

United Kingdom

Private choice versus accountability and equity

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Public services were a priority of Labour's second term in government, and look set to be so again in the third term with a welcome commitment to expanded funding and improved quality. The British government, however, appears unshakeable in the belief that market rules and private choice are the only drivers of service improvement, refusing to engage with concerns about accountability and equity.

Public services in the United Kingdom, as elsewhere, are a heterogeneous mixture with shifting boundaries rather than a closed and generally agreed set of services. Whilst public administration theorists have endeavoured to categorise public services on the basis of funding streams and channels of accountability, the 'publicness' of a service often describes a widely shared sense that a service is a matter for the collective rather than the individual.

At the core of public services in the United Kingdom is the welfare state, devised in its current form following the 1942 report 'Social Insurance and Allied Services' (known as the 'Beveridge Report'). The British economist William Beveridge proposed a universal contributory insurance system, in which benefits were not dependent on a means test (as previously) but were paid as a right of citizenship. With the implementation of Beveridge's proposals, alongside the creation of a National Health Service (NHS) and a system of compulsory education, a pattern of public services emerged by the late 1940s that is still recognisable today. In addition to health, education and welfare services, the government provides or regulates a wide range of services including the police force and the courts, public transport, the postal service, the utilities (water, gas, electrici-

ty), environmental services, roads, driving licences and passports. Not all of these services are at the forefront of debate on public services, but together they make up a set of services which are allocated on principles determined by the state rather than left to the free market.

All UK governments since 1950 have left their mark on public service provision, and none more so than those of Margaret Thatcher and John Major, from 1979 to 1997. Whilst these 18 years of Conservative governments left the proportion of GDP spent by the state relatively stable, they radically transformed the parameters of service provision. The governments led by Thatcher and Major followed a 'new public management' agenda, encompassing the privatisation and disaggregation of government service provision, the use of competition, performance measurement and tighter cost control (Hood, 1991:4-5). The Conservative governments privatised the majority of nationalised industries and utilities; contracted out service delivery to the private sector at central and local government levels; decentralised much of the civil service into executive agencies under the Next Steps reforms; set up an internal market in the NHS; introduced performance indicators for most public services; and enhanced user choice and responsiveness.

By the time the Conservatives left office in 1997, there had been a shift from a 'welfare state,' in which government funded and produced a wide range of services, to a 'regulatory state' in which government regulated the production of a narrower range of public services (Loughlin and Scott, 1997:205). Whilst campaigning in the 1997 election on a '24-hours to save the NHS' slogan, Labour in power reversed little of the Conservative agenda, sharing many of the new public management assumptions of their predecessors. Bringing in senior business executives to advise him, Prime Minister Tony Blair signalled clearly that public services could only be improved by injecting some of the dynamism of the private sector. Rather than rejecting the performance targets and efficiency measures of their predecessors, Labour sought to extend and improve them. The emphases on 'joined up' service delivery and the need for 'best value,' for example, were attempts to redress the fragmentation and seemingly arbitrary cost cuts of earlier reforms. A commitment to 'evidence-based policy' sought to root the reforms more firmly in managerial rationalism.

Now in its third term in office and ninth year in government, the Labour government has altered the landscape of public service provision. In its first term, Labour concentrated on welfare reforms, with a 'new deal' programme that restructured the welfare state around getting people back into work, and aimed to tackle child and pensioner poverty. It also saw the creation of an extensive set of performance targets to improve service delivery in central and local government. Departments were required to sign Public Service Agreements with the Treasury, making future funding conditional on meeting a series of targets. The second term saw a range of radical proposals to restructure public services, including foundation hospitals, independent diagnostic and treatment centres to take the pressure off the NHS, academy schools and university tuition fees. Labour's third term agenda promised an injection of localism and choice into public service provision, freeing high performing service providers from the heavy-weight target regime. Continuing the Conservative enthusiasm for non-state solutions, the Labour governments endorsed a governance approach, in which government works in partnership with private and non-profit organisations to provide a diverse set of services (Rhodes, 1997).

The dominant paradigm of neo-liberalism within government clashes with long-standing commitments to a social market model, reflected in trade unions and pub-

lic attitudes. Membership of the European Union offers an ambiguous influence, supporting the social model through stronger employment rights but discouraging state investment in public services through the criteria for economic and monetary convergence (Bieler, 2003:31). The UK government has argued that its policies are inevitable given a number of challenges to existing public service provision: ageing populations, escalating health care costs, rising public expectations, a looming pensions crisis, changing family structures, declining union membership and threats of capital flight.

Funding and other key themes

The UK government spends in public services about 41 percent of the national income – amounting to GBP 453 billion in the tax year 2003-04, or GBP 7,700 for each person in Britain (equivalent to USD 14,183, according to the exchange rate of September 2005). Public spending since the sixties has fluctuated, reaching a high of 50 percent in the mid seventies, and sinking to 37 percent in the late nineties. The government projects that it will stabilise at 42 percent of national income in the next five years. Despite recent increases, UK spending remains relatively low in comparison with the EU average of 48.5 percent (Emmerson, et al., 2004).

Social security and health have been growth areas in recent years. The Institute of Fiscal Studies notes that spending on social security benefits has more than doubled in real terms between 1978-79 and 2003-04 (Emmerson et al, 2004). Given the Labour government's commitments to reduce child and pensioner poverty, further increases in the social security budget are likely. Health spending has also been expanding, with the government committed to increasing expenditure towards the European average. Spending on other public services – education, law and protection, transport – has been increasing slowly under Labour, after many years of underinvestment. Defence spending has more than halved from the mid eighties to the current time.

The government raises revenue from a range of sources, of which the most important is income tax. Unlike social insurance states, which emphasise inter-temporal redistribution within the life cycle, the UK funds most public services through general taxation, emphasising interpersonal transfers. In 2004-05 income tax is expected to generate GBP 128 billion, 28 percent of government revenue.



The UK is a relatively low tax country when compared with the G7 and EU averages. The top rate on earnings was cut to 60 percent in 1979 and again to 30 percent in 1988. The basic rate fell from 35 percent in 1977 to 22 percent in 2000 (Clark and Dilnot, 2002). However the costs of these reductions were offset by abolishing allowances such as mortgage tax relief, life assurance premium relief and the married couple's allowance. The number of higher-rate taxpayers increased due to changes in the thresholds. The Labour government after 1997 reduced the starting rate of tax to 10 percent and introduced a system of tax credits. The Child Tax Credit and the Working Tax Credit are means-tested allowances designed to make work more attractive to low-income families.

National Insurance acts as a near replica of income tax. Everyone in work must pay it in order to qualify for benefits, such as old age pension, incapacity benefit, job-seeker's allowance and maternity benefit. Value added tax (VAT) is a sales tax, levied at 17.5 percent on non-essential goods. Domestic fuel is taxed at a lower rate. Corporation tax has a main rate of 30 percent with a small companies' rate of 19 percent. All the taxes are collected by central government with the exception of council tax, which amounts to 4 percent of overall revenue (Adam, 2004).

User charges (such as road tolls and education tuition fees) raise less than 1 percent of government income as a proportion of GDP in the UK, according to OECD data. This figure, which includes payment for NHS prescriptions, dentistry and optician services, is lower than in most other European countries (Robinson, 2004). However, there does appear to be a political trend towards greater use of user charges, or 'co-payments' as they are also termed, one of several features of the Labour reform agenda that highlight its concern with cost control.

Cost-containment

A priority for the Labour government has been to improve control over the costs of public services. Whilst the broad trajectory of public spending is upward, the government has emphasised the need for increased investment to be accompanied by enhanced efficiency. To drive forward the efficiency agenda, an independent review was set up in 2003 led by Sir Peter Gershon, dubbed the 'waste-finder general' (Walker, 2004). The Gershon review, published in July 2004, called on gov-

ernment to find GBP 21.5 billion in 'efficiency savings' (Gershon, 2004). Alongside Gershon the government also commissioned reports into improving government productivity measures (Atkinson, 2005), and relocating public servants out of London (Lyons, 2004).

In his 2004 budget, responding to the Gershon recommendations, the Chancellor of the Exchequer announced that 2.5 percent of efficiency savings were to be achieved across public services (HM Treasury, 2004). These savings were not cuts: departments and local authorities were to be allowed to retain any 'cashable' efficiency gains. However those responsible for finding savings expressed concern about future 'deal creep', with savings being deducted from local government monies (Gillespie, 2005).

The transfer of resources and discretion to front-line staff has been a priority in improving services for users. As the Gershon Review put it, 'The aim of this review is to ensure that front-line staff get the resources they need to do their job even better, and that the bureaucracy that can get in their way is removed' (Gershon, 2004:37). The emphasis on front-line staff was designed to improve the experience of service users, but also to enhance efficiency. According to Gershon, 'Front-line staff are there to deliver services to the user and reducing the amount of time they spend away from these core activities is an important part of efficiency' (Gershon, 2004:10). Trade unions representing civil servants, such as the Public and Commercial Services Union (PCS), have reacted angrily to the suggestion that 'back office' bureaucrats are synonymous with waste and highlighted the important role that support service staff play in ensuring that front line services can be delivered (Serwotka, 2005).

Alongside the drive to spend less money came the concern to out-source as much as possible. Spending money on procurement rather than in-house staffing was seen as a way to tackle the principal-agent problems that inhibited efficient resource use, through a clearer definition of roles. Blair argued in a 2003 paper, 'We should be far more radical about the role of the state as regulator rather than provider' (Blair, 2003). The Gershon review process identified procurement as a prime area for cost saving, and supported the creation of Regional Centres of Excellence to assist local government and agencies with procurement (ODPM, 2003; Gershon, 2004:9). One of the most radical and controversial uses of outsourcing has been the use of independent diagnostic and treatment centres by the NHS to cut waiting lists for elective

surgery. Whilst the government argues that such centres are a cost-effective way to cut waiting lists, critics such as Allyson Pollock, Professor of International Public Health Policy at the University of Edinburgh, argue that they result in the NHS closing beds, losing income and losing the ability to train doctors as a result of the forced transfer of contracts to the centres (Pollock, 2005).

The cost-containment agenda in social housing has driven the process of large-scale voluntary transfers of council housing stock to so-called 'arms-length' management organisations (ALMOs). Tenants balloted on transfer have been told that repair backlogs will only be dealt with if they support the transfer, leading some to reject a deal that they see as offering no real choice at all (Daly *et al.*, 2004). Support has grown behind a movement for a so-called 'fourth option' for tenants, under which housing stock remains under council control, although the government has so far refused to countenance such an outcome.

In welfare payments, the cost-containment agenda has involved a budgetary sleight of hand, moving from benefit transfers to tax credits, which count as negative taxation rather than expenditure (Grieve Smith, 2002). Labour has expanded the use of means-testing of welfare payments, such as child benefit, emphasizing the importance of targeting resources to maximise social benefits rather than providing universal cover. Whilst these concerns for allocative efficiency were assumed to be compatible with broader concerns to secure productive efficiency (i.e. to improve the ratio of inputs to outputs), they were not necessarily pulling in the same direction. A Parliamentary report on the UK tax credits system in June 2005, for example, highlighted the wastefulness and ineffectiveness of the complex payment system (Parliamentary Ombudsman, 2005).

Competition – or 'contestability' as it is known in government – has been seen as a key driver of efficiency in service provision. A payment by results system being introduced into the NHS alongside enhanced user choice ensures that money will follow the patient, penalising unpopular hospitals with the threat of closure. Critics of the scheme argue that it marks the end to the tradition of mutual support and collaboration that characterised the NHS, at least up until the Conservatives introduced the internal market in the nineties. In today's NHS critics find a commercial culture where there was once an ethos of care, a privately-owned infrastructure in place of a set of public institutions, and a fragmented, inefficient

service in place of an integrated system of planned care (Pollock, 2005). The announcement in February 2005 that some GP out-of-hours services may be withdrawn wholly supports concerns about the fragmentation of care and the escalation of regional differences in service (Laurance, 2005).

Finally, the cost-containment agenda has been pushed forward through the expansion of co-payments: road tolls have been introduced in London and on some major trunk roads. University students will be required to pay tuition fees of up to £3,000 a year from 2006. Whilst these reforms are in part an attempt to reduce the extent to which the costs of service are borne by the state, they are also part of a related process: that of risk-transfer.

Risk-transfer

Recent governments in the UK have been keen to transfer risk away from political institutions. A key element of this goal has been the transfer of risk to the private sector through private finance projects. Blair gave a commitment to enhancing the role of the market and reducing the scope of the state in his 1999 paper with German Chancellor Gerhardt Schröder, 'The Way Forward for Europe's Social Democrats' (Blair and Schröder, 1999). Private financing of public services is designed to reduce risks and costs through harnessing the efficiency incentives of private sector operatives. Public Private Partnerships (PPPs) in the UK are planned to provide GBP 7 billion a year of new investment (ESRC, 2004). Core aspects of state provision such as social housing are now built and run by private companies (the ALMOs discussed above) with minimal state oversight. Privatisation is used even where it appears ill-suited to addressing inadequacies in service quality, as in Britain's railways (Catalyst, 2005). In many projects risk-transfer has been inadequate, as private contractors are shielded from major risks to induce participation (Grieve Smith, 2002:9). The political costs of failure in big capital projects remain so high that central and local governments have to bail out poor performers, diminishing any sense of risk-transfer. A Public Accounts Committee's report of the enormous windfall profits made by Private Finance Initiative schemes revealed the extent of plundering of public services for private profit (Hencke, 2005). A source of dismay for many critics of PPPs is that 20-25 year contracts have been signed for services such as upgrading GP surgeries and providing school meals,



making it very difficult for the government to extract itself when the services provided under contract do not meet user needs.

A second form of risk-transfer that has been pursued is from government to the individual. In the UK, pension provision is being shifted onto the individual. Government since the eighties has encouraged individuals to take out occupational and private pensions, creating a scandal of mis-selling and deepening pensioner poverty (Davies et al, 2003). The growth of compulsory work schemes (welfare to work) in the UK shifts responsibility for unemployment to the individual, focusing on individual sanctions rather than tackling high levels of structural unemployment in declining areas. The introduction of co-payments is also part of the risk-transfer agenda. Tuition fees for higher education, for example, are justified on the basis of the higher future earnings of graduates compared to non-graduates, although concerns have been raised about the extent to which such income differentials will be maintained as the market becomes saturated with graduates. Another form of risk-transfer pursued by the government has been the direct payment of care budgets to those eligible for state support. Recipients are given greater freedom to manage their own package of care, including the payment and management of care providers. Whilst such an initiative is empowering for many users, it passes the responsibility for appropriate service and personnel selection from the state to the individual.

The rhetoric of choice, which is central to Blair's agenda can be seen as a form of risk-transfer. Choice has been put forward in a wide range of different services and processes, many of which are potentially liberating for service users, but some of which raise concerns about risk, capacity and equity. The responsibility for choosing hospitals and schools is transferred to the individual, a choice that many are likely to perceive as taking a risk in conditions of great uncertainty. There is a danger that resources will be accrued by those most skilful at exercising choice. Inequities are particularly likely to occur in sectors where there is a shortage of capacity. The lesson of school choice over the last fifteen years is that limited capacity leads to successful schools choosing pupils, rather than pupils choosing schools. The same may happen in the National Health Service if successful hospitals and private treatment centres are able to 'cherry pick' patients, ignoring those with the most complex or chronic needs.

Decentralisation

Whilst the Labour government began its period in office by emphasising the importance of central audit and regulation, it has recently indicated its enthusiasm for light-touch audit regimes for high performing providers. In local government in particular, it has endorsed a 'new localism' agenda, reducing the numbers of targets and encouraging local authorities to explore innovative approaches to service delivery by working in partnership with the profit and not-for-profit sectors. The government has indicated that it sees 'communities' as important stakeholders in the improvement of public services, and seeks to encourage community-based initiatives to deliver services. After the 2005 election a new post of Communities and Local Government Minister was created, highlighting the importance of the community agenda to Labour's third term.

Two key areas highlight the government's search for innovative para-state models of service delivery. In the NHS since 2004 high performing hospital trusts have been able to become public interest companies with foundation trust status. Foundation hospitals have greater freedoms than other hospitals to manage their finances and sell off capital assets. Representatives of local communities are elected to the management board of the trusts, in theory strengthening accountability to local people. However, critics point to very low levels of voter registration in foundation trust elections, and argue that foundation status erodes the principle of cooperation and central planning which has underpinned the success of the NHS since its inception (Pollock, 2005).

Academy schools are another initiative developed by Labour in its second term, and playing a key role in its education agenda for the third term. Academies are the government's response to 'failing' schools, particularly in inner cities, and to rising demand for school places. The academy initiative closes 'failing' schools and brings in a small amount of private finance to contribute to the costs of new premises. For their GBP 2 million, private investors get to name the school and to nominate a majority of the members of the governing board. The financial risks of academies remain with the public sector as all future costs (including capital overspend, salaries, overheads) are borne by the state in perpetuity. Supporters of the academy initiative say that academies inject private finance, business acumen and public investment into areas of particular deprivation. Critics say they are an untested experiment, which cut vulnera-

ble schools off from local education authority support, give too much influence to private investors with their own educational agendas, and starve nearby schools of resources and good teaching staff.

Critics of these para-state models of service delivery have highlighted the reduced accountability of the new institutions. Concerns over financial management and workforce issues at some of the new foundation hospitals and academy schools appear to endorse the need for caution. Calls from a range of sources, including the Education and Skills Select Committee in Parliament, to undertake pilots or wait for proper evaluation before continuing with these schemes have been ignored by ministers.

Challenges for the Future

These trends towards cost containment, risk-transfer and deregulation of public services have profound implications for public service users and workers. Governments' rationale for public services is increasingly on the basis of individual rather than collective benefits. Health and education are promoted as individual goods that enhance the quality of life and earning potential of the citizen-customer, rather than collective goods enjoyed by the community. Such a rationale makes it easier to expand public service user charges from current low levels (0.25 percent of GDP) in the UK (Robinson, 2004:8), despite evidence of their high administration costs and detrimental impact on access to services for poorer citizens (Wanless,

Campaigning for better public services

Public services in the UK will need to be resilient to withstand internal pressures from a government with neo-liberal sympathies and external pressures from free-marketeers in the EU and beyond. The following themes are central to campaigns to ensure a robust future for public services.

- Reintroduction of the principle of government as a model employer. The long-standing assumption that government will set high-quality employment standards as an example for other sectors to follow has been eroded (Sachdev, 2004). This principle needs to be restated.
- Expanded provision for trade union and workforce representation within public-service governance structures, including on the boards of non-state providers such as religious organisations and public-interest companies. The Association of Public Service Excellence has encouraged union involvement in service provision, and provides examples of good practice. Common themes include employee involvement in service design, training programmes and democratic accountability (APSE, 2004).
- Recognition of the limitations of contracting for public services, given the intangible nature of many aspects of public services and the transaction costs of the tendering process. In-house bids should be encouraged to retain expertise and accountability. Where contracting is used, more rigorous testing of the value-for-money of private contracts is required. Too many PPP projects rely on overly optimistic assumptions about rates of borrowing and project costings, resulting in projects that over-run and over-spend. More rigorous and transparent assessment of contracting processes needs to be introduced.
- Restatement of the principle of fair wages, so that private employers contracted to government offer staff terms and conditions that are comparable to those of public-sector employees, extending workforce regulations which already exist for some public-service providers.
- Rebalancing of existing forms of audit and inspection which impose rigid oversight of all aspects of the public sector but allow private contractors to hide their profits and employment practices behind the cloak of commercial confidentiality. Common standards need to be enforced which permit innovation and diversity but do so under a framework of transparent and accountable public services.
- Sharing and dissemination of comparative research data on public services in the UK and beyond, to highlight common challenges and progressive alternatives. For example, governments in Scotland and Wales have experimented with non-market solutions to some of the challenges facing public services. In Wales in particular, moves to reduce testing in schools, expand funding for care of the elderly and prioritise better public health over individual choice in the NHS, point the way to an alternative agenda.



2002). Means-tested benefits and tax credits are expanded, ignoring evidence that stigma and complexity lead to low take-up. In pensions in the UK, for example, a third of those eligible for the Minimum Income Guarantee were not claiming (Hughes, 2003). The state's role is one of compensating workers for the failings of the flexible labour market, rather than addressing the symptoms of labour market disadvantage (Bennett, 2002).

The movement away from a collective to an individual approach to risk erodes those social institutions which focus on achieving collective concessions for the workforce. For public service workers, transfer of public service employees to the private sector can be seen as part of a strategy to reduce unionisation, and create a flexible labour market. Union membership fell by 12 percent between 1993 and 2003, from 8.8m to 7.6m (EIRO, 2004). Private companies are less likely to be unionised than the public sector: in the UK, 62 percent of the public sector workforce is unionised compared to 20 percent of the private sector workforce (Bryson and Gomez, 2003:53).

However, even where services are retained in-house, the need to compete with outside contractors pushes down the terms, conditions and job security of public sector employees. Temporary workers make up almost 11 percent of the total public sector workforce in 2002 (Conley, 2002:726). Staff shortages currently leave UK local authorities with shortages of up to 46 percent among social care staff (Conley, 2002:728). Women are particularly hard hit by casualisation, as they make up the majority of the temporary, part-time workforce (Conley, 2002:730).

Public service unions have a reservoir of public support for their members on which to build. A MORI poll for the GMB trade union in July 2001 found that two-thirds of respondents would prioritise improving the pay and conditions of public sector workers to improve public services (MORI, 2001). A Guardian/ICM poll in 2003 found that 62 percent of voters felt that the government was placing too much emphasis on using private companies to provide public services (Guardian, 2003). The government has in some cases shown a willingness to work creatively with unions to develop improved public services. These include the 'Agenda for Change' pay negotiations in the health service, which have allowed for considerable simplification and modernisation of NHS pay structures and working practices; and the 'Workforce Remodelling' agreement for schools which, while not without controversy, has been seen by some unions and

employees as a form of 'modernisation' which they can support and benefit from.

These concessions from government were welcome. However the UK's public service agenda is likely to be increasingly constrained by pan-European and global pressures to open up public services to cross-border competition. A series of recent Court of Justice rulings seem to call into question the subsidies that member-states pay to maintain public services (known as 'services of general interest'), such as energy, postal and transport services. Earlier in 2005 the European Commission considered a new services directive (the so-called 'Bolkestein Directive'), which sought to create a single market in all services, including some provided by governments. For the moment the Commission has resisted the pressure to frame a new directive, but the debate over public services is not likely to fade away. Nor are pressures from the World Trade Organisation, which seeks to expand the General Agreement on Trade in Services to cover a wider range of sectors, including some traditionally in the public domain. Health services in particular are seen as vulnerable to marketisation, since many EU states already have a private health sector, keen to expand into areas of health provision controlled by the state. Combined with pressures on Eurozone governments to cut public spending to meet the EU rules on budget deficits, it will increasingly be at the EU-level that the future of public services is decided.

As the government settles into its third term in office – the first time the Labour Party has ever won a third term – the future for public services is unclear. Public services were a priority of Labour's second term, and look set to be so in the third term also, with a welcome commitment to expanded funding and improved quality. The government has shown a willingness to negotiate with public service unions in some sectors to agree a fair package of pay and conditions. However, Blair and his ministers appear unshakeable in the belief that contestability and choice are the only drivers of service improvement, refusing to engage with concerns about accountability and equity. This faith in competition and private sector involvement in public services appears to be in line with supranational institutions such as the EU and WTO, each of whom look set to have increasing influence over national public service provision. The future of public services in the UK depends in part on that supranational agenda, but also on domestic political shifts, for example, in the leadership of the Labour Party.

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