector employees have been hit hard by the employer retreat from good pensions. But this does not justify punishing public sector workers; two wrongs do not make a right. Public sector pensions support lower-paid members of the workforce. Well-paid private sector employees are likely to get a decent pension on top of their pay. The real difference between public and private sectors is among the low and average paid. The attack on public sector pensions may be wrapped up in rhetoric about fat-cat public

servants, but it is really an attack on the low paid in the public sector. Only 20 per cent of private sector employees who earn between £100 and £200 a week are members of an employer-sponsored pension scheme whereas 70 per cent of public sector employees in the same pay range are pension scheme members. The recent economic turmoil has had a huge impact on private sector DB and DC schemes. Savers in DC schemes have seen the value of pension pots plummet, while the private employer sponsors of DB schemes now have to make up the deficits. Unfunded public sector schemes have not been hit by market turbulence. Tax payers have not suddenly had to find funds to make up scheme deficits, and government can plan for the future funding of public sector pensions.

Private sector schemes need to be funded because there can be no guarantee that the sponsoring employer will still be around when staff retire. Public sector employers, i.e. the state, will exist in perpetuity and, as in other countries such as the USA, we tend to have unfunded pensions for central government functions such as

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health and the armed forces but funded schemes in local government. To protect future pensions, private sector schemes (and funded public sector schemes) are regulated to ensure they have sufficient funds to meet their future commitments, but this tends to be on a cautious basis and deal with stock market volatility thus pushing up private sector pension costs. Funded public sector schemes can plot a more stable long term course. All schemes have to deal with issues such as increased life expectancy. The public sector has done this with the cost-sharing agreements backed up with a ceiling on employer costs described above.

As public sector schemes operate on a sustainable basis and employer contributions are capped, there is no financial justification to reduce benefit levels simply because employers have savaged private sector schemes.

Just how generous are public sector pensions?

Five million employees working in the public sector qualify for pensions, including 1.3m in the NHS, 1.6m in local government, 600,000 teachers, 600,000 civil servants, 200,000 in the Armed Forces, 150,000 police officers and 50,000 fire-fighters.

The mean average public sector pension is £7,000 but the majority of public sector pensioners have pensions of less than £5,000.

The value of the main schemes in the public sector for new entrants are similar to a medium private sector final salary, at around 21 per cent to 24 per cent of salary on average.

MYTH NUMBER 4:

Most public sector workers retire at 60 on two thirds of their final salary.

In reality the majority of workers joining public sector pension schemes will retire and claim their pension at the age of 65.

Many reports about pensions would lead you to believe that most public sector workers retire at the age of 60 on two-thirds salary, but in fact this only applies to the very few people who work in public service for forty years or more. The pension age for many public sector workers has always been 65 and this now applies to most new joiners. The average pension in Local Government is around just £4,000 per year, and just £2,000 for women while in the Civil Service the average is £6,500. The average pension for a female NHS worker is £5,000 but the median pension for women is much less. In fact half of all women pensioners who have worked in the NHS get a pension of less than £3,500 per year.

MYTH NUMBER 5:

It is unfair that public sector workers benefit from “gold plated” pensions..

In reality the private sector is the real culprit for unfairness.

The real inequality exists in the private sector, where highly paid executives receive the real gold-plated pensions. The TUC’s 2008 Pensions Watch study of 346 directors from 102 of the UK's top companies found that they are set to earn a yearly pension of £201,7003. This is 25 times the average workplace pension that ordinary workers receive (£8,100). The study also revealed that the most senior directors of these firms had average pension funds of £5.2m, with an annual pension forecast of £333,400. In reality, most directors of the UK’s largest private sector companies can look forward to retiring on a full pension at age 60, accrued on generous terms in a final salary scheme.

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MYTH NUMBER 6:

The Private Sector props up the Public Sector.

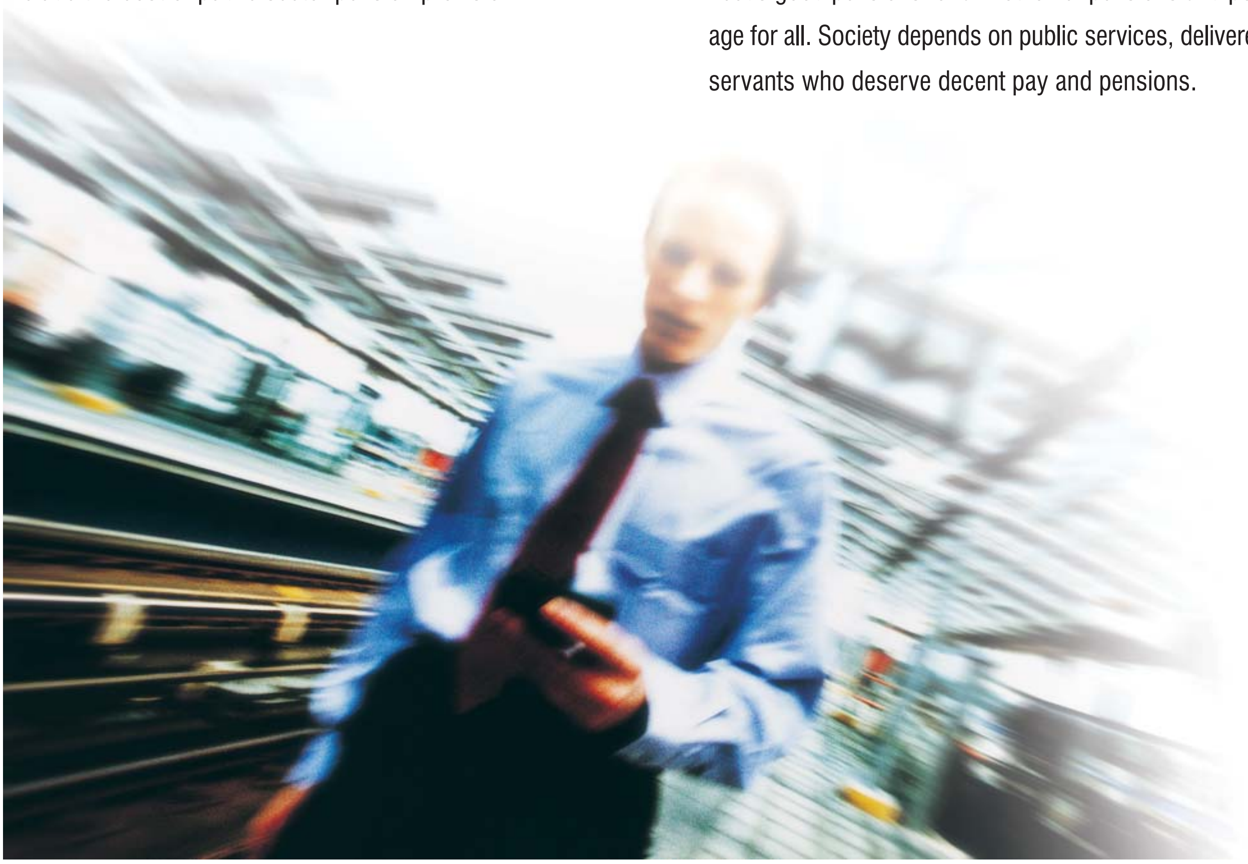
In reality the UK economy depends on a thriving public sector as well as private sector.

It is not a one-way street, but a complex relationship. Public sector workers and employers pay for the vast majority of pensions in payment through contributions. But without an effective public sector, the private sector would be far less productive. It directly benefits from the public sector through transport and information infrastructure and an educated workforce, whose social, health and welfare needs are attended to by the public sector.

It is also the case that all workers pay for everyone's retirement income in one way or another. Private sector pensions are paid for through the price of goods and services, much like tax levels include the cost of public sector pension provision.

In short, the private sector could not function without the public sector and vice versa. The public sector contributes significantly to GDP and it is entirely unfair to suggest that the public sector is any way a drain on the private sector. Public sector pension schemes also play an important economic role in other ways. For example, funded public pension funds provide billions of pounds worth of investment in the UK economy. Pensions are also an important element of the remuneration package and an essential recruitment and retention tool to attract people to deliver our vital public services. In addition, they play an important role in ensuring individuals have a reasonable income in retirement.

The recent attacks on public sector pensions have used the economic crisis as excuse to attack pensions. The key issue about pensions should be ensuring every worker has access to a decent pension scheme; about levelling up not down. Public sector pension schemes are good quality and this should be applauded. The UK needs good pensions for all not lower pensions and poverty in old age for all. Society depends on public services, delivered by public servants who deserve decent pay and pensions.



Aspirations for Public Services

This pamphlet presents a clear challenge to the rhetoric that suggests the only answer to the current economic crisis is cutting public spending and attacking public sector workers. It is evident that this will risk the onset of a double-dip recession, setting the whole economy even further back with devastating effects on employment for generations.

In addition, it is apparent that there are consequential and severe impacts upon broader social factors, poverty, health and wellbeing, crime and disorder all run the risk of deterioration from a knee-jerk reaction to the current economic predicament.

This final chapter sets out trade union aspirations for public services, indeed, aspirations for a good society.

Underpinning these ambitions is a demand for the continuation of decent pay and conditions, including decent pensions for all workers. The public sector does offer a relatively reasonable settlement for the commitment and service that public service workers provide, but those at the lowest end of the pay scales still live in poverty, still need in-work benefits to get by and endure the side-effects of low paid life. The public sector should be at the heart of the demand for a living wage, for its own employees and all those organisations who contract with it.

The public sector can and should be beacon employers, providing the right kind of investment in workers to enable them to progress to their full potential and to enjoy a decent quality of life, investment in skills and learning, flexible and fully family friendly working and examplars in equality and diversity and opportunities for economic inclusion.

These indicators of good quality employment, of course, demand full engagement with and an appreciation of the valuable role of trade unions at all levels in the organisation.

Beyond terms and conditions we call for an end to privatisation and the promotion of market solutions, suggesting institutions at all levels of government instead favouring public sector investment in in-house provision of services. There is much evidence to show this is not only the most effective method for retaining democratic control of public services, it is also the only way to maintain the public service ethos which delivers high levels of satisfaction and is demonstrably as cost-effective and productive as private sector propositions.

The pressure on health service budgets is already impacting on patient care, the NHS remains a jewel in the crown of the UK, the envy of many countries all around the world. All citizens, with the exception of those who choose to purchase their health care from the private sector, value national health services extremely highly and demand a properly funded, publicly provided health service.

Second comes the demand for excellent schools, within the state sector, for all children with properly rewarded teachers and support staff, with affordable childcare for all who need it.

Universal and affordable care for the elderly and vulnerable is a deal yet to be done. While politicians wrangle it remains clear that the current arrangements are woefully inadequate and demand a clear and sustainable public sector solution.

The uncertainty facing Colleges and Universities in the region is wholly unacceptable. Further and Higher Education provision is a cornerstone of progressive societies, enabling people to prosper and develop to their full potential. Investment and support for further, higher and adult education is key feature of public services for life.

For the first time in a generation Local Authorities are beginning again to invest in new build council housing. This is helping to provide much needed employment in the construction sector, in the longer term this must expand to meet the demand for affordable social housing and trade unions call for a mass revival of council house building.

This is not an unaffordable wishlist. These measures must be supported by a much fairer taxation system. Those who have benefitted tremendously in the boom years must now pay their way. The government has also made some progress in closing tax loopholes and tackling tax avoidance, the UK loses up to an estimated £25bn a year through tax avoidance and evasion.

Instead of making workers in HMRC redundant it should be employing more workers to ensure that those failing or avoiding paying tax are pursued and pay their dues. A restructuring of tax and a crackdown on avoidance and evasion is necessary to restore financial stability and to start to address the gap between the rich and poor.

Establishing a Post Office People's Bank provides a clear and practical opportunity for both government-backed banking and a successful sustainable Post Office network. The British public is fed-up with privatisation and free-marketeering. With deposits in the Post Office and National Savings and Investments soaring, there is clear demand for government-backed banking.

The underlying irony here is that the Post Office used to have Girobank, which was sold off to Alliance and Leicester and has in

The failure in the banking system could provide the perfect opportunity to strengthen the Post Office network, revitalising it as the shop front for both government (central, devolved and local) and mail services. A more immediate concern is the future of the Post Office Card Account (POCA), which is used by some of the most financially vulnerable in society and provides crucial income and stability to the Post Office network.

Currently out to tender, this core service cannot be allowed to fall into private hands regardless of how competitive the tender may be. The CWU has written to the Secretary of State for Work and

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Pensions, urging an to end the uncertainty of POCA's future. If the Post Office does not win this vital contract then thousands of further closures are predicted across the country. This is a scenario that neither communities nor the government can afford. At the same time, there is an opportunity to respond to current needs by extending Post Office banking capabilities which will strengthen the network.

A vibrant Post Office network must be fully integrated with a modern state-owned mail industry. The CWU opposes any break-up of Royal Mail and its subsidiary Post Office Ltd and wants to see them invested in as key institutions. There is a fundamental interdependence between Royal Mail and the Post Office which governs each of their success. Royal Mail needs the Post Office network to meet its universal service obligation and POL remains dependent on the provision of Royal Mail products for a large proportion of its income.

Joined-up government thinking is needed between the Departments for Business Enterprise and Regulatory Reform and Work and Pensions. The heads of these departments, Peter Mandelson and Yvette Cooper, must have a united sustainable vision for the future of the Post Office network for a solution to work. In addition to the extension of the £150 million social network payment beyond 2011, also it should help fund urban deprived as well as rural Post Offices.

The mail industry is experiencing unfair competition which has brought no benefits to domestic or small business customers. Richard Hooper s report on the UK postal services sector is soon to be published. The CWU is concerned that this will pose a further threat of privatisation to Royal Mail. The post is an area of public and economic interest which must not be undermined by neo-liberal ambitions of chairmen like Allan Leighton.

With the decision on the future of the Post Office card account and publication of the Hooper report due imminently, the mail industry faces many uncertainties. It is well within the government s power to answer the demand for secure banking, not just through bank bail-outs, but taking the opportunity to use the Post Office to its full potential and backing a People's Bank.

The government's Digital Britain plans must go further to maximise the social and economic benefits of digital networks, and the CWU is calling for:

- The universal broadband commitment to be strengthened under a legally binding universal service obligation
- Roll out of next generation broadband networks to all UK homes by 2017 to help close the digital divide and ensure all citizens and consumers can benefit from high speed broadband
- The Next Generation Access fund to be supported by mobile telephone operators as well as fixed line operators, to spread the burden more fairly across industry and consumers
- Exemption from the 50p per month broadband levy for low income users, many of whom will need support and encouragement to take up broadband
- Broadband applications and equipment to be accessible to all citizens and consumers, including those with disabilities
- A level playing field for competition in the pay TV market to encourage more choice, lower prices and greater innovation
- A legal requirement for telecommunications employers to provide workforce training, which is critical to the delivery of a successful Digital Britain
- Swift implementation of all of the above into legislation to help secure jobs and growth

Furthermore, attempts to cut the provision of Post Offices are a crass and brutal way to disadvantage vulnerable members of society. Whether you're old or young, unemployed or working, own a car or don't, Post Offices are a lifeline in the community.

Rather than seeking to close them down, the Goverment should be seeking to build on the Post Office network, increasing their sustainability by making them locations for a People's Bank, providing excellent services at the heart of the community.

In times of hardship, public sector workers provide vital services to those most in need. Civil servants administer benefits to people made redundant as a result of the recession, and in economically deprived areas where jobs are scarce. Large numbers of people rely on these services to make ends meet. Importantly, civil servants working for Job Centre Plus also provide retraining where large scale redundancies occur, such as on Teesside where Corus is set to close. Jobcentre Plus advisors provide advice and guidance to help lone parents back into work Revenue and Customs staff also pay Tax Credits, which are relied upon by a disproportionate number of people in Northern region because of social deprivation and low pay.

The new Independent Safeguarding Authority, based in Darlington, ensures that those working with children and vulnerable adults are properly vetted, reducing the risk of abuse. Civil servants working in our ports ensure the security of the region's borders.

Alongside other public sector workers, civil servants are therefore central to the economic regeneration of our region, and provide a lifeline for those faced with poverty.

There is no evidence that suggests that these services are better provided by the private sector. In fact, the total absence of profit motive or shareholder dividends in the public sector means that such services can be focussed on those in most need.

> "These are key measures to provide decent benefits for those who need them and universal public services for all. Public services before private profit is a modern, civilised mantra for a good society.
>
> **One we can all speak up for.**"

Speaking up for Public Services

Making the case in the Northern Region

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