

compulsory and contracts would be awarded for 'best value' – based also on effectiveness and quality as well as efficiency.

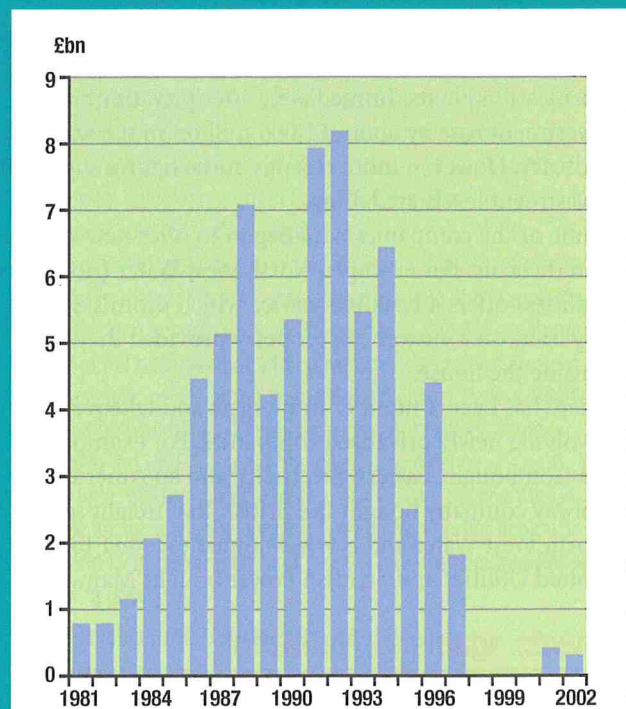
The sale of land and property Under the 1980 Housing Act, tenants of local authorities and New Town Development Corporations were given the right to buy their own homes. Tenants were given generous discounts, up to 60 per cent of the market value of the house, if they agreed to buy. During the 1980s, for example, about 1.5 million houses were sold. The sale of land and properties has raised almost as much money as the sale of nationalised industries.

The reasons for privatisation

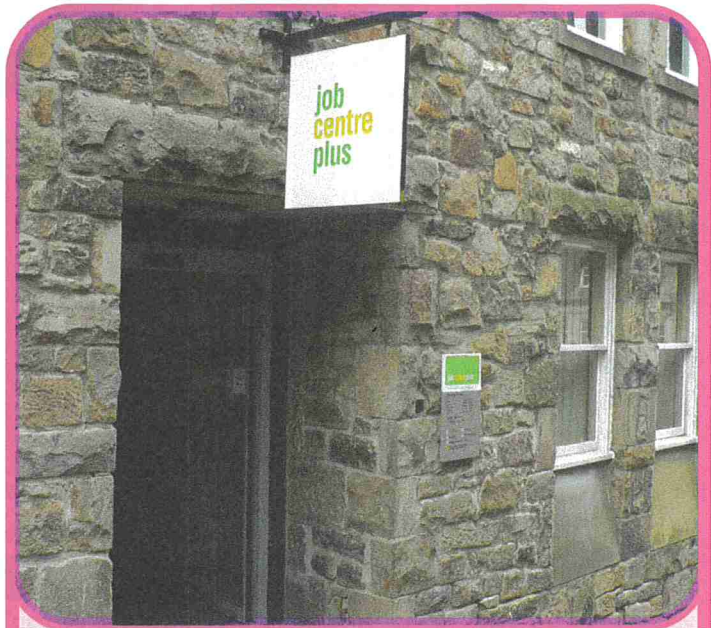
During the 1980s and 1990s governments transferred a great deal of business activity from the public sector to the private sector. Different reasons have been put forward for this.

- The sale of state assets generates a great deal of income for the government. Figure 1 shows the revenue raised by privatisation between 1979 and 2002.
- Nationalised industries were inefficient. They lacked the incentive to make a profit, since their main aim was arguably to provide a public service. As a result their costs tended to be high and they often made losses. Also, many believed that they were overstaffed. Supporters of privatisation argued that if they were in the private sector, they would be forced to cut costs, improve their service and return a profit for the shareholders.

Figure 1: Revenue from privatisation



Source: adapted from HM Treasury.



Question 2.

Jobcentre Plus is one of the largest of the executive agencies employing around 100,000 people. Jobcentre Plus supports people of working age from welfare into work, and helps employers to fill their vacancies. It is part of the Department for Work and Pensions (DWP). Some of the aims of Jobcentre Plus are outlined below.

- Increase the supply of labour by helping unemployed and economically inactive people move into employment.
- Pay customers the correct benefit at the right time and protect the benefit system from fraud, error and abuse.
- Provide high-quality and demand-led services to employers, which help fill job vacancies quickly and effectively with well-prepared and motivated employees.
- Help people facing the greatest barriers to employment to move into and remain in work.
- Ensure that people receiving working age benefits fulfil their responsibilities.
- Increase Jobcentre Plus' overall productivity, efficiency and effectiveness.

Jobcentre Plus is under pressure to perform efficiently. Its performance is monitored by setting targets. For example, targets are set for helping people into work, cutting fraud, helping employers to recruit workers and the time taken to process benefits. In 2006-07, the target for helping people into work was 13,500,000 points (Points are awarded for each category of person finding employment. For example, 12 points are awarded for a lone parent and 8 points for a person on job seekers allowance). In 2006-07, the number of points actually scored was 9,986,476. This is about 81 per cent of the target.

Source: adapted from www.jobcentreplus.gov.uk.

- Using this case as an example, explain what is meant by an executive agency.
- What evidence is there in the case to suggest that Jobcentre Plus has adopted business principles?

- As a result of deregulation, some organisations would be forced to improve their service and charge competitive prices. For example, in many areas, private firms began to compete for passengers on bus and train routes. Electricity and gas prices and telephone charges have also been reduced, arguably as a result of competition. Consumers would benefit from this and should also have greater choice. In addition, it is argued that there would be more incentive to innovate in the private sector.
- Once these organisations had been sold to the private sector there would be little political interference. They would be free to determine their own investment levels, prices and growth rates. In the past government interference has affected the performance of nationalised industries.
- Privatisation would increase share ownership. It was argued that this would lead to a 'share owning democracy' in which more people would have a 'stake' in the success of the economy. For example, if you bought shares in BT, you would be a part owner of the company and get a dividend each year. Workers were encouraged to buy shares in their companies so that they would be rewarded for their own hard work and success.
- Privatisation should improve accountability. The losses made by many of these nationalised industries were put down to the fact that they were operating a public service. In the private sector these industries would be accountable to shareholders and consumers. Shareholders would expect a return on their investment and consumers would expect a quality service at a fair price. For example, if shareholders were not happy with the dividends paid, they could sell their shares.

Impact of privatisation on business

How have businesses changed after transferring to the private sector?

- Achieving a surplus or profit has become a more important objective. For example, the profits of BT increased from around £1,000 million in 1984, when the company was first privatised, to around £3,000 million in 1996, to nearly £3,200 million in 1998. In recent years, however, profits have fallen due to competition and poor acquisitions.

Figure 2: Year trends in household water bills: actual and projected average household bills 1991-2010



Source: adapted from www.ofwat.gov.uk.

- In some cases prices have changed. In a number of cases they have fallen. Most analysts would agree that charges made for some telephone services, gas and electricity have fallen since privatisation, for example. However, prices of rail travel and water, for example, have risen sharply. Figure 2 shows the increase in water bills since privatisation.
- Some of the newly privatised businesses have cut back on staffing levels. For example, the Rail, Maritime and Transport Union suggested that there were 20,000 to 30,000 job losses as a result of rail privatisation. British Energy shed a quarter of its workforce before privatisation.
- Many companies increased investment following privatisation. For example, many of the water companies raised investment levels to fund new sewerage systems and purification plants. Immediately after privatisation investment rose by about £1,000 million in the water industry. However, more recently some figures suggest that investment levels are falling.
- Some of the companies have begun to offer new services and diversify. For example, North West Water (now United Utilities) offers a Leakline service which promises to repair any leaks on a customer's property provided they are outside the house.
- There has been a number of mergers and takeovers involving newly privatised companies. For example, Hanson bought Eastern Electricity and an American railway company bought the British Rail freight service. North West Water and Norweb joined together to form United Utilities and Scottish Power bought Manweb.

Arguments against privatisation

Arguments against privatisation have been put forward on both political and economic grounds. Most of the criticisms below are from the consumer's point of view.

- Privatisation has been expensive. In particular, the amount of money spent advertising each sale has been criticised.

The money spent on expensive TV advertising was at the taxpayer's expense.

- It has been argued that privatisation has not led to greater competition. In some cases public monopolies with no competition have become private monopolies. These companies have been able to exploit their position. This has been a criticism levelled at gas and electricity companies. Also Railtrack (now Network Rail) managed to pay shareholders significant dividends, arguably at the expense of essential investment.
- Nationalised industries were sold off too cheaply. In nearly all cases the share issue has been over-subscribed. This shows that more people want to buy shares than there are shares available. When dealing begins on the stock market share prices have often risen sharply. This suggests that the government could have set the share prices much higher and raised more revenue. For example, there was an £11 billion rise in the value of electricity companies between privatisation in 1990 and 1996.
- Natural monopolies have been sold off. Some argue that they should remain under government control to prevent a duplication of resources.
- Once part of the private sector, any parts of the business which make a loss will be closed down. This appears to have happened in public transport. Some bus services or trains on non-profitable routes have been cut or stopped completely since deregulation.

Question 3.

It is common now for private sector businesses to get involved in the provision of public sector services. Construction company Balfour Beatty is one example. Balfour Beatty has a number of public sector revenue streams that contribute towards the company's turnover of £5.852 million. It builds schools, hospitals, social housing and roads and has a high involvement in the rail sector. One recent contract, a 25-year deal to look after street lights for Derby City Council, brought in a useful £36m for Balfour Beatty.

The sheer range and size of Balfour Beatty makes it a strong contender in many different public sector markets. It is a major builder of hospitals and schools through PFI contracts. Experts say the firm is involved in PFI because that's the government's preferred way of doing business; whatever the financial mechanism, Balfour Beatty would still be working for the public sector. But Balfour Beatty's expertise in the UK PFI market has given it confidence; in 2006, for the first time, the firm began bidding for PFI work outside the UK. In its UK public sector work, the company has a strong order book with both central and local government and there is a consensus that Balfour Beatty is 'a good player'.

Source: adapted from *The Guardian* 1.6.2007.

- What type of good is street lighting?
- What is a PFI contract?
- What might be the benefits to the government of offering companies like Balfour Beatty PFI contracts?

- Share ownership arguably has not increased. Many who bought shares sold them very quickly after. In addition, a significant number of new shareowners only own very small shareholdings in just one company.
- Many of the nationalised industries are important for the development of the nation. To put them in private hands might jeopardise their existence. For example, one of the reasons why British Steel was nationalised was to save it from possible closure. If business conditions change for the worse a private company may not guarantee supply. Also, since the shares are widely available, it is possible for overseas buyers to take control of strategic UK firms.

Regulation of privatised industries

One criticism of privatisation was that dominant industries, which were previously state owned, now operated as private sector businesses. They may be able to exploit their position by increasing their prices or reducing services. Because of this they must be controlled. Control of private sector firms is nothing new. The Competition Commission was set up to monitor firms which might act against the public's interest. It investigates cases where large dominant firms or firms merging might act to exploit their position.

Because privatisation created some private monopolies, the government set up specialist 'watchdog' agencies to protect the public. Regulatory bodies were set up to monitor and control the activities of public utilities such as gas and electricity, the organisation known as Ofgem, and the telecommunications industry, the organisation known as Ofcom.

Private Finance Initiative (PFI) and Public Private Partnerships (PPP)

The PRIVATE FINANCE INITIATIVE (PFI) was introduced in 1992, but did not really take off until the end of the 1990s. PFI is one of a range of initiatives which fall under the Public Private Partnerships (PPP) umbrella. These involve the private sector in the operation of public services. The PFI is the most frequently used. Under a PFI scheme, a capital project such as a school, hospital or housing estate has to be designed, built, financed and managed by a private consortium, under contracts that typically last for 30 years. The private consortium will be paid regularly from government funds according to its performance during that time period. If the consortium misses performance targets it will be paid less. One example of an area where PFI has been used extensively by the government is in the construction of hospitals. The government had approved 15 acute hospital PFI schemes in England by 2003. The main advantages of PFI include the following.

- The government does not have to fund expensive one-off payments to build large-scale projects that may involve unpopular tax increases.
- The risk involved in funding large-scale projects is transferred to the private sector. For example, if a construction company goes out of business before a