

How Blair's government fleeces British workers on behalf of business

Plundering the Public Sector

Julie Hyland
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Plundering the Public Sector—How New Labour Are Letting Consultants Run Off with £70 Billion of Our Money, by David Craig with Richard Brooks, Published by Constable, 2006

Plundering the Public Sector is a timely publication. This week, the National Audit Office issued a report explaining that key parts of a multibillion-pound information technology upgrade for the National Health Service are falling well behind schedule and the project's costs are rising.

The IT bill was set to be £12.4 billion, including the original £6.2 billion contract cost, which has risen to £6.8 billion. But with training, implementation and replacing core contracts that expire before the end of the 10-year period, the total bill will be closer to £20 billion.

Earlier this month, Paul Miller, chairman of the British Medical Association's consultants committee, told a conference that the growing financial crisis in the National Health Service was a result of the government wasting money by involving the private sector in health care—including spending £1 billion each year on management consultants.

In this book, published in May, David Craig (a pseudonym) had forecast precisely such a scenario for the largest civil computer project in history—the NHS National Programme for IT (subsequently renamed Connecting for Health).

As a consultant, Craig has some experience in the field and has authored *Rip-Off! The Scandalous Inside Story of the Management Consulting Money Machine*. Richard Brooks has written on aspects of the government's public sector reforms for the satirical *Private Eye* magazine.

Craig's latest work turns the spotlight on private consultancy involvement in the public sector. Detailing the relationship between Prime Minister Tony Blair's New Labour government and a narrow group of management and IT consultancy firms, *Plundering the Public Sector* sets out to give the "inside story of lies, stupidity and greed with shocking results: our services are being decimated while consulting is creating more millionaires than the National Lottery."

The NHS project could yet be the most expensive catastrophe of all the government's projects, the book warns. Detailing how billions of public money had been committed to the vast project without any pilot scheme or substantive testing programme, Craig envisages an even greater potential total cost of up to £30 billion.

The cost of the programme is to be financed up front out of hospital health care budgets. This means that whilst private consultancies are being paid millions for an unproven project—aspects of which, such as the Choose and Book appointment system, have already proven inadequate—financially stretched hospitals are now laying off hundreds of staff, closing wards and cancelling operations.

Given that the government has justified lavishing public money on a handful of apparently expert management and IT consultancy firms in

order to "improve" and "modernise" public services, one would assume that the companies responsible for such expensive failures would be held to account. Not only has the government failed to do so in the NHS and other areas of essential provision where costly fiascos have occurred, but New Labour continues to squander public finances on companies with a proven track record of failure.

Before 1997, Labour had criticised the Conservative government for its spending on management and IT consultants. Now, it is spending far more than its predecessor.

The government refuses to disclose the exact figures, but *Plundering the Public Sector* states that between 2003 and 2004, public sector spending on management consultants' advice rose by 178 percent in the Ministry of Defence (MoD), 340 percent in the NHS, and a massive 460 percent in local government. Between 1997 and the end of 2005, "New Labour will probably have spent over £10 billion on management consultants," the book states.

The Management Consultancies Association (MCA), whose members make up around half of the industry, earned £196 million from the public sector in 1996. By 2004, it had increased by 850 percent to £1,865 million. This *excludes* the cost of developing IT systems. And, despite an extensive Civil Service with "3,000 mandarin-grade officials, not to mention tens of thousands more at professional grades, schooled over their careers in providing policy advice," by 2004 Whitehall departments accounted for 55 percent of the public sector spending on consultants. Tellingly, one leading management consultant had publicly advised his fellow practitioners prior to the 2005 general election to "vote with their wallets and vote for Labour."

The occasion for this feeding frenzy is the privatisation of essential public services that is taking place under the government's Private Finance Initiative (PFI) and Private-Public Partnership (PPP). Inherited from the Conservatives, the programmes have been massively extended under Labour. In areas ranging from health and education to customs and excise, defence and even the government spy centre GCHQ, private capital is making a killing from taking over and running nominally "public" services.

Management and IT consultancies form an important link in this chain: advising government on the areas to be parcelled out and the best means for doing so, providing link-ups to the private corporations that will take over, whilst enabling New Labour to spin this plunder of public assets as a "modernising" and cost-effective measure.

If current spending patterns continue, Craig explains, PFI and PPP programmes will have yielded a further "£5 billion to £10 billion" in consulting fees with an additional £50 billion minimum spent on IT systems consulting.

Clearly angered by such abuses of public money, the authors of

Plundering the Public Sector provide ample evidence that the introduction of so-called “competitive markets” into public services has, in fact, led to a profit bonanza for consultancy firms and a series of expensive catastrophes that have in some cases cost people’s lives.

The litany of failures extends through the Child Support Agency and the Family Tax Credit farrago.

British soldiers have died in Iraq due to a lack of appropriate protective equipment. Yet the MoD has paid hundreds of millions of pounds to the likes of PriceWaterhouse Coopers (PWC) and McKinsey for advice on “how to improve their procurement and supply of military equipment.”

Referring to the Choose and Book system, Craig explains that “while British patients suffer and die waiting for operations as hospitals reduced services due to budget constraints, just one tiny piece representing less than 1 percent of the grand new IT system being implemented by the NHS ran more than £140 million over its agreed £65 million budget and still didn’t work.”

The book continues: “If the NHS were a private sector organisation, this expensive and risky decision would just be an issue of questionable management—a possible waste of billions of shareholders’ money. But when money is being diverted from patient care, the decision to unnecessarily build new computer systems...could be seen as a moral and not just a management issue.”

The political fashioning of New Labour

If the sums of money wasted were not damning enough, the relations between New Labour and various consultancy firms certainly are.

Plundering the Public Sector dates Labour’s relations with the consultancy firms to the mid-1990s, as it sought to transform itself into “an electable party” by acquiring a “more businesslike image.”

Enter Andersen Consulting. This was the sister firm of the Arthur Andersen group, which had been banned from any public contracts in the 1980s by the then-Conservative government because of its role in the £77 million DeLorean Cars fraud scandal in Belfast. Arthur Andersen was more recently implicated in the massive Enron scandal in the United States.

Andersen Consulting had been wheedling its way into the Labour opposition’s favours, however, and this began to bear fruit under Labour leader John Smith in 1992 when the firm offered its services for free to the party’s misnamed Social Justice Commission.

Besides aiding the commission, Andersen Consultants advised Labour on its economic policy for government, including maintaining tight public spending limits set by the Tories. Three of the key consultants that worked with Labour’s Gordon Brown, now chancellor of the exchequer, went on to become special advisers to the Blair government after it won the 1997 general election.

Patricia Hewitt, deputy chairman of the Social Justice Commission at the time and now health secretary—she was publicly booed off stage by nurses at this year’s Royal College of Nursing conference—was the first Labour apparatchik to take up a position with Andersen, as a “consulting director of research.” She was not the last. The chapter “Revolving Doors” lists just some of the names of “consultants turned public servants” and “public servants turned consultants.”

Labour is by no means exclusive in its relations. Besides Andersen Consulting (now Accenture), the list includes the giants of the consulting world—PWC, Ernst & Young, KPMG, McKinsey and Deloitte.

The book provides numerous examples of how “Millions in consultancy fees flowed from the New Labour government, including for recommending the PFI that would see the firm’s and its fellow consultants’ earnings rocket.”

In addition, the consultancy firms were “rewarded with the gift of being allowed to trade as limited liability partnerships, restricting the extent to which they could be sued for the dodgy audits that...became more

common as the firms moved increasingly into more lucrative consultant work.”

Deloitte, for example, was appointed as financial adviser for plans by the Inland Revenue and Customs and Excise to sell off some properties to raise cash. So total was the control that Deloitte was able to establish that “the top brass at the Revenue were not even aware of the plan to sell the estate to a company based in Bermuda so that the purchaser could avoid tax.”

In 2005, Deloitte was asked by the Financial Services Authority (FSA) “to review the cost of compliance with its financial regulations, something in which its significant interest had been demonstrated just the previous year when the FSA fined Deloitte’s ‘wealth management’ arm £750,000 for ‘serious compliance failings.’”

Labour’s relations with Accenture seem especially close. Shortly after coming to power, the Blair government dropped the action against Andersen over DeLorean in return for “a paltry £18m (compared to a loss in today’s money of over £200m),” and the path was cleared for government contracts.

Craig details how in 1996 a 26-year-old Andersen consultant took a training seminar of 100 Labour MPs to prepare them for government. The tutor was Liam Byrne, who went on to become an adviser to Blair.

In a 2004 by-election, Byrne won a seat as a Labour MP. Having crossed over from the consultancy world to government, he became a health minister under Hewitt.

Accenture is big in the NHS. Craig explains how it really “scooped the jackpot...when it was awarded virtual monopoly status as IT service provider to the NHS for almost half of England.” *

The government declined to take action against the company, as was its right, when the firm’s work on the National Insurance Record IT system went millions over budget, causing some £100 million of public finance to be spent compensating those who had lost out. Labour argued that measures to retrieve costs would “prejudice the partnership relationship now established between it and the Inland Revenue.”

Public sector jobs decimated

There is evidence that the involvement of private sector companies and management consultants increases public service costs—largely through increases in administration, i.e., payments to management advisers. Craig gives the example of the BBC, which was targeted for “modernisation” under Lord John Birt.

As money for programming all but dried up, it was revealed that administrative costs had gone up by £140 million—not least because more than £20 million a year had been spent on consultants advising how savings were to be made!

Much of this went to McKinsey, which Birt joined after his time at the BBC. In 2001, Birt was allowed to keep his £100,000 retainer with McKinsey when he was drafted into government as Blair’s “blue-skies thinker” in a range of areas from transport to civil service reform, on the proviso that he avoid “using information acquired during the course” of his work to further his “private interests.”

In addition, Craig points to the fact that in areas targeted for reform, there is evidence that productivity declines. The reason is not hard to find. To the extent that savings are made, this is largely through the sacking of tens of thousands of staff.

The government’s Gershon Efficiency Review aims to save £21.5 billion from the public sector by 2008. Much of this saving is to be secured by cutting 80,000 civil service jobs. At the Department of Works and Pensions (DWP), for example, staff numbers are to be cut by 30,000 by March 2008, saving £1 billion.

The DWP had paid for advice on its efficiency measures to 152 different consultancy firms and individuals in the three years up to March 2005. The consultancy firm Capgemini earned almost £30 million in 18 months

from the DWP at the end of 2005 for contracts involving an “interim management/support solution” and a “human resource change programme.”

Another beneficiary has been the service provider Capita. Through outsourcing contracts, Capita has taken over significant areas of service provision. Its staff numbers rose from 3,500 to 23,000 over Labour’s first two terms in office, whilst profits mushroomed by 1,000 percent.

New Labour and the oligarchy

Craig provides a detailed example of one means by which Labour has carried out a massive redistribution of wealth from working people to the major corporations, but he is reluctant to draw negative political conclusions. Somewhat fantastically, he presents Labour as the unwitting, even naïve victim of predatory consultancy firms.

“This disaster is not the result of some kind of conspiracy. The driving force for the modernisation of public services was probably a genuine desire by New Labour to make an historic change for the better,” he writes.

As its best-laid plans turned sour, New Labour was left “in a quandary,” he writes. “They could either eat humble pie by admitting that all was not well and rethinking their plans, or they could try and spin their way out of the mess.” To avoid losing face, he asserts, they did the latter.

Whatever Craig’s intentions, this is the discredited argument of numerous political apologists for the Blair government.

To cite one example, Nick Cohen, commenting in the June 4 *Observer* on reports that state subsidies to private consultants increased by 23 percent last year, to £3 billion, claimed that this exemplified how New Labour had “allowed itself to be overawed by the private sector.”

Such claims simply do not wash. Craig, at one point, states that voters could be forgiven “for wondering who they elected....the Labour Party or an elite of unelected advisers and consultants” who are busily enriching themselves.

In fact, Labour’s pact with the management and IT consultancies is only one expression of how the party has recast itself as the political representative of the financial oligarchy.

Labour’s repudiation of its former commitment to limited social reforms was intended to make clear that it would function as the willing tool of the billionaires and transnational corporations. Its relations with Accenture, McKinsey, etc., are a byproduct of its relations with the likes of Rupert Murdoch.

That is why Craig has no chance of getting any of the legal changes that he offers as a remedy for the corruption he so clearly identifies: legislation to crack down on “unscrupulous greed,” for example, would represent a direct challenge to the entire political and corporate establishment.

Notwithstanding its political limitations, *Plundering the Public Sector* confirms the character of Blair’s New Labour as a political conspiracy against working people.

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* Craig does not deal with this, but in 2000, Byrne set up the venture-backed computer group EGS, described variously as providing “e-commerce solutions to government” and assisting “the public sector with using information technology.”

Last month, he was appointed as the new immigration minister after a sustained attack by the press on the Home Office’s supposed failure to clamp down harshly enough on asylum seekers and immigrants. Newly appointed Home Secretary John Reid said Byrne would deliver a “master plan” to modernise the Home Office within 100 days.

“Our system is not fit for purpose. It is inadequate in terms of its scope, it is inadequate in terms of its information technology, leadership, management, systems and processes,” Reid complained, adding that Byrne had been selected to take charge of the reforms, in part, because of

his “management experience.”

Another Andersen man is Ian Watmore. A management director for the consultancy firm, in 2004 Watmore was appointed to run the Cabinet Office’s e-government unit—which is the driving force for many IT initiatives. Publictechnology.net explains that just prior to Watmore’s appointment, “Accenture was awarded a £934 million contract to help the National Health Service (NHS) improve healthcare for patients in Eastern England.” In January of this year, Watmore was chosen by Blair to “lead the drive to deliver the prime minister’s top public service priorities.”



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