

THE FUTURE IS PUBLIC: WORKING PAPER 4

Outsourcing: Problems without benefits?

The Danish experience with outsourcing and remunicipalisation

By Thomas Enghausen

In this essay, we look closely at exposure to competitiveness in the public sector in Denmark. We review experiences in key parts of the public welfare service, focusing on concrete examples of remunicipalisation. In conclusion, we present the FOA trade union's strategy for better regulation. FOA is Denmark's third largest trade union with just under 200,000 members and 38 local branches. FOA's members are primarily employed in the welfare service, which is largely financed by the public sector, but increasingly includes private providers. Following bankruptcies in elder care, poor quality and high profits in social services and many unsuccessful outsourcings in the area of cleaning services, there is increased recognition of and support for the proposals from FOA. Now we are seeing concrete initiatives to curb profits on social services from the government. Only time will tell whether this is a lasting trend.

Contracting out in Denmark

The public sector in Denmark is relatively large and characterised by a high degree of contracting out in various forms, with significant differences across sectors. Public consumption¹ amounted to 25 per cent of GDP in 2017, equivalent to €70 billion, while in 2018 the degree of contracting out in municipalities was estimated at 27 per cent of the services that can formally be handled by private companies. In addition, the country has a long tradition of semi-public institutions, which are organised as legally independent and not-for-profit initiatives – so-called 'institutions with self-ownership'.

Traditionally, there has been outsourcing of cleaning, technical services as road maintenance and bus transportation, along with ambulance services. Other areas of the welfare state such as elder care, social services and health have traditionally been run by public institutions. Today, however, the private sector has an increasing share of the services pie, partly as a result of rules on free choice between public and private care for the citizens.

For example, Danish law confers on municipalities the responsibility to ensure that elderly citizens have the possibility to choose between at least two alternative service providers. The municipality can choose either to use a private provider and a public one or to replace the public service with a minimum of two private providers. In the case of primary schools, while they are in majority public, there is a long tradition of private but non-profit institutions (it is against the law to establish a primary school as a for-profit company).

Consequences of multiple bankruptcies in elder care

In recent years, Denmark has experienced an increasing number of bankruptcies in elder care services, with 54 since 2013. These bankruptcies have affected over 13,000 citizens and well over 2,000 employees.

Since 2003, municipalities are required by law to offer alternative municipal homecare service options for the elderly (known as 'free choice'). The degree of outsourcing varies from municipality to municipality because it depends on the number of citizens opting for private suppliers.

The relatively large number of bankruptcies must be seen in the context of the 2013 change in legal requirements, which were meant to make it easier for municipalities to give elderly people free choice

between private and public home care through tenders. But as a side effect the legislation has multiplied bankruptcies, presumably as a result of increased price competition.

Since the wave of bankruptcies began, many municipalities have reverted to the 'old' model where the municipality is the main provider of elder care, and where competition is over quality, not price.

Prevent bankruptcies and secure freedom of speech

In 2017, parliament reached a political agreement to limit the number of bankruptcies and to mitigate its effects if they nevertheless occur. Municipalities are now required to place greater emphasis on the financial robustness of the private companies, including requirements for a bank guarantee. At the same time, the municipalities must have a greater focus on the quality of the services.

The parties behind the agreement also gave employees in private care firms better opportunities to exercise their freedom of speech and openly report conditions in the private company to the municipality.

FOA particularly supports this last part of the agreement, which addresses a major concern. FOA believes that the municipalities lose access to significant information on the service offered by private companies if employees do not have this direct communication channel with the municipality when they need to report problems.

However, FOA still has doubts on whether the agreement will be able to both prevent and mitigate bankruptcies. FOA has therefore formulated its own recommendations as a supplement to the political agreement. FOA recommends, among other things, that the municipalities demand guarantees from the suppliers that they can afford to follow the collective agreements on wage and working conditions. The recommendations also include a central certification (approval) model in which financial status of the suppliers can be taken into account (as is the practice in other areas of the public sector).

Box 1. Experience with the provision of care for the elderly in Aarhus, Denmark

The Municipality of Aarhus (Denmark's second largest municipality) abandoned competition for home care through calls for tenders in 2018. Instead, the municipality has chosen a more limited model with the approval of a single private supplier in addition to the municipality's own services to residents.

The shift from a high degree of competition to very limited competition took place after two providers of home care to elderly people went bankrupt. The bankruptcies were initially followed by a new tender, but then the last supplier pulled out of the market. The main reason was that it was not possible to make good money in this sector.

After this, the City of Aarhus reintroduced the so-called 'approval model'. Under this model, private companies can be approved to provide home care, but only at a price based on the municipality's average costs rather than through tender.

In 2018, the number of customers with private home help had dropped twofold compared to 2014.

Better regulation of private companies in social services

Over the past few years there has been a wide debate about private for-profit companies as providers of social services (e.g., providing housing for children and adults with physical or mental challenges). FOA has presented several examples of private companies delivering poor quality services while the owners

reap large cash rewards. One example highlights a very large profit from the 2017 sale of the private institution *Søbækskolerne* for the sum of DKK 43 million to a multinational corporation (Olivia A/S). The institution delivers services to young people with special needs, both educational training and housing. However, the sale did not transfer the physical assets, only the obligations to provide the service. This allows the previous owner to continue to earn a large income by renting the buildings to the new supplier.

FOA has proposed that the market for social services be much more strictly regulated. The Danish legislation for private schools is a good example: it only allows 'non-profit' companies, while at the same time ensuring that there are no personal interests (profit) at stake. Similar legislation for social services would ensure that money be invested in the core services.

At the same time, there is a need for increased supervision and control of private companies, including financial supervision. Unfortunately, national-level negotiations for new and reinforced state supervision broke down in the fall of 2018.

With a new government now in place, however, we expect to see work initiated to strengthen both regulation and control in this area. As the government itself puts it: *'How to ensure that no profit is taken out at private day care centers and social services, for example, according to the same model that applies today for private schools'*.

Competition for ambulance driving with a public alternative

In Southern Denmark, one of the country's five regions, ambulance operations were remunicipalised in 2016. This happened after new private supplier BIOS Ambulance Services went bankrupt.

Back in 2015, the ambulance company BIOS took over a large part of the ambulance services in the region. The company then won the tender in competition with Falck A/S. Until then, in most of the country Falck A/S had monopoly-like status as the only private supplier while the public sector only played a role as a provider in parts of the Capital Region.

In 2016, operations were taken over by the region, which has kept spending at a similar level, that is, maintaining a saving of about 15 per cent compared to the old contract with Falck A/S. At the time, the region did not want to issue a new call for tenders with only one company remaining on the market.

In late 2019, all regions were to discuss a new strategy for the area based on a joint report called *Strengthened competition in the ambulance market*. The report points very specifically to the need for a public alternative to private companies in the area as the only way to ensure fair competition and to end *de facto* monopoly.

FOA has closely followed developments in this area, and as a trade union, we have played a very active role in the remunicipalisation given FOA has the collective agreement with the regions for the public ambulance services.

Refuse collection on the way back to the municipalities

Since 2011, the municipality of Frederiksberg (part of Copenhagen) has been responsible for collecting household waste. It has been very cost-effective for the municipality and thus for residents – resulting in savings of 13 per cent. The municipality's own employees work in the municipally owned company Frederiksberg Renovation, collecting garbage from roughly 50,000 households.

An interim report prepared for the municipality after the first year of municipal management (2011) revealed that Frederiksberg had been able to operate this municipal service for DKK 45-46 million. When former supplier R98 was responsible for the collection, it cost approximately DKK 53 million a year.

The municipality of Frederiksberg had a budget of DKK 48 million for the first year of operations: 'We had expected savings of just under 10 per cent, but "Frederiksberg Renovation" has managed to do the work for 13 per cent less'.

Background for the remunicipalisation

The task of collecting garbage was put out to tender in 2010 when the long-standing monopoly of non-profit company R98 in the capital was put to an end by The Danish Competition Authority. The competition authority felt the private agreement should be subject to competition.

Frederiksberg Municipality then decided, after a tender, to take over the management instead of handing over the task to private companies. Meanwhile the City of Copenhagen chose to outsource refuse collection to private companies, without the municipality submitting its own bid for the work.

In the City of Copenhagen, outsourcing initially caused some problems, and a labour conflict arose following severe cuts after takeover by the private company. This happened in spite of specific procurement requirements from the municipality aiming to protect the employees. Since then, Copenhagen has recently decided to take back large parts of the contract.

After the outsourcing, the private provider in the City of Copenhagen participated in a research project on the working environment. This project ran from 2014 to 2016, and concluded that the wage rates in the private collective agreement contributed to a poor and burdensome working environment, despite the will and the initiatives to improve it.

R98, the company that had previously held the contract, was a 111-year-old non-profit, fund-owned company with a long-term contract for solid waste collection. The company was characterised by high social commitment, good working conditions and a focus on work environment improvements, as well as a relatively low absenteeism rate. The company was not included in the call for tenders. Instead, the company was dissolved in connection with the tender, mainly for political reasons.

Debate on cleaning services

Denmark has a long tradition of outsourcing and competition, particularly of cleaning services. At the same time, there has been debate for many years about poor performance in terms of quality for the users as well as low pay and working conditions for the employees.

In 2014, a government commission formed to map productivity in Denmark pointed specifically to outsourcing of cleaning services as a path to higher productivity in the public sector. The commission used a 2012 review of only 10 municipalities' experiences with outsourcing cleaning tasks as the basis for encouraging competition for social services such as health, as well as elder and child care. According to the commission, outsourcing resulted in 'savings of between 13 and 54 per cent either with the same quality as before or better'.

In this context, the commission highlighted the 'successful' experience of outsourcing cleaning at schools in Aarhus. FOA questioned the commission's recommendations, and highlighted the poor results of outsourced cleaning in general, and specifically in Aarhus.

A few years after outsourcing, private suppliers in Aarhus had only managed to win and keep contracts to clean 25 out of 40 schools. This happened mainly because of unacceptable quality after the outsourcing. One private company even terminated some contracts on its own will because the company acknowledged it could not live up to promises of cheap, high-quality cleaning.

Meanwhile FOA, in collaboration with one of the other large trade unions (3F), has accumulated experience with the remunicipalisation of cleaning in municipalities and hospitals, including in university

hospitals in Aarhus and Copenhagen (see Box 2). Remunicipalisation has happened through cancellation of contracts as well as non-renewal at contract expiry, with some municipalities having submitted their own in-house bid for the contract.

Box 2. In-house cleaning at the Copenhagen university hospital

On 1 August 2015, *Rigshospitalet* (the university hospital in Copenhagen, RH) took back cleaning services from the service company, ISS. This happened after the contract was terminated prematurely by the hospital due to complaints about quality.

ISS had one of two major cleaning contracts. There is no full accounting of how much RH has paid in total to ISS, but it is estimated to be at least DKK 46 million per year. Since coming back in-house, the service center at RH has taken charge of the cleaning for DKK 2 million less per year. The hospital department has also promised to improve service quality.

When RH took over the work, all workers including managers were transferred in-house, and wages increased to the level set in the public agreement.

FOA's assessment is that all service components are now interconnected, which leads to better quality, proper working conditions that meet the requirements of working environment rules and the collective agreement, while also providing savings for the hospital.

How is it possible? Presumably, ISS extracted a huge profit out of the contract. In order to do that, they pushed quality and working conditions beyond what even the private collective agreement had allowed.

Foa's strategy: welfare without profit

Over the past 30 years, Denmark's welfare state has been exposed to competition. And outsourcing has often led to deteriorating employment conditions. In 2016, the FOA Congress decided to 'Counteract the many outsourcings and privatisations that lead to cuts. We will work to bring services that have been put into private hands back to the public'.

Since then, FOA work on outsourcing and privatisation has followed a two-pronged approach:

- By improving our position on and arguments against outsourcing, unnecessary profit and tax evasion;
- By ensuring that outsourcing and other forms of marketisation do not harm employees' wages, working conditions, working environment and job security.

Bankruptcies in elder care, poor quality and high profits in social services and many unsuccessful outsourcings in the area of cleaning have led to increased recognition and support for FOA's criticism. At the end of 2019, FOA is seeing concrete initiatives towards limiting profits in social services. Time will show whether this trend towards more welfare and less profit will continue.

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Endnote

- 1 The amount of resources allocated by the government for the functioning of public services, such as the purchases in consumer goods, salaries, social transfers and so forth.

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