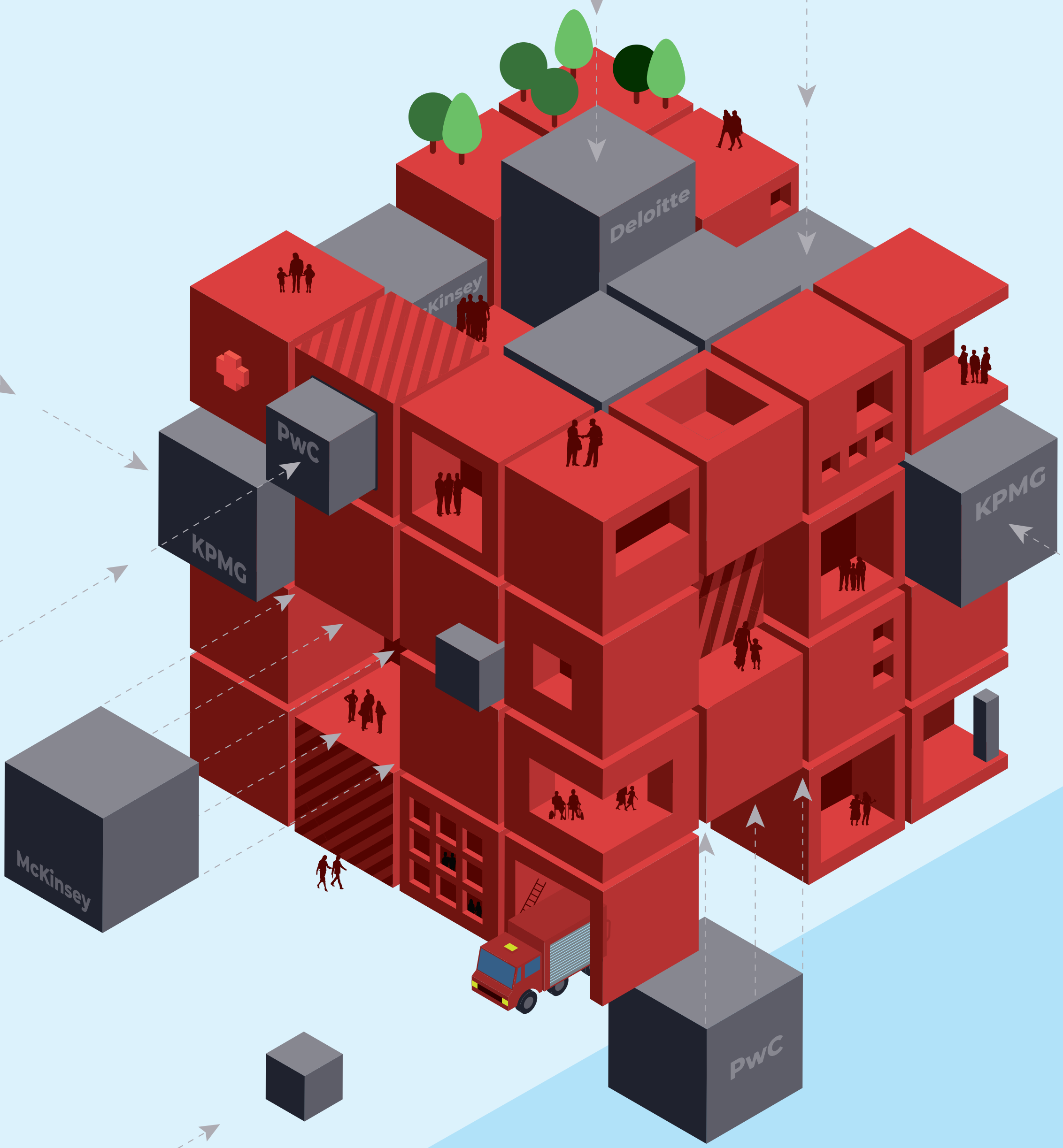

Hollowed out:

The growing impact of consultancies in public administrations

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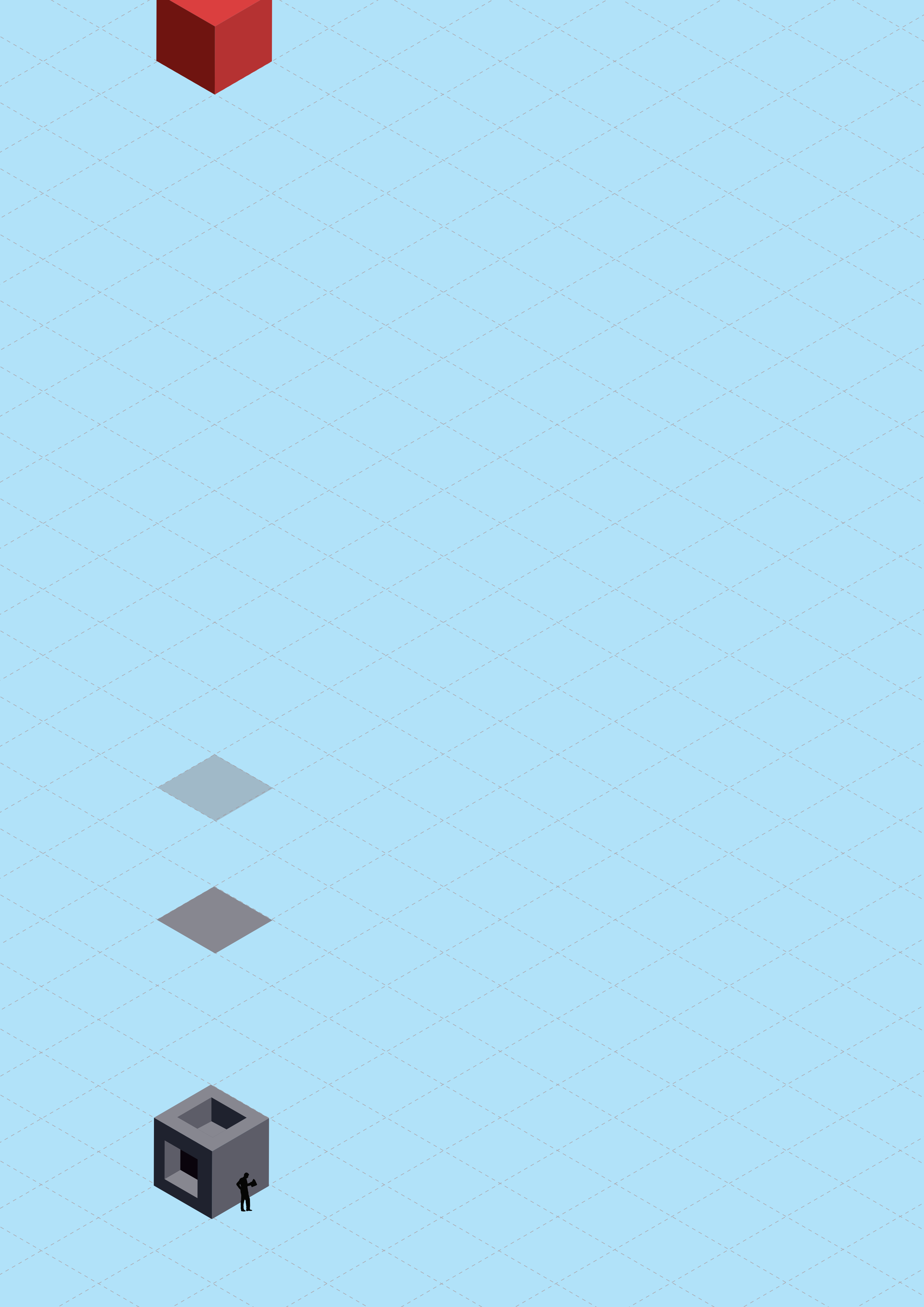
EUROPEAN PUBLIC SERVICE UNION



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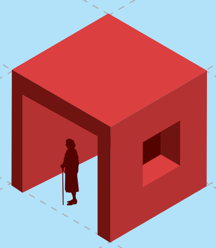


Preface

The fight against privatisation is at the heart of EPSU's work. The form - be it contracting out or subcontracting, public-private partnerships, privatisation, or any other kind of commercialisation - does not matter. Whether it happens in utilities, health, social care or local and regional government, it leads to negative outcomes. It skews the public interest in favour of corporate greed and the lowest paid workers are the ones who suffer the consequences. National, central and federal governments are not immune to the perils of privatisation.

This report marks the first time that EPSU has investigated the true impact of privatisation in these sectors – from national governments to the EU's own executive branch, the European Commission. Our findings reveal a phenomenon that has been swept under the carpet for far too long. What began with the outsourcing of auxiliary functions to low paying companies has led to the contracting of consultancy firms to perform core functions: policymaking, drafting of legislation and public contracts – and the displacement of a generation of civil servants.

The recent 'McKinsey Affair' is the tip of the iceberg. The public were scandalised by the news that Macron's government had spent over €1 billion on consultants to manage the COVID-19 crisis and that those consultants then profited from vaccine rollouts. This report shows that we should be very worried as governments across Europe grow reliant on highly paid consultants to perform core state tasks. The frequency and acceleration of this phenomenon is startling and makes service delivery less transparent, less accountable and more costly to taxpayers. It goes together with a trend to outsource data, cloud storage and ICT functions to private operators like Amazon Webservices with questionable reputations due to tax avoidance and union-busting. It undermines the integrity and good governance in public administrations.

It cannot be ignored that austerity created the ideal breeding ground for this 'privatisation culture'. The past decade of austerity depleted the state sector of crucial in-house skills and expertise. These unfilled positions were filled by consultants at a far higher price. These consultants then apply 'private sector' techniques to their work which in-turn create a greater demand for consultancy services. This 'consultancy culture' also contributes to a revolving door of public sector staff moving to the private sector – only to then return to the public sector as a private consultant.

"Is it normal for an administration such as our Ministry of Health to not to be able to fulfill a number of missions?" This question was asked by a French senator during the McKinsey Affair hearings, and for EPSU the answer is no – this is not normal. Private sector consultants cannot be allowed to take control of the state sector. By outsourcing these critical functions, private consultancy firms are being handed the keys to national, central and federal governments without any questions. Governments must stop these practices – if not, they may well be financing their own destruction. It has a corrosive impact on the trust of the public in the integrity of the public administrations ability to take decisions in the public interest especially since the consultancies serve many paying masters.

This report serves as an impetus for EPSU to work with affiliates to reverse these trends. 'Insourcing' is not a fantasy. With strong trade union mobilisation and collaboration with other civil society groups, insourcing is possible – as seen with cleaners in the Netherlands and statisticians in Sweden; detailed in this report. There is still time to take back the keys from private companies.

The research published in this report and the experiences lived by our members show that the public sector continues to deliver effective, efficient and quality services. Public services that are democratically controlled, and which put people first – not profits – deliver for people.

I am grateful to the researchers from PSIRU for their always stellar work, and to our affiliates for their valued input. The report will be useful for unions and others working to maintain quality services; to fight privatisation.

Jan Willem Goudriaan
EPSU General Secretary

Summary

This report commissioned by the European Public Service Union (EPSU) presents research by the Public Services International Research Unit (PSIRU) at the University of Greenwich on the scale, drivers and impact on workers and quality of public administrations of different forms of privatisation in the state sector and EU administration.

While EPSU has been commissioning research on outsourcing in many sectors such as utilities or local governments, it is the first attempt to do so for the central or federal level of governments in Europe.

Privatisation has been growing in public administration since the advent of New Public Management reforms across the world, according to which governments and the public sector in general should behave more like businesses. The 2008 financial crisis and the subsequent austerity measures intensified the privatisation drive in governments in many countries across Europe. The drive to digitalise public administrations poses a further risk that private sector involvement will increase. Whereas initially privatisation was limited to specific areas within public administration, in many countries more responsibilities regarding core functions of the state have been gradually transferred to the private sector; often through complex, opaque and costly arrangements.

Today, many core public administration functions are delivered by private contractors and consultants, making service delivery less transparent and accountable.

The main forms of privatisation identified in this report are outsourcing, consultancy contracts and public-private partnerships:

Outsourcing began with relatively simple contracts for services that could be delivered by the private sector in a relatively straightforward way, mainly in areas of facilities management. However, government outsourcing has changed significantly in the past 20 years or so; in some cases expanding into new areas such as health, welfare, employment, migration and prisons. In the most extreme example - the UK - central government spending on external providers is roughly the same as what it spends on its own staff.[1] The consequences of excessive outsourcing are fragmentation; lower quality of service; lower pay and conditions for the staff in outsourced companies; a lack of coordination between different companies; and less political control as key government functions come to be directed by private companies. Outsourcing is not necessarily cheaper. Trade union density in outsourced services tend to be lower than in the public sector.

Consultancy, which can be framed as another form of outsourcing, has increased significantly in public administration in recent years. In 2019-2020, public sector management consulting

represented 14% of all management consulting turnover in 11 European countries and the UK. This varied from 31% in Greece, 22% in Denmark and the UK and 17% in Spain to 9% in France and Germany. A few large consultancy firms such as McKinsey, PWC, Ernst and Young, KPMG, and Deloitte, are not only heavily involved in core public administration functions and policy making but also shape public sector restructuring – proposing staff cuts, which then create the need for more consultancy workers to be hired. The rise in consultancy can in part be explained by the drain in expertise and capacity in the public administration due to budget cuts and staff reductions.

As part of the responses to the Covid-19 pandemic, a number of governments have tasked private consulting firms with the logistics, for instance the storage and supply of protective masks and vaccines as well as with the design or implementation of Covid-19 related apps. The rise of consultancies is particularly alarming due to the opacity of their contracts with the state, their very high fees, risks of conflict of interest and interference with public policies. They often handle sensitive personal data. There is no or very scarce public evaluation of the outcomes of their actions. Some of those consultancy firms also enable tax avoidance for multinational companies, which raises serious doubts about their capacity to deliver core functions in the public interest.

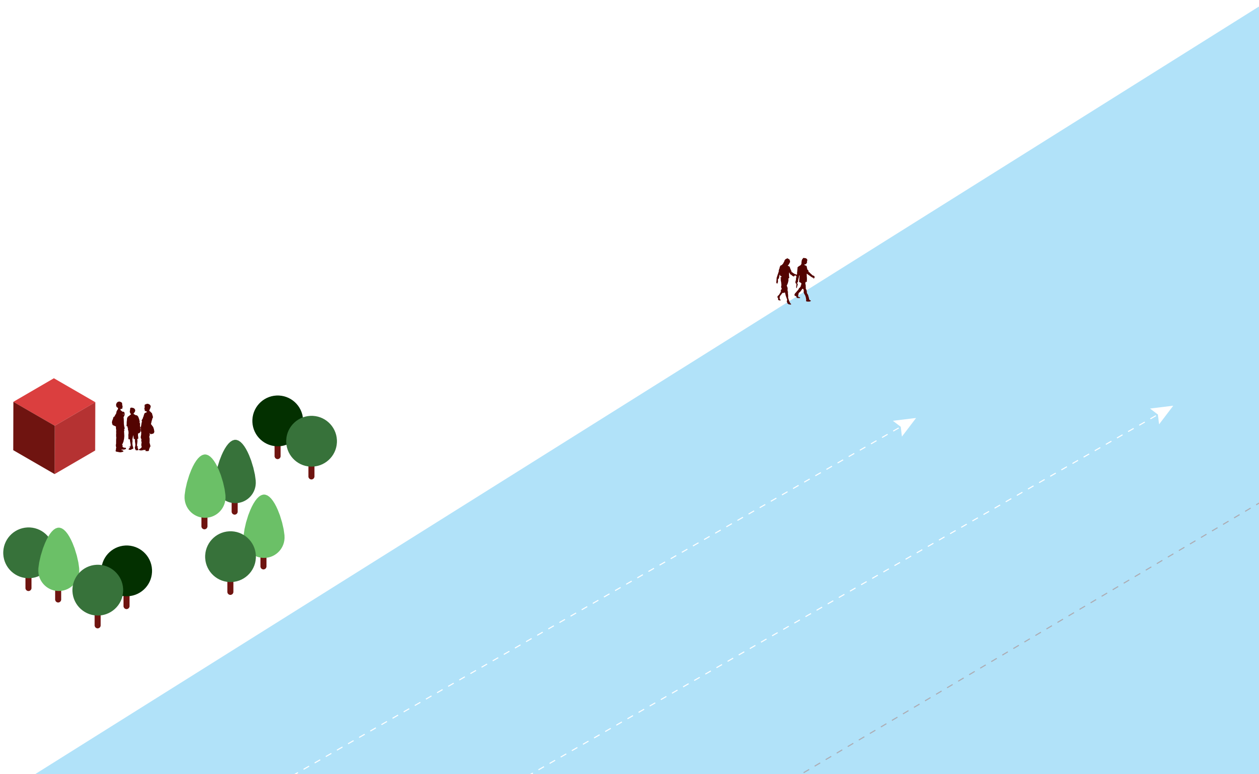
The report also briefly considers two other forms of privatisation – *public-private partnerships* (PPPs) and corporatisation; both of which raise issues about the delivery of services and the impact on workers.

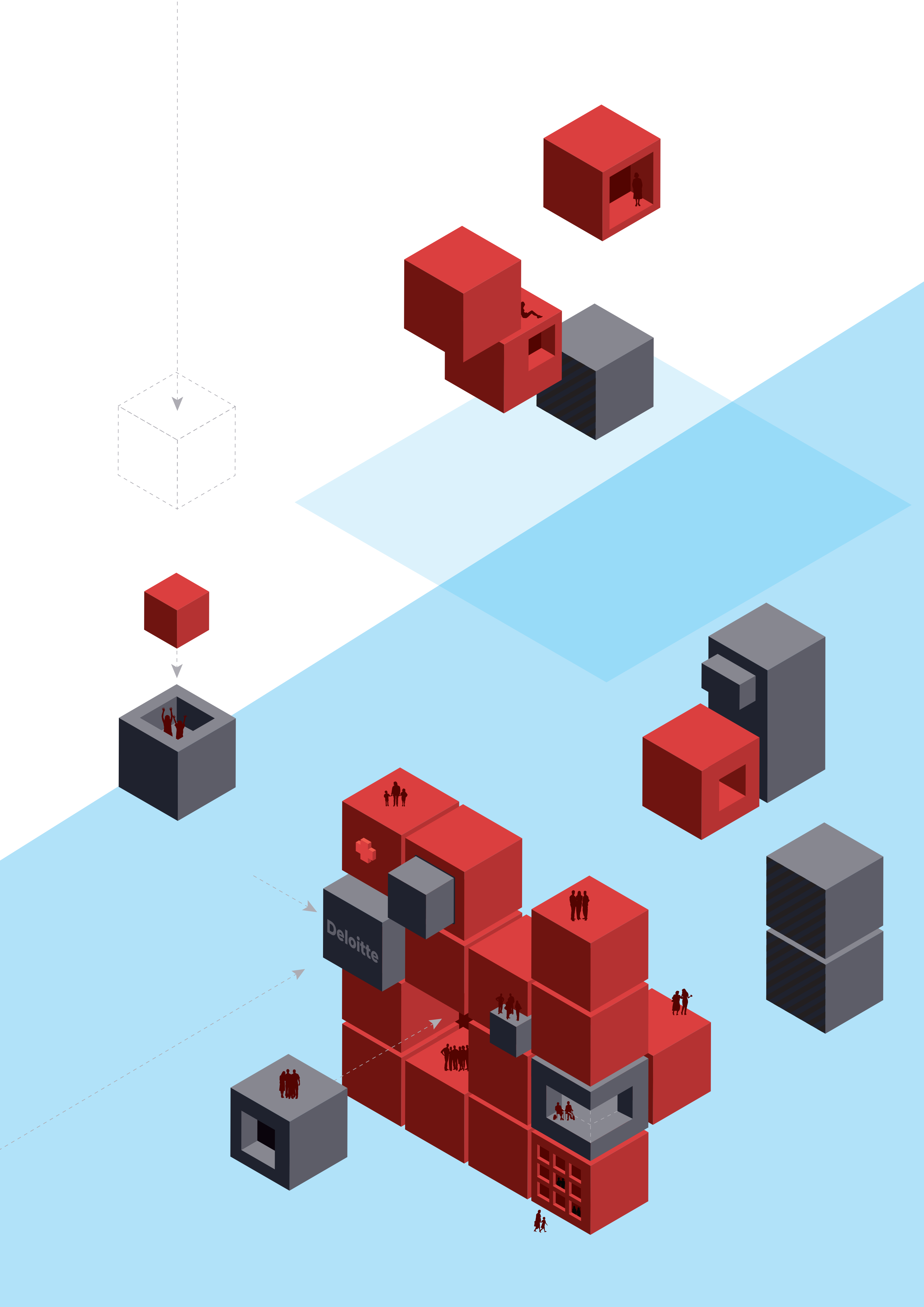
Reliance on private providers for digital technologies in public administration raises questions about control, use and ownership of data gathered about citizens and services, loss of in-house capacity, transparency and accountability.

The impacts of privatisation on the workforce have been mixed across different European countries, depending on a range of factors including collective bargaining coverage, the role and organising structures of trade unions and different levels of pay in the public and private sectors as well as employment status in the civil service. Whereas the UK and Germany are characterised by a significant public-private gap in terms of pay and working conditions, other countries with higher collective bargaining coverage - such as the Nordic countries, Italy, Belgium, Austria, and Spain– have been able to protect the collective bargaining rights, pay and conditions of workers whose jobs are privatised.

The final section of the report makes a number of recommendations addressed to policy-makers as well as to EPSU affiliates. Privatisation can be, and indeed has been, reversed. Central governments need to build in-house capacity so that the need to privatise does not arise in the first place. The direct recruitment of civil servants must be prioritised over the hiring of consultants, so that the government focuses on long-term gains rather than short-term fixes. Especially with the expansion of digitalisation, it is crucial that the public sector builds up expertise and skills and can maintain sovereignty and control over its data. The latter objective was recently agreed by 17 EU governments in an EU social partner agreement on digitalisation with the trade unions led by EPSU.

Methodologically, the report is based on desk research as well as interviews with EPSU affiliated trade union officials in nine countries, namely Armenia, Austria, France, Germany, the Netherlands, Norway, Sweden, Ireland and the UK (the list of unions is below); drafts of the report were reviewed by EPSU affiliates in central/federal governments and the EU Commission in the course of 2021 and 2022 and the EPSU Secretariat.




Deloitte

1. Introduction

Over the last 40 years the structures of states across Europe have undergone fundamental changes due to practices of privatising and outsourcing – first of 'low-value' services to private companies and then human resources or public policy functions via consultants in central government services. This is to the point that today large parts of public administration have been stripped away and reduced to 'hollowed out' structures. In fact, any governmental function and task can potentially be outsourced from employment statistics, audit functions, through MP's drivers, to the processing of visa requests or the mailing of election material.

These processes gained momentum in the wake of the financial crisis, and most recently, in response to the Covid-19 pandemic. Digitalisation has been opening the way for extensive forms of privatisation, not least in major projects of data management.

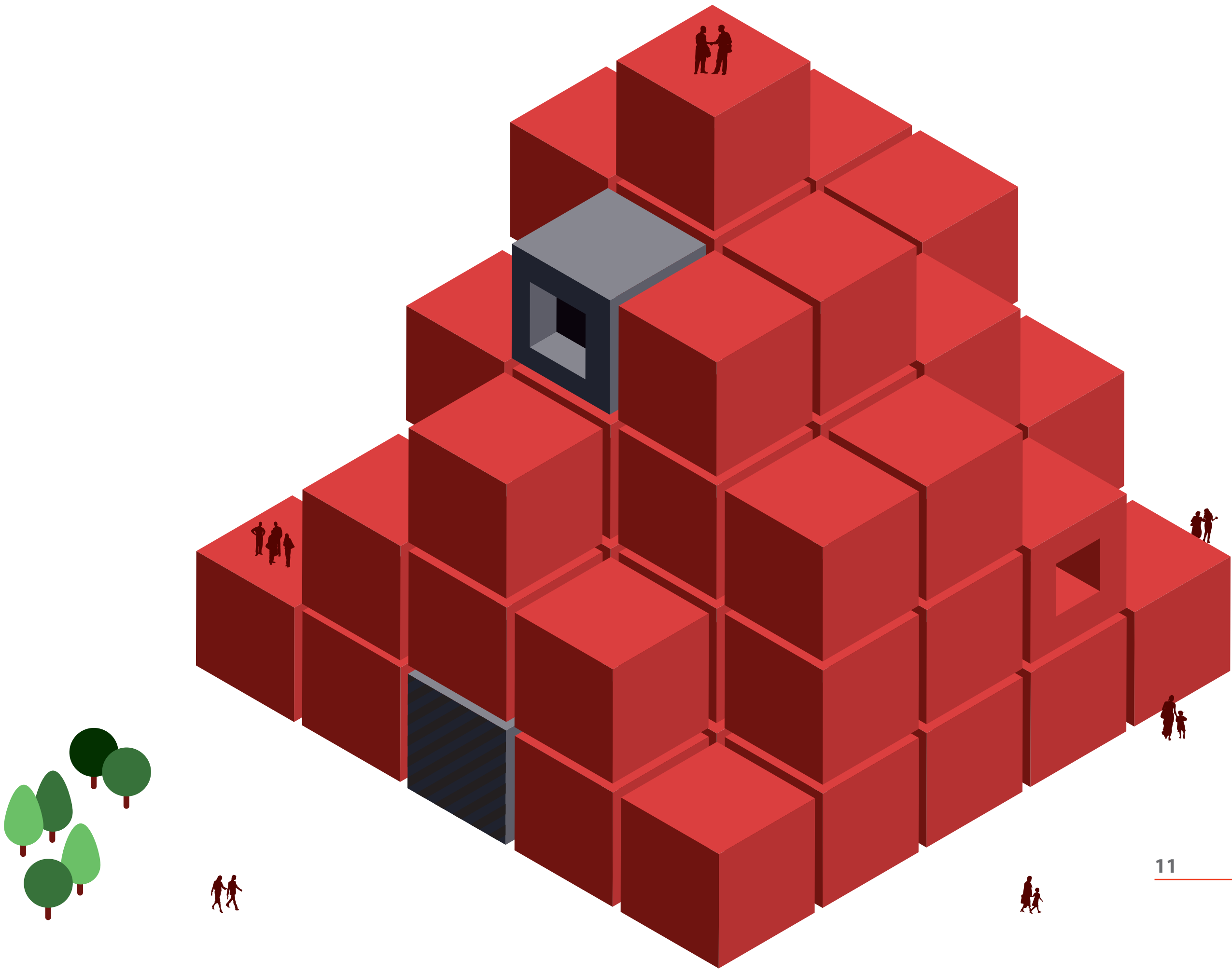
This report describes the scale and drivers of different forms of privatisation in the state sector and EU administration.

It highlights the consequences of privatisation, including the impact on the workforce, quality and accessibility of public services; transparency and accountability; and the implications for and responses of trade unions. It also points to recent examples of movements against privatisation and the benefits of bringing services back in-house. Finally, the report makes recommendations on the need for frameworks aimed at rebuilding public administration according to the values of neutrality, equal treatment, universality, accountability and developing public sector expertise.

As well as exploring the scale and scope of privatisation, the report makes clear that lack of transparency hinders efforts to fully analyse the activities, impact and costs of private contractors and consultants. It highlights that more information and data need to be made available on the use of consultants and private contractors in order to hold public decision-makers to account.

This report uses a broad definition of central public administration: not only central government departments or ministries that carry out planning, management, coordination and policy-making functions but also public service delivery functions, including call centres, IT (data management, clouds, government apps especially Covid-19 related), tax administration, social security administration, employment services, economic and finance departments and defence, as well as prison services and migration centres.

It should also be recognised that the nature, organisation and functions of central public administration vary widely across Europe. In Germany, with its federal state structure, public administration can also exist at various levels. The nature of employment in this sector also varies between countries in accordance with historical legacy, legal traditions and institutional frameworks of individual countries. For the current proposal, the term covers a range of services and structures, both public and private, all of which must be taken into consideration in a cross-European study.



2. Background: privatisation and public administration in Europe

Over the last four decades, public administrations in almost every European country have been subject to far-reaching changes driven by neoliberalism. New Public Management (NPM) drove the restructuring of public administrations, emerging initially in Anglo-Saxon countries, but then dominating public sector agendas to varying degrees throughout Europe since the 1970s.[2] In a nutshell, NPM reforms aim to improve public services by making public sector organizations much more 'business-like' by introducing performance and competition-based managerial forms of governance.[3] While NPM was more about the marketisation of public sector institutions rather than direct privatisation, the associated reforms - driven by cuts in public spending - still facilitated privatisation, especially in the form of outsourcing and increased private sector participation in service delivery.

As Whitfield puts it: "Privatisation and marketisation are inseparable, the latter creating the economic and ideological conditions and social relations by which further privatisation is developed."[4]

NPM spread not only rapidly but also widely, with reforms introduced at all levels: in central government; governmental agencies; regional and local government; higher education; health services; criminal justice; police forces; and legal services. NPM became a global phenomenon. While spearheaded in the UK and continental Europe, the USA, Canada, Australia and New Zealand, NPM reforms were later applied in Asia and Africa. In several Anglo-Saxon and European countries there has also been a cross-party consensus on the need for NPM reforms.[5]

Although NPM reforms in public administration can be traced back to the 1970s, current reform processes look very different. While initial reforms brought in the private sector to deliver specific services, today in some European countries the private sector has taken over core state functions.[6] This often involves subtle and complex processes of extending market mechanisms within public bodies, including not only the use of public–private partnerships (PPPs) or outsourcing of services, but also increasingly policymaking, IT or HR related functions via the contracting out of consultancy work.

Through NPM reforms, private companies are becoming increasingly embedded in the state apparatus, blurring the line between the public and private sectors. This has reached such an extent that "many governments around the world are becoming more and more dependent on private actors for the implementation of public policies".[7] Hence, there is a risk that central and local governments become reduced to a 'commissioning or client role'.[8]

Proponents of NPM principles claimed that by introducing market-mechanisms and business-like values into public governance, the state would become less bureaucratic, less costly and more efficient.[9] Yet, these reforms are not only about running the state like a business, they are also about in turn enhancing the state's capacity in advancing business environments. The digitalisation of public administration has further opened the door to far-reaching forms of privatisation (see section 3 on the forms of privatisation).[10]

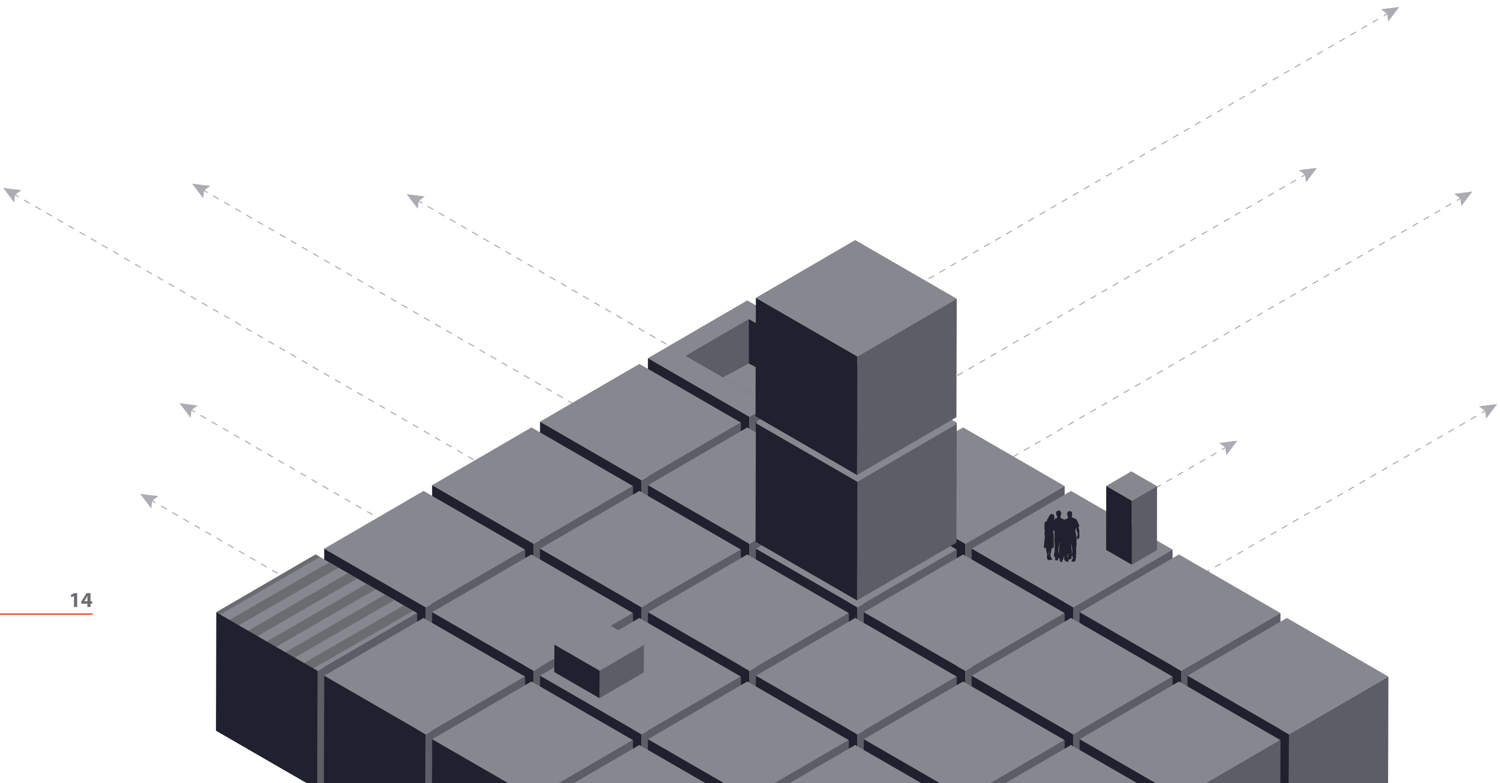
This view is shared by the European Commission, which in its 2018 report 'A comparative overview of public administration characteristics and performance in EU28' identifies three challenges for public administration:

> "delivering better with less – meeting societal & business needs in times of tighter budgets; adapting service provision to demographic, technological and societal changes; and *improving the business climate through fewer and smarter regulations and better services in support of growth and competitiveness* (emphasis added)."[11]

While the functioning, running and financing of public administration are explicitly excluded in the European treaties from EU competence, the European Commission has advanced a pro-business agenda in public administrations in different ways. During the EU-accession period (1997-2004/2007) in Eastern Europe, the Commission became very influential. Thinking of the post-communist image of the big bureaucratic state, one might assume that the EU enlargement led to a downsizing of public administration. Yet the opposite was the case: the civil service in many Eastern European countries increased as functioning democratic administrations systems were built. Though this new creation of public administrative systems gave rise to an opportunity to choose between different public administration models, there was widespread pressure in support of NPM reforms in Eastern Europe irrespective of context.[12] The Commission took a particularly active stand for marketisation and more private sector participation in central governments during the Eastern enlargement from 2004, which was enforced through conditionality.[13]

Similarly, during the 2008 financial crisis the Commission, together with the European Central Bank and International Monetary Fund, making up the so-called 'Troika', imposed austerity-based NPM reforms in many Southern European public administrations (Spain, Italy, Portugal and Greece).[14] Severe budget cuts and caps on personnel costs have resulted in widespread cuts to the number of public administration employees. As a result, outsourcing and consultancies have quickly spread throughout public administration to make up for the reduction of in-house capacity (see section 6.2). Overall, between 2010 and 2016, 18 EU member states reduced public expenditure as a share of GDP by more than 3%[15] - Ireland, Portugal, Lithuania, Latvia, Poland, Czech Republic, Denmark, Greece, Malta, Netherlands, Romania, Slovenia, Spain and the UK.

The EU's bias for a 'public-private interface' in public administration is generally concerning as it is playing a role in shaping public administration in Europe in all member states, not just those that are part of bailout agreements. As the Commission itself puts it, the EU "has a strong indirect impact on the administrative practice in Member States."[16] This impact is achieved through administrative standards; encouragement of best practice (or indeed enforced in the case of bailouts) through EU financial instruments; and the promotion of management practices of its own institutions.[17] Between 2007 and 2013 alone, the EU spent €2 billion on measures supporting public administrations in 19 member states. In 2014 20 member states received country specific recommendations (CSRs) in the area of public administration, out of which 17 received financial support for a total of EUR 4.2 billion. [18]



3. Different forms of privatisation

In this report, privatisation is framed in a broad sense as involving the restructuring of the state in the interest of private capital[19]. The process may include the sale of public assets/property, outsourcing of public services (or parts of) to private companies or not-for-profit organisations (or a combination of both) or outsourcing of tasks relating to and public-private partnerships (PPPs).[20]

These forms of privatisation are distinct from each other, as outlined below.

3.1 Outsourcing - an overview

Outsourcing is defined by the Organisation for Economic Co-operation and Development (OECD) as "delegating (part of) activities to an outside contractor".[21] Central and local governments as well as other public institutions may outsource activities to one or several private companies under a contract for a specific number of years. In this case outsourcing is a form of privatisation as it involves private provision of services and functions formerly in the public sector.

Public administration functions have been increasingly outsourced to the private sector (as well as to the not-for profit sector) since the 1970s. Outsourcing began with simple contracts for services that could be delivered by the private sector in a relatively straightforward way, mainly in areas of facilities management like cleaning, catering and security.

But government outsourcing has changed significantly in the past 20 years or so, expanding into new areas like health and welfare; driven by the neoliberal belief that companies (and also public institutions) should only devote themselves to their core activities and delegate other tasks to "specialised" private sector companies.[22] Moran et al. have argued that contemporary processes of outsourcing look very different than those of 30 or 40 years ago: "modern outsourcing is more fundamental and more complex; it involves franchising or leasing complex sets of services to private contractors"[23]. These complex contracts, which are commissioned by government to private consultancy firms, are very costly to compile and often inflexible when it comes to renegotiating the terms of the contract.

Today, outsourcing is widespread and growing in central and local government as well as other governmental institutions in most of Europe. Table 1 shows the amount spent by European governments on outsourcing in as a percentage of GDP in 2020. The first column indicates the contracting of private providers for goods and services used directly by the government, such as IT; while the second column indicates the use of outsourcing for providing goods and services to citizens, such as healthcare, housing, transport or education. Government reliance on outsourcing across Europe is growing, but the scale and form of outsourcing have varied in different countries. Outsourcing has been applied most thoroughly in English-speaking and Nordic countries and less in continental European countries.[24]

Table 1. Government Outsourcing as a percentage of GDP 2020.

	Goods and services used by government, 2020	**Goods and services financed by government, 2020**[25]
NLD	6.2	10.6
DEU	6.1	9.4
FIN	11.3	3.1
GBR	10.4	2.6
BEL	4.4	8.2
SWE	8.1	3.7
FRA	5.4	6.4
OECD-EU	6.1	5.5
AUT	6.8	4.3
NOR	8.3	2.4
DNK	9.0	1.4
HUN	8.3	1.5
ITA	6.3	2.8
ESP	5.9	3.0
POL	5.9	1.9

Source: OECD[26]

The consequences of excessive outsourcing are fragmentation; a lack of coordination between different companies; and less political control as key government functions come to be directed by private companies. Outsourcing also inflates the service bureaucracy and makes it less efficient. Contrary to the commonly held assumption that the private sector can bring 'efficiency savings,' the outsourcing of services is not necessarily cheaper, as private companies charge prices that allow them to make a good profit. Meanwhile often the quality of the service suffers, while companies compete in a "race to the bottom" for wages, often paying staff minimum wage or employing them on zero-hours contracts.[27] Outsourcing is usually justified with the argument that it will bring in expertise from the private sector. In fact, contractors often end up relying on existing expertise of staff previously employed in the public sector and thus does not facilitate external and specific expertise. Moreover, by outsourcing important tasks, government bodies also risk losing the skills to deliver the services in-house. These issues are demonstrated in the case studies of the following section.

Outsourcing within companies can produce long supply chains of sub-contractors. This was the case, for example, with the UK government's Work Programme; a 100 percent outsourced welfare-to-work scheme introduced by the 2010 coalition government. The programme was outsourced to 18 prime providers (the vast majority of them private multinational companies), which then outsourced most services to over 800 subcontractors, some of whom then again outsourced some parts of their services to other companies and businesses. The result was a very expensive, long and untransparent supply chain. The government not only lost overall control, but also knowledge of what type of employability services were offered and to whom.[28]

3.1.1 Outsourcing tasks or services: running services on the cheap

Greece and Italy: detention centres

Recent reports from the Migreurop network of activists and researchers have shown that privatisation of migrant detention is a thriving business that has emerged in Europe as a whole.[29] The PSIRU report 'Privatisation of Migration & Refugee Services & Other Forms of State Disengagement' from 2017 for PSI and EPSU examined the negative impact of the privatisation of services for refugees and migrants.[30]

Security and surveillance in six migrant detention centres in Greece were outsourced to G4S in 2013 and in 2016. The company also won a security contract in Moria on Lesbos which was tendered out by the EU Asylum Support Office (EASO), which is responsible for the asylum procedure in Greek hotspots. Misconduct was later exposed and the lawyer's association in Mytilène sued EASO on the grounds that, along with the security companies, it was preventing migrants from accessing certain areas including the EASO office; thus hampering access to the asylum application process.[31]

In Italy non-profit organisations such as the Red Cross were initially in charge of administrating and managing detention centres, but over the past decade multinationals have come to dominate the sector. For example, the French company GEPSA – a subsidiary of Cofely, which is owned by the utilities multinational ENGIE (formerly GDF Suez) – partnered with acuarinto, an Italian cultural association and started to underbid charities and cooperatives. In December 2012 the GEPSA-acuarinto consortium won the contract to manage the detention centre in Rome offering €28.80 per day while the previous cooperative had offered €41 per day. In 2014 the acuarinto consortium also underbid the Red Cross for the management of migrant detention centres in Milan and Turin by 20-30%.[32]

Norway: cleaning

In 2014 the Norwegian Defence Estates Agency (NDEA) outsourced its cleaning staff to the multinational facilities management company ISS, despite massive trade union resistance, including demonstrations outside the NDEA.[33]

Prior to the privatisation, four studies had been commissioned by the government looking at the cost-benefits of outsourcing. One of them, a study by the global consultancy firm Ernst & Young (EY), concluded that money could be saved by privatisation in part because the collective agreements between the NDEA and the Norwegian Civil Service Union were seen as driving up costs. Indeed, the cleaners were highly unionised and this is one indication that outsourcing is used to undermine collective bargaining.[34]

The standard of the cleaning service deteriorated significantly after the privatisation and the number of complaints rose dramatically. Several jobs were cut and the workload for the remaining workers was intensified. Research conducted by Fafo, an independent social science research foundation, showed that in 2014 38% of the cleaners in the public sector were over 55 years old compared to 10% in the private cleaning industry. It concluded that older workers leave the job in private companies due to the intense workload. Furthermore, research showed that 70% of the cleaners were from migrant background and often the turnover is high.[35] This indicates that the vulnerabilities of migrant workers are exploited in the cleaning industry. The cleaners felt ‘great uncertainty about the future’ due to the outsourcing and that the NDEA was no longer taking responsibility for them.[36] The trade unions exposed the failure of the privatisation as the service and working conditions deteriorated. The general election in September 2021, was won by the Norwegian Labour Party which had pledged to renationalise the cleaning service.[37]

Sweden: employment activation programme

Sweden tried to privatise its employment services. This is a political decision introduced by the previous coalition between the conservative party and the social democratic party with the prime minister Stefan Löfven. However, new Prime Minister Magdalena Andersson - a social democrat who took office in

November 2021 in coalition with the Greens - might not press ahead with the privatisation of employment services. Nonetheless, private job coaches have already been introduced into the benefit system. It is more lucrative for private job coaches to work in densely populated areas and with workers in areas deemed more 'employable' than rural areas. There is also the problem of the long term unemployed being excluded from the service. Some unemployment offices in rural areas have already been closed. Since welfare services are the responsibilities of the municipalities in Sweden, they pick up responsibility when the private sector does not deliver despite being paid for the service.[38]

United Kingdom: reliance on outsourcing giants

The UK was one of the first countries to adopt public sector outsourcing on a large scale, and today the UK outsourcing industry is known as the "most advanced in the world".[39] In 2016-2017, the whole of the public sector spent around £251.5 billion on external providers— around a third of total government expenditure. Of this, central government spending on external providers was £49 billion, roughly the same as what it spends on its own staff.[40] There are very few areas of central government that do not involve some kind of outsourcing, but it is concentrated in health, defence, transport and education. The Ministry of Defence spends around £20 billion a year on private provision, including the Atomic Weapons Establishment and Defence Equipment and Support; the Ministry of Justice spends over £5 billion on privately managed prison and probation services; the Department for Business, Energy & Industrial Strategy spends over £5 billion; the Home Office spends around £3 billion including immigration removal centres and the Department for Work & Pensions spends over £2.2 billion including on the Work Programme and health and disability assessments.[41]

Outsourcing has become so extensive that it has caused fundamental changes in the structure of public administration. Within the cabinet office there is a whole body, the Government Commercial Function, set up to oversee outsourcing. It has identified 29 'strategic suppliers' which are deemed too big to fail and as key to government work, including G4S, Serco and Carillion, prior to its liquidation in 2018. The Commercial Function consists of a number of civil servants whose job is to be 'ambassadors' to the strategic suppliers — to meet with them regularly for 'working dinners', which effectively means they have a very strong advantage when it comes to being awarded contracts. The government even briefly flirted with the idea of outsourcing policy development.[42] This dependency on private providers not only makes the UK government highly vulnerable to large-scale failures like Carillion, but public policy and operations increasingly become skewed towards private providers — the people they hire and their organisational aims.

The growth of government outsourcing has given rise to outsourcing giants who enjoy an oligopolistic place in the awarding of government contracts. The UK National Audit Office (NAO) estimates that four of the biggest outsourcing companies - Capita, Serco, Atos and G4S - earn around £4 billion a year in public sector contracts.[43] Because PPP schemes and other outsourcing arrangements transfer risk away from the companies and offer long-term guarantees for steady payments, public sector contracts represent highly lucrative and liabilities-free opportunities. However, the lack of transparency in assessments of how these contracts are awarded has been a major issue.

The growth of UK government outsourcing raises significant concerns not only about how the government relates to the private sector but also in its impact on the market itself. This is well-illustrated in the experience of Carillion - the UK's second largest public outsourcing company at the time - when it went into liquidation in 2018. The company's cash flow was hit by payment disputes on a number of major contracts but it concealed its problems with financial engineering and tried to make up the shortfall by submitting bids for contracts at unrealistic prices.[44] The government continued to offer Carillion major contracts despite profit warnings and reports of problematic accounting practices. This highlights the problems not only with an outsourcing strategy prioritising the lowest bid over the quality of the service, but also how the UK government's relationship with the private sector has undermined its basic goals of delivering public administration for the public interest.

3.1.2 Outsourcing HR, IT and other 'intellectual' tasks: consulting at a very high price

Consultancy is a form of privatisation that has grown in governments across Europe and globally.[45] It is generally understood as the provision of external expertise to facilitate restructuring and institutional change. In theory, the use of private consultants is based on short-term contracts but in practice it is the same consulting firms that are used repeatedly by many European governments. The increasing use of consultancy is legitimised by the portrayal of consultants as independent and neutral; contributing specialised, complementary knowledge.[46] It is argued that it is cheaper to acquire external knowledge than building up in-house competence and expertise.[47] Yet, paradoxically, the rise in consultancy is a by-product of austerity: ad hoc contracts with external consultants do not show up on the payroll. In other words, by using consultants, possible rules on job freezes or cuts can be bypassed.[48] So austerity facilitated the rise in consultancy, but ironically, consultancy costs are much higher than employing in-house staff.[49] Consultancy can also be a way to bypass other governmental regulations. For example, in the Netherlands consultants are used as a loophole to circumvent an agreement that no more than 10% of all workers can be on non-standard contracts.[50]

Across Europe, management consultants have become increasingly influential players in public administration. Firms such as McKinsey, PWC, Ernst and Young, KPMG and Deloitte specialise in reforming the structures and governance of public sector organisations.

Management consultancies have existed for over a century, but initially they were only brought into public administration for specific advice in a defined area. All this changed with the NPM reforms of the 1980s and 1990s. The notion that the market, not the state, was the most effective vehicle for delivering public services and that public administration should be run more like a business brought an augmented role for consultants. In the wake of the financial crisis and subsequent austerity measures across Europe, their role was expanded once again, supporting governments with policies related to privatisation, PPPs and digitalisation of government.[51] Today this has reached the point where consultants have taken over core public administration functions and policy development areas both at national and EU levels.

Currently, public sector management consulting represents 14% of all management consulting turnover in Europe. This varies from 31% in Greece, 22% in Denmark and the UK and 17% in Spain to 13% in Hungary, 10% in Slovenia and 9% in France and Germany (figures from 2019/2020).[52] According to the European Federation of Management Consultancies Associations (FEACO), consulting in technology is the largest area of consultancy; followed by strategy and marketing.[53] Indeed, the use of consultancy has risen significantly in most European countries as well as in the European Commission in recent years.

In the UK the consultancy sector remains one of the largest in the world. The Annual Report 2020 of the Management Consultancies Association (MCA), the lobby of the UK's consultancy sector, estimates it is now worth £11.3 billion to the UK economy; up 7% on the previous year.[54] Consultants have secured long-term contracts with government units: for example, the UK Ministry of Defence signed a 6-year contract with a leading consultancy firm.[55]

In contrast, the trend is reversing in Austria. The use of consultants through central government increased until the mid-2010s but has since decreased after a large-scale consultancy public sector reform project brought the industry into disrepute.[56]

In France, following a damning public enquiry on the use of consultancy by the health ministry to manage the Covid-19 pandemic, the government announced on 19 January 2022 that it will no longer 'automatically' resort to private consultants and will reduce its bill on private consulting firms by at least 15% (in 2019, total consultancy bill in the public sector amounted to €814 million) (footnote: Le Monde, 19/01/2022).

The widespread use of consultancy in central governments also means that core tasks are no longer delivered by internal staff but through consultants. It has therefore also been referred to as the privatisation of policy.[57] This process shows how the divide between the market and the state is increasingly blurred as commercial actors become part of the governmental machinery,[58] raising serious questions about transparency and accountability. Indeed, the consultancy companies themselves, often adopt corporate forms allowing them to avoid disclosing information to the public.[59]

Research has shown that consultancy usually leads to more consultancy. Some scholars have even called it an 'addiction' with consultancy firms applying sophisticated selling and advertising techniques that make public sector organisations addicted to their services[60]. Researchers have warned of the risks of governments becoming dependent on consultancy in shaping policy and practice, calling it 'consultocracy'[61] or an 'invisible civil service'[62]. As the *Financial Times* has observed:

> "Consultants become a habit—once they get inside the building, they are hard to eradicate. They have an interest in keeping the relationship going, either by persuading clients that the challenges are complex, or by selling them more services."[63]

Furthermore, Strudy et al found that consultancy not only leads to more consultancy but also to more commercialisation in terms of introducing private sector participation and in particular the outsourcing of other services.[64] Governments are thus not only making themselves dependent on external advisers but also locking themselves into a path that has the interests of the private sector at heart (see also section 3.1.1., the case of outsourced cleaning services in Norway).

Box 1: McKinsey

As the world's biggest consultancy and one of the most active players in advancing privatisation and structural reforms in public administration globally, the US firm McKinsey deserves a special mention.

In a 2009 report, the firm advocated for using the financial crisis as an opportunity to carry out 'whole-government transformation'. This involved extending and deepening public administration reforms across Europe in response to the growth in public debt, aiming to "reach down into the inner core of governments" though cuts, privatisations and a performance-oriented approach.[65]

There are three main features of McKinsey's involvement in public administration reforms. First, through consulting agreements with government agencies and their suppliers. Second, though partnership institutes or think tanks like the

McKinsey Center for Government or the McKinsey Hospital Institute which carry out research and disseminate its ideas and services. Third, it promotes particular policies in public administration, including the introduction of competition, private suppliers and 'consumer choice' (or vouchers). Not only do McKinsey reports have significant influence over government policies, but they also create unnecessary demand for their work through sophisticated selling techniques and behind the scenes networks. This is intensified by the revolving doors of staff between McKinsey and government agencies.[66]

McKinsey has had a hand in some of the biggest corruption scandals of our time, including the dubious accounting methods used by the Enron energy trading company before it collapsed, the securitisation of mortgage assets that led to the 2008 crisis, the opioid crisis in the U.S. (for which the firm paid a $573 million settlement), the repression of dissidents by the Saudi Arabia government and charges of fraud, theft, corruption and money laundering in South Africa.[67]

McKinsey has significantly increased its influence over government policies across Europe. For example:

1. The UK became the testing ground for McKinsey's public administration reforms from the late 1990s under the New Labour government. Michael Barber, the head of the Labour government's Delivery Unit filled the unit with McKinsey staff, before subsequently going on to become a partner in the company. In particular, McKinsey specialised in becoming the leading 'partner' in NHS reforms and was paid £14 million to advise on developing the internal market. A former McKinsey partner went on to become the head of the NHS regulator, while the company became the chief liaison between the government and international private healthcare companies in the privatisation of 26 hospitals.[68]

2. In France, McKinsey was brought in under the 2007 Sarkozy government as part of the aim to cut €10 billion from state expenditure through the civil service 'modernisation plan'. Current President Macron formed a close relationship with the consultancy during his time as economy minister under President François Hollande, when he filled the committee for economic opportunity with high-level McKinsey consultants. Macron's work with the firm is widely considered to have shaped the political direction of his presidential campaign (see section 3.1.2.4)

3. The Commission is reported to have relied on advice from McKinsey on how to respond to Covid-19, through involvement of the private sector, yet the exact details of the work the company did is not accessible to the public.[69]

European Commission: risks of conflict of interest

Consultancy spending by the European Commission has increased significantly in recent years, with more than €462 million going to just the big four (PwC, KPMG, Deloitte and EY) between 2016 and 2019.[70] KPMG received the largest amount (€154.8 million); EY received €121.3 million; PwC €93.8 million; and Deloitte €92.3 million.[71]

A significant part of the increase took place through the Commission's Structural Reform Support Programme (SRSP). This offers technical assistance to member states for structural reforms either via the Commission's in-house expertise or through consultants from international organisations, NGOs or private companies. This demonstrates that the use of consultancy is already structurally embedded in the EU. When the SRSP was first launched in 2017, only a very small proportion went to private companies. However, that changed very quickly. In 2019 private companies received €24.3 million for 91 reforms, almost one-third of the €79.4 million dedicated to the programme that year. The Commission's current seven-year budget dedicates even more money to the SRSP (€864 million in total or €115 million per year) - as such it can be expected that external consultancy will rise.[72]

The involvement of private consultancy firms in the SRSP means that they have a say in public policy in areas such as taxation; the justice system; the labour market; police; health; and social services. For example, EY was contracted for the restructuring of the hospital sector in Estonia and for reforms to strengthen active labour market policies in Italy, while McKinsey received a contract for reforms within government statistical services in Germany (€878,970).[73] These contracts represent a non-transparent and non-accountable form of outsourcing policy advice on core areas of public administration. This should be of major concern given the opaque corporate practices of the big consultancy firms.

The extensive role of the consultancy firms in core EU policy processes raises concerns over risks of conflict of interest. For instance, an investigation by Corporate Europe Observatory showed how the big consultancy firms are active in powerful business lobby groups trying to influence EU policy on tax avoidance, including the European Business Initiative on Taxation (EBIT), the European Contact Group (ECG) and others.[74] They also aggressively push tax planning arrangements, which the Tax Justice Network describes as "large-scale abusive tax avoidance schemes" to multinational companies. Despite this clear conflict of interest, PwC, Deloitte and KPMG were awarded over €10 million for reports on 'taxation and customs issues'.[75] Although consultancy firms claim to separate audit, tax and consulting service lines, their participation in tax avoiding activities should raise questions about whether they can be trusted to work for the public interest.

Concerns over conflict of interest risks were recently raised by the EU Ombudsman, Emily O'Reilly, regarding a contract granted by the Commission to BlackRock Investment Management to carry out a study on integrating environmental, social and governance objectives into EU banking rules. O'Reilly opened an inquiry in 2020 on the grounds that the world's largest asset management firm has a financial interest in the sector at issue in the study and that its low price bid could be perceived as part of a strategy to gain insights into, and influence over, the regulatory environment in this sector. While the case of maladministration was not found, the Ombudsman asked the Commission to clarify the rules on public procurement and risk of conflict of interest[76], which the Commission agreed to.

Germany: scandal at the defence ministry

Germany has seen a tremendous rise in consultancy work across all ministries. In 2020 the government spent €430 million on consultancy, a 46% increase on the previous year. The rise in consultancy can in part be explained by the drain in expertise and capacity in the German government due to budget cuts and staff reductions. It is assumed that IT consultancy comprises the majority of these consultancies (despite efforts by the administration to become more independent from international IT firms – see section 6, Bundescloud example).[77]

Large scale usage of consultancy can reduce government control and incentivise cronyism as demonstrated by the 'Berateraffäre'. This was a large-scale scandal involving hundreds of millions of euros in the Ministry of Defence - at the time under the leadership of Ursula von der Leyen (2013 - 2019), current President of the European Commission. In her ambition to modernise the outdated and poorly organised defence system, she ran the ministry as a corporation; opening it up to an unprecedented number of external consultants. Von der Leyen appointed Katrin Suder, former director of McKinsey management consultancy in Germany, as Secretary of State.[78]

Several investigations and a subsequent committee of inquiry report revealed that external consultants played a key role in the newly created Cyber and Information Technology (CIT) department, becoming almost indistinguishable from permanently employed civil servants. The consultants had their own offices, e-mail addresses and signatures within the German Armed Forces. They controlled other external consultants and coordinated finances while at the same time falling under limited oversight.[79] Often these consultants gave contracts to friends in other consultancy firms – this became known as the buddy system – frequently bypassing procurement regulations. Full details of the scandal remain unknown because important evidence – such as data from the work mobile phones of von der Leyen – were deleted.[80]

Norway: consultants versus staff

In Norway there is widespread use of consultants - not only in IT, but also for core government tasks. In the run up to the last elections it was revealed that the government was spending twice as much on consultancies as on ministerial staff.

Several areas of consultancy work stand out:

- the government has increasingly relied on private lawyers to for advice on redundancy procedures;
- the increased use of consultancy work in IT services and cloud management systems. The defence ministry is running a large pilot programme on the military use of cloud services (MUST). This was launched in 2019 and will run until 2028. Currently, they are tendering for a 'strategic partner'. This includes ICT platforms of the armed forces but also goes well beyond IT, as MAST looks at how the military can be generally improved at *all* levels. In its own words: "The new cloud solutions will replace and upgrade much of what the Armed Forces are doing".[81] Areas affected by MAST are command and control; administration; logistics; office support; and digitisation.[82] Microsoft is already running part of the defence ministry's cloud services, which are used as a pilot project that could be extended to services for the entire government. The trade unions have been very concerned about Microsoft operating the cloud systems of state ministries as well as managing the state's archive and data. They are lobbying for a national cloud system, similar to the German Bundescloud (see section 9.3) and other initiatives in the Netherlands and France.

France: 'consultocracy'

In France, the use of consultants can be traced back to the economic slowdown of the 1990s. The government responded by bringing in New Public Management reforms (see chapter 2) under the supposed aim of reducing the state bureaucracy and running the state more like a business. They were expanded in the wake of the 2008-09 financial crisis, when President Nicolas Sarkozy brought in consultants to deliver so-called 'modernisation reforms', cutting the civil service. However, it was President Emmanuel Macron who elevated the role of consultancy to routine functions of public administration, as part of his bid to transform the French government into a form of "start-up".[83]

Since Macron's election in 2017, the French administration is estimated to have signed at least 137 contracts with McKinsey and other large consultancies, including several multi-million euro contracts.[84] The majority of consultancy work covers IT systems and HR, but more controversially it has also included advice on public spending reforms. Since 2018, McKinsey, Accenture and other large firms have been asked to find €1 billion in public spending cuts. In addition to over €1 million in consulting fees, the consultancy contracts for these reforms included a variable fee depending on the savings earned - the more they cut, the more money they make.[85] It is also worth noting that in contracts such as these, consultants are effectively paid twice: once for suggesting the cuts and again as consulting firms are brought in to fill in the gaps left by the very cuts they have proposed. In total, public sector consultancy accounted for nearly 10% of the revenues of consultancy companies in 2018, amounting to €657 million. [86]

In this way, the increased reliance on consultancies is both cause and consequence of major cuts to civil service, which has lost over 200,000 since Sarkozy's reforms. This has brought vital areas of the civil service to the brink of collapse; especially in health, justice and environment.[87] As overworked, burned-out civil servants either leave the service or become incapable of carrying out their functions, the government increasingly relies on consultants for these routine operations. The excuse that the civil service was "unprepared" for the pandemic was again used to justify resorting to consultancies for France's Covid-19 response. The government hired McKinsey and three other companies to advise on; design; or facilitate the coronavirus vaccination campaign and roll-out[88] in contracts worth a total of €11 million.[89]

3.2 Other forms of privatisation

3.2.1 Corporatisation

Corporatisation (in some countries also described as 'formal privatisation') refers to the process when a formerly public service - including public administration - is outsourced to a company with a private legal form which is still publicly owned. This is therefore not a real privatisation as the service is still in public ownership. Corporatisation follows the assumption that the public company should be competitive and therefore run like a private company. Often this type of corporatisation is introduced in periods of austerity measures and budget cuts. By outsourcing the service to another state-owned company, national or EU budget regulations can be bypassed.

Example: The case of Austria

In Austria outsourcing has taken place through corporatisation. Since the early 2000s public organisations have been turned into publicly owned companies which are theoretically financially autonomous and make a profit. Examples include universities; unemployment services; museums; the national statistics service; the national data centre (Bundesrechenzentrum); and accounting services.[90] The trend for corporatising public organisations has gone hand in hand with increased austerity measures and specifically measures to cut government staff to reduce costs. By creating publicly owned companies these budget restraints and requirements to reduce staff could be bypassed. In other words, corporatisation was mainly due to budget constraints. However, it was ultimately more expensive to run the service through publicly owned companies which created additional bureaucracy and seldomly made a profit anyway.[91]

Another problem raised by the union GOED was that these public corporations followed a corporate organisational model, giving the company directors power and hence democratic control over these companies was lost. Corporatisation has led to significant wage differences in the outsourced public companies, with managers being paid more and employees paid less than in the traditional public sector. Yet the cost of services provided by outsourced public companies are generally more expensive. Now, when public companies are not able to make profit they are taken back into the state apparatus.[92]

3.2.2 Public-private partnerships

PPPs are long-term contractual arrangements where the private sector provides infrastructure assets and operates public services. In theory they involve risk sharing between the public and the private sector. Figures from the European Investment Bank reveal that since 1990 there have been just under 1800 PPPs worth just under €370 billion. Although many of these are big transport infrastructure projects, some fall within public administration; including 200 projects in public order and defence worth a combined €30 billion.

Research conducted by PSIRU[93] has shown that:

- public authorities ultimately bear the risk (despite the rhetoric of risk sharing between the private and the public sector);
- PPPs are more expensive. Rather than offering the promised ‘value for money’, PPPs are usually much more costly than 100% government owned and run projects;

- PPPs often lead to corner cutting and low quality of services;
- PPPs are often delayed and go over budget;
- PPPs contribute to and incentivise corruption.[94]

The 2018 report from the European Court of Auditors (ECA) - found evidence of PPPs that were inefficient, costly and significantly delayed. Moreover, the audit revealed that the PPP option was mostly chosen without considering alternatives, such as delivering the project directly through the public sector. The ECA therefore recommended "not to promote a more intensive and widespread use of PPPs…". [95] This is significant, as the Commission has long encouraged use of PPPs in EU member states and contributed funding to PPPs via Structural and Cohesion Fund grants and other financial instruments in line with its strategy to allocate EU-funds to blended projects, including PPPs.[96]

Lithuania: prisons, detention centres and police stations

In 2014 the Lithuanian Government announced PPPs for the construction of new detention and prison facilities on the outskirts of Vilnius as well as in in Šiauliai, Klaipėda and Panevėžy. The PPP contract was supposed to be for 22 years, during which a private company would first construct and then maintain the infrastructure. The whole contract was worth €290 million (out of which €40 million was for the new facility in Vilnius).[97] However, the projects soon stalled as they turned out to be too expensive.[98]

This failed experience with PPPs did not stop the government from continuing with PPPs in the justice sector. In 2018 a project for the construction of new police headquarters in Vilnius started on a €56 million PPP contract with the private company Pilies Projektai, a subsidiary of Darnu Group.[99] In 2019, the Lithuania Police Department - under the Ministry of the Interior - launched two separate tenders for PPPs to design, build, finance and maintain two police stations in Kaunas and Panevezys for 15 years - of which three years would be the design and construction phase and 12 years for the maintenance of the buildings.[100] In Kaunas the private company Merko Statyba won the tender and in Panevezys it was the private company Salvinta which won the contract.[101]

France: Paris courthouse

In 2012, a PPP contract worth €2.3 billion lasting until 2044 to build a new **Paris Courthouse** was signed with the Arélia consortium. This was despite the fact that comparison with a public sector alternative had shown it not to be the cheapest option. The French Court of Auditors found that the interest rate for borrowing for the PPP was 6.4%, while in 2012 the weighted average rate for government bond financing in the medium-long term was 1.86%.[102] In 2017 the French Court of Auditors recommended that PPPs should not be used for prisons or real estate[103] and the Ministry of Justice decided to stop using PPPs in future.[104]

4. Drivers of outsourcing

4.1 Digitalisation

E-government was initially introduced in European public administrations in the 1990s as an 'option' within specific services – an option that is increasingly becoming an 'imperative'.[105] In recent years the Commission has promoted a "whole of government" approach covering a range of public administration functions including ministries; tax authorities and tax collection; court processes and jurisdiction; prison; border security; police; and emergency services.[106] Today, Europe has one of the highest levels of e-government development in the world. According to the 2020 UN e-government survey, all 43 European countries are in the high or very high e-government development group, and eight of these are among the leading countries in the very high rating.[107]

The adoption of e-government can have many positive effects, with digital delivery of services like tax collection and court and administration processes promising more efficient and user-friendly ways to access government services at a lower cost. Digitalisation of public administration work can also potentially benefit workers. An array of new jobs related to digital technology are being created in areas such as data analysis; web and app design; cybersecurity; and digital maintenance, engineering, support or research.[108] Furthermore, since some of the most standardised tasks can be automated, digitalisation can reduce working time on tedious tasks, freeing up more time to spend on more complex, higher-value roles and functions. However, in the context of the current drive to privatise in public administration, the introduction of digitalisation risks paving the way for further privatisation and outsourcing. This section gathers evidence and case studies on privatisation in e-government and digitalisation and the impact on in-house capacity, costs of the service, access and public trust.

Loss of in-house capacity

The introduction of digital technologies in European public administration has involved a growing dependence on private providers since the privatisation drive of the 1980s and 1990s, when many governments privatise outsourced their IT services.[109] The loss of in-house capacity in digital technologies can often pave the way for extensive privatisation in the long-run, as governments increasingly turn to the private sector for the implementation of digital technology projects, as the case studies below demonstrate.

Digital transformations in public services are driven by private firms such as Atos, Capgemini, Capita or Civica, along with global consultancy corporations like Deloitte or PwC and global digital technology companies like Google, Amazon Web Services (AWS), Microsoft, HP or Dell. For these companies, large public sector contracts for digital or computer services present highly lucrative opportunities, and many have accrued unparalleled expertise in digitalisation of public administration over years of awarding of public contracts.[110]

High costs

The high costs associated with the infrastructure and technology involved in digitalisation projects means the overall costs of these private initiatives are often underestimated.[111] This means digitalisation projects end up being more expensive in the long term, undermining the cost-cutting goals. As a result, private-sector-led digitalisation of public administration can have a major impact on public finances and may take investment away from other much-needed aspects of running services and force through further cuts.

For example, the UK National Audit Office (NAO) found that outsourcing the IT system for handling NHS data to French-based firm Atos had contributed to significant losses of public funds.[112] The NAO showed how the company had taken advantage of a weak public sector client who paid for the system without knowing it had not been fully tested. During the planning and procurement phase, the cost of the system rose from £14m to £40m.[113] The Public Accounts Committee concluded that Atos "appears to have acted solely with its own short-term best interests in mind".

Public trust, handling of sensitive information

Many public administration functions involve complex decision-making processes around sensitive public issues, like adjudicating benefits applications, involving medical diagnoses and personal data. In services such as these, the concern is that digital tools cannot replace the need for direct contact and professional discretion. Moreover, when digitalisation projects have been undertaken by private companies prioritising short-term profits digital tools have often proven unreliable, which in some cases has generated public anger and mistrust.[114]

The complexity of outsourced IT systems can also obstruct public scrutiny, as government agencies lack the necessary knowledge and capacity to identify and approve digital technologies. In the Netherlands, the government outsourced its e-voting system in the late 1980s. However, it was clear it did not have the in-house knowledge and control of the technology needed to ensure the system met appropriate legal and security requirements. After two decades of reliance on a privatised e-voting system, the Dutch public administration had become so dependent on private companies that it lost control over not just the e-voting but also the election process itself, which severely eroded public trust. With the government lacking the in-house knowledge for adequate regulation or testing of the e-voting systems, the veracity of the election results was based on blind reliance on private companies. After a review, the government abandoned e-voting systems altogether and returned to paper-based voting. The case shows how privatised computer systems can undermine the democratic goal of transparent and open governance and erode public trust in administration.[115]

Privacy and security

The growing dependency on outsourced digital technology poses a major threat to the protection of personal data for public workers and service users alike. The South-Eastern Regional health authority in Norway decided to outsource data processing and ICT systems in order to save money, despite the warnings of workers and their union. As a result, outsourced workers in Asia and Eastern Europe were accidentally granted access to confidential health information on almost 3 million Norwegian citizens. The contract has now been terminated.[116]

Digitalisation introduced in the UK's National Health Service in the early 2000s involved a range of private companies such as Accenture, CSC, Fujitsu and British Telecom in managing digital care records. In 2008 the UK Parliament's Public Accounts Committee reported that the project had failed since it did not include any clinical functions. Moreover, since the digitisation project had been introduced top-down it lacked commitment from the staff who were supposed to be using the technology. In 2017 consultants at the Royal Free Hospital Trust in London hired the Google-owned artificial intelligence (AI) firm DeepMind to develop AI software for patient data despite the fact that they had no previous experience in healthcare. The result was that, without patients' knowledge, 1.6 million health records were transferred to servers contracted by Google.[117]

Job cuts and outsourcing

In the context of a drive to privatise within public administration, the introduction of digitalisation can form part of a broader structural reform agenda involving job cuts and outsourcing.

The 'reduction of administrative burden' has been a major aim of EU governments in the expansion of e-government.[118] The most at-risk jobs are those involving low-skilled or repetitive tasks relating to administration; database management; invoice handling and processing; and security and surveillance. For example, in France the trade unions representing workers in the public finance directorate (DGFiP) say that digitalisation has been a key driver in 30,000 job cuts since 2008.[119]

When digitalisation is led by private providers, the risk is that secure public sector employment is replaced by outsourced private sector employment. For example, the UK's NHS emergency response and Universal Credit call centres are operated by private contractors such as Serco.[120] This is associated with the rise of non-standard employment relationships, temporary work, bogus self-employment and zero-hours contracts without access to social protection or security coverage.[121]

Digital technology projects can only be effective when implemented with buy-in and involvement of workers. This is demonstrated in the case of Denmark, where the introduction of new digital tools has allowed local authority administrations to reduce monotonous tasks like paying invoices or handling simple cases. This has allowed for working time reductions of a around a third, but it meant that employees were able to spend time on more complex work and develop new skills. The process involved participation of workers from the public administration union HK Kommunal whose representatives were directly involved in the rollout of the automation process in the municipality.[122]

4.2 The Covid-19 pandemic

In times of emergency or crisis, public administrations are expected to take responsibility for lifesaving, essential work to protect the population. When Covid-19 began to spread across Europe in early 2020, public administrations were forced to take major, rapid action. This involved both expansion of previous functions on a mass scale, for instance public health advice and social protection systems, as well as rapid creation and deployment of new functions like virus tracking, tracing and testing and vaccine rollout programmes. Many of these functions involved the introduction of new digital tools, including online services, apps, and home working.

In some countries, the Covid-19 response led to the strengthening of pre-existing public administration systems and expanding their functions into new areas. For example, in Germany the testing system was built on the regional public health authority infrastructure and the redeployment of civil servants. Despite some initial strains, testing numbers soon increased rapidly.[123]

However, as the pandemic spread many governments felt unprepared, in part because of the hollowing out of public infrastructures through underfunding. The emergency exposed over-reliance on the market and the need for a fast response was often used to justify extensive use of private providers often at excessive cost and while circumventing of public procurement mechanisms.

In France, the reliance on consulting firms was described as ‘panic effect’ resulting from the slow start to the vaccine program.[124] In early 2022, the French senate began a public enquiry into the use of consulting firms such as Accenture, McKinsey and Citiwell in the management of the pandemic. The content of most contracts with the health ministry is often unknown but not the cost. Between January 2020 and January 2021 some 28 contracts between 7 consulting firms and the French health ministry were worth €11.3 million. Initially, consultants would often provide some services ‘pro-bono’ to then charge high fees[125].

In the UK, the government used the pandemic as an excuse to bypass usual competitive tendering procedures; adopting a fast-track process whereby civil servants were instructed to give priority to contractors - many of whom had personal links to MPs. An NAO report found that politically connected 'crony' firms were ten times more likely to get contracts than other firms.[126] Contracts worth over £19 billion were awarded without competitive tendering, in some cases to companies with no experience in the relevant field.[127]

The result was a series of high-cost failures. In one case, the company Ayanda Capital, a 'family business' owned through a tax haven in Mauritius with connections to Conservative MP Liz Truss, was awarded £253 million in contracts for personal protective equipment (PPE). However, its masks were found to be unusable and were never released for use in the NHS. Serco, a major outsourcing company with close ties to the Conservative Party was awarded £322m for contact tracing work without competition. The contract was renewed the following year despite the company not having met the minimum threshold of 80% needed for contact tracing to be effective — leaving around 2 million individuals untraced and uncontacted. In 2020, Serco was able to pay its shareholders dividends for the first time in seven years. In contrast, where local public authorities were used in the vaccine rollout the process was fast and effective, despite underfunding.[128]

In the 1980s Dutch governments introduced a series of legal and institutional changes to protect the public sector vaccine producer from privatisation, but ultimately corporate interests proved more powerful and in 2009 the state's vaccine production facilities were sold off.[129] The country is currently preparing to privatise the state institute for vaccine research, Intravacc. In January 2021 the renowned research institute, which has over 100 years' experience of developing vaccines, became a public shareholding Company with limited liability with the Dutch state as the sole shareholder.[130]

In Greece the Mitsotakis government rushed through outsourcing deals that handed over the management of the response to the pandemic to private companies.[131] There is a severe lack of transparency about these deals. For example, a private company was awarded €20m to run a Covid-19 public awareness campaign with no transparent procurement process or details on exact costs. Despite parliamentary requests, the government has refused to disclose these details. In addition, at the outbreak of the pandemic, the Ministry of Migration and Asylum was accused of bypassing standard procurement procedures and awarding contracts worth millions of euros to private companies while claiming that these contracts are "confidential". Despite this, some investigative research suggests that these deals with the private providers have been overpriced.[132]

5. Impact on workers and trade union responses

Privatisation and outsourcing of public administration mean a large and growing number of workers lose their status as public employees and are transferred to private employers. These private companies are not normally covered by the same collective agreements and in some countries may have no trade union representation or collective bargaining.

Privatisation of public administration functions in which women and ethnic minorities dominate - particularly facilities management such as cleaning, catering and security - also disproportionately excludes women and ethnic minorities from collective bargaining, leading to downward pressure on pay and conditions for these groups. This poses a problem for transparency in pay gap reporting since real gender and ethnic pay gaps are disguised by the exclusion of outsourced employees, who are often lower paid women and ethnic minorities.

The impacts of privatisation on the workforce across Europe do not follow a universal pattern and have been very mixed depending on a range of factors, including collective bargaining coverage; the role of trade unions; and public-private pay gaps. The 2008 crisis austerity packages introduced public sector pay freezes in countries across Europe, leading to a levelling down of public sector wages and conditions relative to the private sector.[133]

In cases like the UK where collective bargaining coverage in the private sector is much lower than in the public sector and where trade unions have a weaker role, privatisation and outsourcing have clearly had a detrimental impact on the workforce. This is because the state provides little protection and private companies have a free hand to increase profits through reducing employment numbers, increasing workloads and weakening working conditions. A report by the UK Trade Union Congress which includes analyses of privatisation of employment and offender management services highlights some of the main impacts on the workforce:[134]

Insecure working arrangements: Privatisation reduces employment security since workers' contracts depend on the private company, rather than the public body. Private sector workers are more likely to be under-employed or on short term contracts and a larger proportion are agency or self-employed workers.

Excessive workloads: A higher number of workers in the private sector work excessive hours than in the public sector.

Career progression: Private sector workers often have lower qualifications**.** Career progression is obstructed by separation from the public administration workforce and transfer between companies.

Lower pay: Private sector workers take home lower pay than public sector workers.

However, privatisation of public administration does not necessarily have the same impact in other countries where collective bargaining and/or legal provisions provide more protection such as the Nordic countries, Belgium, Austria, Spain and Italy.[135] Examples include:

- In **Italy**, union density in the public sector is much higher than the private sector, at 50% and 30% respectively, and there is a 100% coverage of collective agreements which are negotiated with the public employer organisation ARAN. By contrast, in the private sector there is no extension mechanism for collective agreements and collective bargaining coverage is 74%.[136] Public employees also enjoy greater job protection and better terms and conditions than private sector employees. Outsourcing of public administration employees was brought in as a response of the budgetary constraints and understaffing following austerity. However, despite a 2001 law allowing outsourcing of public administration, only a small number of public employees were outsourced to private companies. Public workers retained their status which allowed for the continued application of public sector collective agreements, while private companies set job content for seconded workers. Nonetheless, workers did not enjoy the full employment protections of public employees.[137]

- **Denmark** offers a typical example of Nordic industrial relations regimes, characterised by strong collective bargaining structures for public employees; extensive systems of employee involvement; and high union density, which in Danish public administration is around 89%.[138] Strong collective bargaining structures have buffered against the negative impacts of privatisation. The pay adjustment scheme linking wage movements in the public sector to those in the private sector has resulted in similar pay in both public and private sectors. Nonetheless, collective bargaining structures did not prevent a weakening of other benefits such as overtime, holidays and sick pay.[139]

An important factor in determining the impact of privatisation on the workforce is the application of employment protections. The 1977 Transfer of Undertakings Directive (TUPE) applied across EU Member States are intended to protect the terms and conditions for workers transferring when a public sector function is outsourced. However, TUPE has been interpreted in different ways by different EU countries. For example, in Germany and France, civil service workers have the right to refuse transfers; while in the UK refusal is effectively impossible.[140]

5.1 Trade union responses

Privatisation - whether in the form of PPPs, outsourcing or consultancy - can undermine collective bargaining and make union organisation more difficult when workers are divided into smaller units with different employers. Outsourced workers tend to be less unionised or represented by different unions**.** This has the effect of weakening solidarity and creating obstacles for union action. The fact that the decision to outsource work or bring in consultants is often not negotiated with trade unions is a further impediment to trade union action around privatisation.[141]

Ireland offers an example of how it is possible to regulate outsourcing through collective bargaining. The 2015 public sector agreement[142] contains provisions on outsourcing which, while not prohibiting outsourcing completely, require that unions are consulted before outsourcing can take place. A costed plan for assessing the service delivery must be presented, which importantly excludes: 'the totality of the labour costs'.[143] The process can also involve third party arbitration. This has led to some important wins: for example, preventing the outsourcing of telephone services in the Revenue Commission. While certain functions such as cleaning, security and IT have been outsourced, overall outsourcing has been limited in the Irish civil service as a result.

As discussed in section 2 above, austerity has been an important driver of privatisation in public administration, as budget cuts, staff cuts and caps on personnel costs have led to situations of understaffing where employers increasingly turn to outsourcing or consultancies to make up for the shortfall. Thus, it is important to make a link between privatisation and industrial action among public administration employees against austerity, even when these actions do not specifically address privatisation.

A key theme for trade unions in the UK has been the protection of employment standards and collective bargaining for outsourced workers. Unions have argued that the 2006 Transfer of Undertakings (Protection of Employment) Regulations (based on an EU related directive) need to be strengthened through the creation of a two-tier code of practice. The Regulations should guarantee that existing sectoral collective agreements are extended to all outsourced providers of public services.[144]

UK public administration union PCS has been engaging with and organising outsourced workers for a long time. This began at the shop-floor level, as union representatives increasingly came to cover issues of outsourced workers in the Department for Business, Energy and Industrial Strategy; expanding into other departments like the Foreign and Commonwealth Office and Revenue and Customs.[145] The main demand has been for a living wage, but unions have also taken action on working conditions and temporary contracts. Cleaners and security guards at the Ministry of Justice also went on strike and won not only wage increases, but also trade union recognition and sick pay during the pandemic.

The rise in temporary and outsourced work also created many problems related to access to income support schemes through employers, such as access to sick pay or the furlough scheme. In the UK, the PCS' 'Dying for Sick Pay' campaign demanded equal terms and conditions for outsourced workers, including full sick pay.[146] Early in the pandemic, the campaign secured an agreement that outsourced workers would be paid in full for sick pay and self-isolation.[147] By drawing attention to the problems of outsourced work, the aim of the campaign is to make these demands outlast the pandemic and make equal terms and conditions for outsourced workers a permanent condition.

6. Reclaiming public administration in Europe

Insourcing is about transferring privatised services back into public ownership, management, and control. However, there is also the question not only reversing privatisation but also providing public services in areas that are otherwise dominated by the private sector, such as digitalisation.

It is crucial that the public sector builds up capacity and skills so that it does not need to rely on private consultancy companies to carry out key services. The following section showcases three different variations of reclaiming the public ownership of public administration:

- The insourcing of outsourced services, drawing on the example of cleaning services in government buildings in the Netherlands.
- The termination of consultancy work, drawing on the example of unemployment statistics in Sweden.
- The extension of the remit of public administration, drawing on the example of the Bundescloud in Germany.

Netherlands: cleaning

The Dutch government has been insourcing its cleaning services since 2016. As each contract expired, the government brought them back in-house under the National Cleaning Organisation (RSO). Around 2000 cleaners have been impacted[148] and now almost all cleaning services are in-house.

When the service was outsourced, the workload was unrealistically high, with the example of one cleaner allowed only 30 seconds to clean two toilets; 90 minutes for seven floors; and an hour to vacuum 3,000 square metres.[149] Furthermore, cleaners often worked when ill, as they feared they would be fired if they took time off sick. Wages were low and often underpaid, while overtime was paid at a flat-rate and holiday entitlements ignored. There was also a lack of transparency over contracts and entitlements. [150]

These poor working conditions were common across the companies bidding for contracts with price the determining factor in the competition to win tenders. Yet the price of cleaning is, to a large degree, dependent on the wages and conditions of the workers. Companies are therefore under pressure to reduce staff costs. As the minimum wage is fixed, they may save costs through work intensification, faster cleaning routines and wage theft. [151]

When the Dutch government decided to insource cleaning, not only did pay and working conditions improve, but cleaners were also treated with much more respect. They now have more time to carry out their tasks and don't work during unsociable hours. Working during the day has not only had a great impact on their well-being but also means they are no longer invisible and have direct contact with other employees working in central administration.[152]

By the end of 2021, the Dutch government began moving security services in-house with around 50% of security staff in government buildings directly employed.[153]

Sweden: employment statistics

The National Statistics Bureau outsourced part of its unemployment statistics service to a consultancy in 2017 in a bid to cut costs. As a result, 37 bureau employees lost their jobs. The consultancy, Evry, came up with a cheaper way to compile statistics that proved methodologically unreliable, with 'unexplained discrepancies in the raw data'[154] and incorrect statistics presented to the government. Consequently, the consultancy agreement with Evry was cancelled and the service insourced.[155] However, before the insourcing, an extra one-year contract worth SEK 5.1 million (€501,312) was awarded to Evry since the national statistics department no longer had the capacity to undertake the research immediately.[156]

Germany: 'Bundescloud'

Rather than depending on private IT companies, the German government has decided to achieve digital autonomy through a strategy to consolidate the federal administration's IT networks, which had been growing organically and were very fragmented. The government bundled together contracts for its data centres and centralised IT procurement, thus saving costs. As part of this process, it established its own 'Bundescloud' – federal cloud services that have been available since 2017. Owned by the federal government, they aim to ensure privacy and IT security by storing data in the government's own data centres. This process prevents uncontrolled data leaks and maintains sovereignty and control, especially through independence from leasing models. Through the Bundescloud and by consolidating various IT services, the government is investing in technology and expertise and hoping to create attractive working conditions for IT experts in order to build inhouse skills.[157]

7. Conclusions and recommendations

The overall conclusion of this report is that the role of the private sector in public administration needs to be re-thought. Privatisation, consultancies and outsourcing have caused fundamental changes in the structure of public administration, hollowing out large parts of it while skills and expertise are transferred to the private sector.

For too long, the policy of many governments has been driven by the neoliberal assumption that public administration is inherently inefficient, oversized and an obstacle to change. This logic leads to calls for it to be trimmed down, privatised, restructured, or contracted out and to be run less like a public service and more like a private business. The effect has been to undermine the development of strong, quality public institutions. These are necessary not only to tackle crises like the Covid-19 pandemic, but also to address future challenges such as demographic and technological change and confronting the climate crisis. The public sector needs to find ways of preparing for these processes rather than being dependent on private companies pursuing profits.

A new framework is needed for assessing social value in core public administration functions that moves away from the narrow focus on 'efficiencies' and cost savings. Rather, public administration needs to be based on public good rather than private profit, with a focus on coordination and integration as well as transparency, accountability and building expertise in the public sector.

Recommendations

Based on this research, PSIRU has identified a set of policy recommendations for trade unions and policy makers at national and European levels.

Influencing decision making and policies

- New Public Management (NPM) is not working. Central governments and the public sector as a whole are very different from private business. An alternative framework is needed that does not force governments to act like companies. Some scholars and practitioners have argued for a 'public value paradigm' as an alternative approach.[158] This is a model that recognises the social values inherent in the public sector, putting the focus on public interest rather than profit maximisation. In a similar vein, EPSU has been pushing for public-public partnerships as opposed to public-private partnerships;

- Before any government activity (whether in the realm of planning, management or service delivery) is put out for tender, the in-house alternative needs to be thoroughly examined in consultation with trade unions on the basis of both quality and value for money;

- Trade unions and policy makers need to argue for provisions, as seen for instance in the public sector collective agreement in Ireland which requires consultation with trade unions in advance of any outsourcing;

- When services cannot be provided in-house, it is important that much stronger standards are set for tendering, bidding and contracting. These include standards on wages and conditions for workers, as well as greater transparency from contractors;

- As a good practice, there should be a full consultation with relevant stakeholders, staff, trade unions, service users and the general public before the decision is made to privatise or use consultancies.

Transparency and research

- Regulations for greater transparency over the use of consultants needs to be introduced, covering the tasks consultants undertake and how much the government spends on them;

- Central government workers and civil servants, together with their unions, can make a major contribution to greater transparency by providing information and research to counter the arguments that consultancy and outsourcing deliver better services and that public-private partnerships (PPPs) can solve public finance problems.

Building public sector capacity

- A common framework needs to be developed for measuring public administration according to the values of integration, accountability, equal treatment and building expertise in the public sector rather than simply lowering costs before the decision to outsource is made;

- The direct recruitment of civil servants should be prioritised over the hiring of consultants so that the government can focus on long-term gains rather than short-term fixes. Staff should be properly trained and capacity building should be incentivised so that governments have the skills and motivated staff to deal with the everyday challenges in a fast-changing world. Digitalisation and recent experience with the Covid-19 pandemic showcase the importance of in-house capacity;

- The example of the German Bundescloud shows that is possible and safer for governments to store their data in their own data centres. Rather than relying on private companies, Germany established its own cloud system to maintain sovereignty and control over its data and to secure itself from data leaks. Germany is not only investing in technology and expertise, but it is also investing in the creation of attractive working conditions for IT experts in order to build in-house skills.

Resisting privatisation, austerity and precarious working conditions

- Workers together with their trade unions need to resist privatisation in central government by any means possible. Considering the weakening of collective bargaining in many European countries, trade unions cannot rely on their position on the negotiation table but must actively fight against privatisation and for the insourcing of central government tasks and services;

- Campaigns to insource facility staff can and have been won. However, in most countries many central governmental tasks and services are still outsourced. It is therefore important that trade unions learn from each other and share advice on how to successfully campaign for the in-house option;

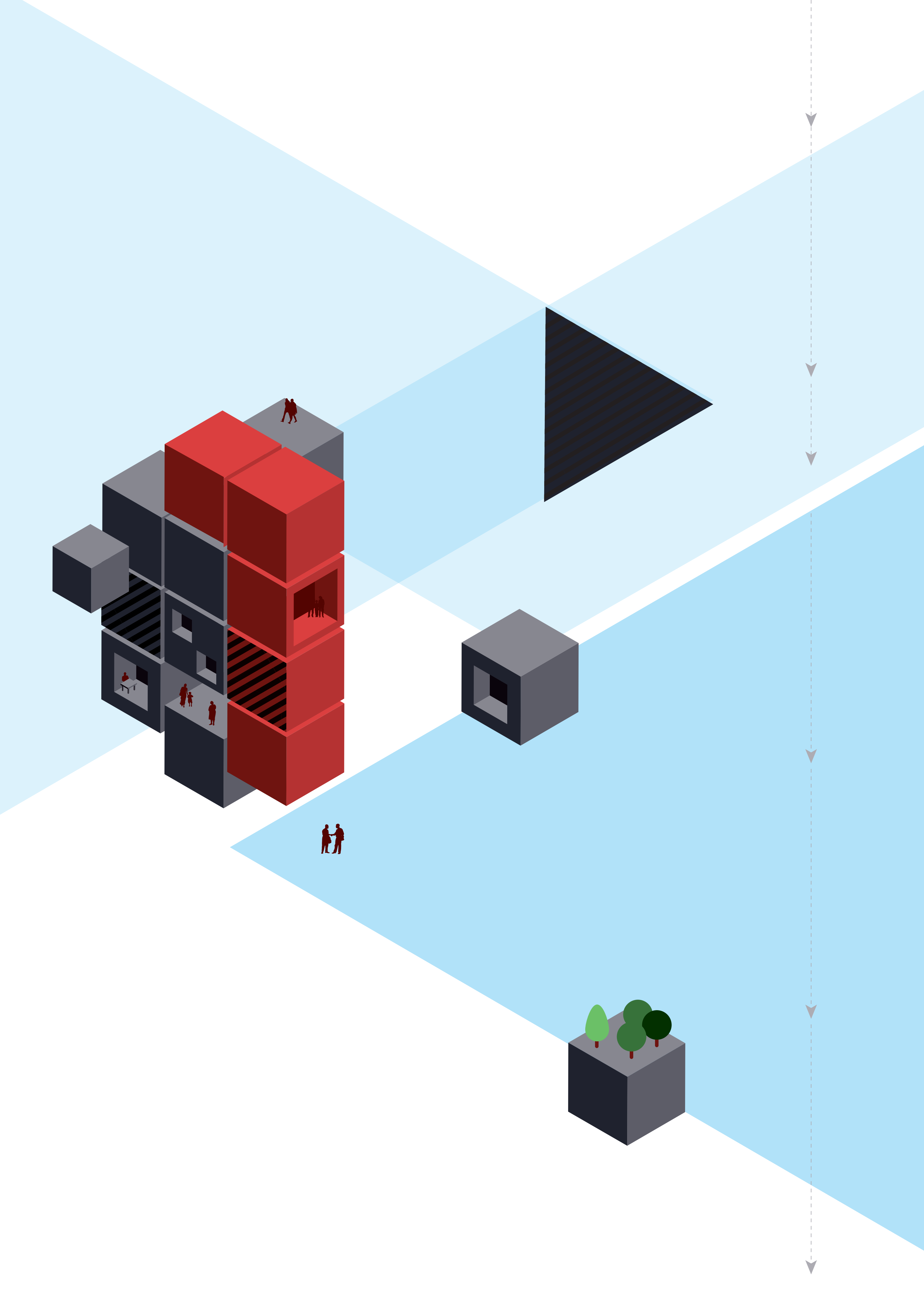
- When services are outsourced, it is important that mechanisms for the protection of collective bargaining and employment conditions are strengthened for outsourced workers;

- Outsourcing services should not be a barrier to solidarity between workers. Unions should campaign for a living wage, equal terms and conditions for outsourced workers. Solidarity from in-house workers is key for successful campaigns for outsourced workers;

- Trade unions can build coalitions not least with service users to lobby and campaign at national, European and global levels for direct public provision and investment and expose the problems with all forms of privatisation.

EPSU affiliates participating in the study

Trade union	Country
USLGPSEA	Armenia
GÃ–D/FSG	Austria
UNSA	France
Ver.di	Germany
FNV	Netherlands
NTL	Norway
Fackförbundet ST	Sweden
PCS	UK
Fórsa	Ireland



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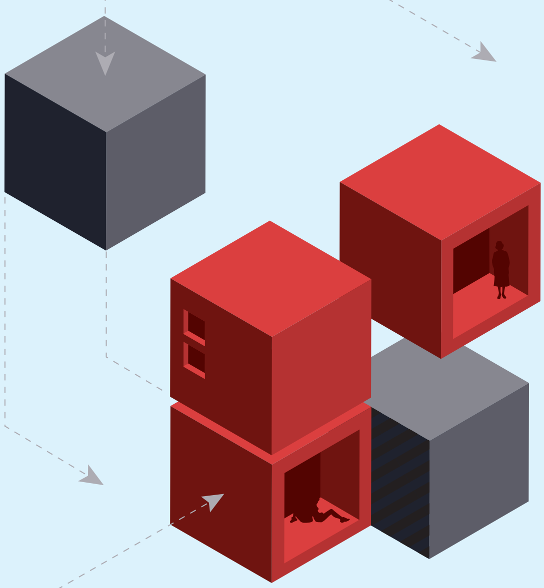

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