

Municipal services: organisations, companies and alternatives

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1. Introduction

This paper is concerned with the impact of privatisation and outsourcing on municipal services, worldwide, and the possibilities for alternative policies. It examines:

- International institutions affecting local authorities' services, including official financial institutions and UN agencies and also associations of local authorities;
- Multinational companies and their activities and impact in two dimensions of municipal services: general support services including cleaning and catering, and waste management services; and
- campaigns and alternatives to market-based policies of contracting-out

2. International institutions

The international organisations influencing municipal services fall into three broad categories:

- international financial institutions (IFIs), including the IMF and the development banks
- various United Nations organisations
- other organisations, including international associations of local authorities

Table 1. International organisations affecting municipal services

(Types: IFI = International Financial Institution; UN = United Nations body)

Organisation	Acronym	Type	Region	Website
World Bank	WB	IFI	World	www.worldbank.org
International Finance Corporation	IFC	IFI	World	www.ifc.org
Inter Americas Development Bank	IDB	IFI	Americas	www.iadb.org
Asian Development Bank	ADB	IFI	Asia	www.adb.org
African Development Bank	AfDB	IFI	Africa	www.afdb.org
European Investment Bank	EIB	IFI	World	www.eib.org
European Bank for Reconstruction & Development	EBRD	IFI	Europe	www.ebrd.org
UN dept of economic and social affairs	UNDESA	UN	World	www.undesa.org
UN Institute for Training and Research	UNITAR	UN	World	www.unitar.org
UN Development Programme	UNDP	UN	World	www.undp.org
UN Environment	UNEP	UN	World	www.unep.org
UN-Habitat	UN-Habitat	UN	World	www.un-habitat.org
UNESCO	UNESCO	UN	World	www.unesco.com
Commonwealth Secretariat		Other	World	www.thecommonwealth.org
United Cities and Local Governments	UCLG	Other	World	www.uclg.org
Cities Alliance		Other	World	
ICLEI		Other	World	www.iclei.org

2.1. IFIs: IMF, World Bank, IFC, and development banks

The International Financial Institutions (IFIs) are bodies which make loans available to developing countries. They are invariably governed on a 'shareholder' principle, so the richest countries which contribute most capital get a correspondingly higher share of the votes.

The IMF provides loans to help support countries with problems with their currencies. The IMF has attached conditionalities to loans which have affected public services in general. These conditions have included, for example, the reduction of the wages bill of education or health workers or public service employees in general; reductions in public spending and/or government borrowing; privatisation; and introducing or increasing charges for services or products.

The World Bank is the largest and most important of the development banks. It lends money to developing countries through hundreds of projects, which may relate to very specific services or to institutions such as the structure of local government and tax collection. It is also a very powerful centre of policy advice, so that policies and solutions based on private companies and markets are advocated repeatedly in many documents and initiatives.

The IFC is an arm of the World Bank which is dedicated to investing in private sector operations. Amongst other activities, the IFC has taken responsibility for the World Bank programme of 'sub-sovereign' financing, developing loans for municipalities. Because of their preference for the private sector, such loans from the IFC are only available to municipalities only if they bring in a private company.¹

There are also three regional development banks: the Inter Americas Development Bank (IDB), the Asian Development Bank (ADB) and the African Development Bank (AfDB). They operate on similar principles to the World Bank.

The European Investment Bank (EIB) is a development bank created and owned by the European Union. It invests not only in Europe, but also in developing countries, and especially in the north Africa and middle east region.

The core problem with interventions by all the development banks is their use of conditionalities to require privatisation, or cuts in spending, or increased charges. These conditionalities may be set out in specific projects, or in general policy documents: the IMF and the World Bank set out Company Assistance Strategies (CAS) for each country they are dealing with. Donors also use these as reference documents. A further problem arises from the IFIs promotion of policies, which have a great influence on governments.

2.2. UN organisations

The UN organisations are generally more receptive to the views of developing countries and stakeholder bodies and NGOs. Trade unions are formally represented on most of them through the ITUC. They are also more likely to produce reports and statements supportive of public sector delivery of services, but they do not always do so. For example, the UN economic council for Europe (UNECE) has collaborated with the OECD in actively promoting privatisation of urban services in eastern Europe, but has also been supportive of public housing (see below).

UNDP has set up a specific poverty centre, which has published useful material critical of the world bank's economic and social policies. It also supported an initiative by UNDESA to run a series of conferences on how to strengthen public finance in developing countries. It also publishes annually the Human Development Report, which is generally less aggressively in favour of market

approaches compared to the World Bank (but since 1990 none of the reports has been focussed on health or education as a major theme, while a number have been on subjects such as consumption, trade and security).

The UN Habitat Governing Council has recently agreed the International Guidelines on Decentralization and Strengthening of Local Authorities. It sets out the importance of sustainable development and how it is made possible by “*the effective decentralization of responsibilities, policy management, decision-making authority and sufficient resources, including revenue collection authority, to local authorities, closest to, and most representative of, their constituencies*”. This supports the role of local authorities with both democratic and financial functions. These guidelines were influenced by the European Charter of Local Self Government (1985), ratified by 46 countries.

2.3. International local authority organisations

There is evidence from a series of policy papers published by international local government organisations that there is an increasingly critical view of the role of the private sector in the provision of local authority services and financing. Several policy papers see the Millennium Development Goals as strengthening the case for local authorities and their role in delivering public services. This section examines some of these policy and briefing documents.

2.3.1. United Cities and Local Government (UCLG)

The United Cities and Local Government (UCLG), the main international organisation linking local authorities, was the result of a merger of the International Union of Local Authorities and Metropolis and the World Federation of United Cities in 2004. UCLG has networks of regional affiliates which are growing in strength, for example in Africa. It sees the Millennium Development Goals as highlighting the importance of environmentally sustainable development.

In 2006, it set up the Global Observatory on Local Democracy and Decentralisation (GOLD) to provide a source of information on local self-government, local authorities, governance, local democracy and the exchange of expertise. Its function was “*To analyze on a regular basis the advances and possible reverses to local democracy and decentralization around the world, to anticipate potential changes and to analyze the obstacles faced and the solutions required to overcome them*”²

Decentralisation and local democracy in the world

The first GOLD report provides an analysis of local government in all regions of the world. It is critical of the view that the private sector can provide solutions to problems facing local authorities. It observes that in Africa the expansion of private sector management of local public services through e.g. delegation, licensing, partnerships, has “*shown poor results*”. It identified the problems of local authority staff moving to private sector, for higher salaries.

In Europe, the report concludes that the scope for local authorities to use different management models, other than new public management, has been reduced because of the effects of privatization and EU competition policies. Privatisation has led to a reduction of local government competencies (UK, Netherlands and Sweden).

It also reports that the promise of private sector investment in public infrastructures “*was overestimated*” and refers to a World Bank report that shows that private participation in

infrastructure represented a small and decreasing proportion of the total in local public and urban infrastructure in the 1990s.³

The report calls for increased policy making capacities and enhancing access to finance for local authorities. UCLG is calling for new national systems of finance able to deal with expanding cities, a growing demand for basic services and environmental challenges. There is no specific mention of private sector funding.

2.3.2. Commonwealth Secretariat

The Commonwealth Secretariat is an association of 53 independent states which facilitates and supports a series of agreements that promote good governance, economic and social development and human rights. One of the most recent agreements is the *Aberdeen Agenda* (2005).

The Aberdeen Agenda (2005)

The '*Commonwealth Principles on Good Practice for Local Democracy and Good Governance*' were approved in 2005 and set out basic principles to ensure effective local government. They include a recommendation that participatory budgeting should be used as a tool for "*enhancing accountability*" and argue that this also helps to train local civil society to hold "*councils to account*". The Principles also recommend that local government should "*have adequate financial resources to fulfil its mandate and ensure significant autonomy in resource allocation*" as should be seen as "*an integral part of the overall public sector involved in delivering key public services*". The '*Aberdeen Agenda*' can be seen as an important tool to support the development of effective local government.

2006 Kampala Agenda for African Local Government

The Commonwealth Local Government Forum (CLGF) and Commonwealth Secretariat, in association with the Government of Uganda and the Uganda Local Government Association and in association with United Cities and Local Governments of Africa, (UCLGA) agreed the '*Kampala Agenda*' in 2006. It recognises the "*mandate and responsibility for local government to localise the MDGs in their planning and service delivery*". It argues that "*Local government should be empowered and have the capacity to provide minimum social services, have access to resources, and be able to define policies to enable local economic development*".

It places a particular emphasis on sorting out fiscal arrangements for local government. There is a need to balance the financial viability of councils with democratic legitimacy. Equitable resource allocations are essential for local government to be effective, and should be considered in a framework of inter-governmental dialogue between central, provincial and local government. In this context, "*local government should have access to a wider variety of funding sources including direct donor support and resources from the private sector*". It does not explain what access to resources from the private sector mean?

The Commonwealth Local Government Forum commissioned a report on Municipal Finance: Innovative Resourcing for Municipal Infrastructure and Service Provision as a way of contributing to the debate on municipal finances and how to take the '*Aberdeen Agenda*' forward.⁴ It starts by setting out the many different ways of drawing in new finance for local government. Public-private partnerships are mentioned but only as one possible option, along with *municipal bonds, and direct access to international development agency funding*. It argues that local authorities have to be able to "*set the level and composition of their revenues*" in order to establish local autonomy and accountability.

The report argues that local authorities in developing countries will increasingly be managing resources for public infrastructure projects, rising from the current level of 30%. It mentions that Ahmedabad Municipal Corporation bond issue as an example of innovative approaches to accessing private capital markets. It suggests that local authorities need support from central government in accessing capital markets, giving the example of the South African government Municipal Infrastructure Investment Unit and the South African Infrastructure Finance Corporation.

As with the GOLD report, the view of private sector involvement is ambiguous. It recognises that public private partnerships have a role to play in meeting the needs of the poor but observes that the involvement of the private sector does not always “*guarantee success*”. The private sector is seen as helping to “*unfreeze*” the existing arrangements. This report also sets out available sources of public finance and bond financing as well as other international and private sources.

This report is an advisory report and so does not include specific organisational policy but it gives the impression that there is an openness to new approaches to public sector funding and way of accessing private capital but with a critical perspective towards public –private partnerships.

2.4. Donors

OECD countries, acting as donors, provide aid for a range of purposes. In 2005-06, 32.4% of all aid was spent on “social and administrative infrastructure”, the category closest to municipal services, out of a total £104 billion. This represents a small proportion of developing country expenditure on municipal services, but the donors exert disproportionate influence. The country with the largest aid budget is the USA, followed by the large European countries UK, France and Germany, and Japan.

Table 2. Aid by major OECD countries 2005-06

Country	Aid (USD \$ million)
United States	23 532
United Kingdom	12 459
Japan	11 187
France	10 601
Germany	10 435
Netherlands	5 452
Sweden	3 955
Spain	3 814
Canada	3 684
Italy	3 641
Norway	2 954
Denmark	2 236
Australia	2 123
Belgium	1 978
Switzerland	1 646
Austria	1 498
Ireland	1 022

Finland	834
Greece	424
Portugal	396
Luxembourg	291
New Zealand	259
TOTAL	104 421

Source: OECD http://www.oecd.org/document/9/0,3343,en_2649_34485_1893129_1_1_1_1,00.html

2.5. Donor country 'private equity' funds

The donor countries also use some of their aid budgets to finance private sector activity in developing countries. This is done partly through funds which are dedicated to support private companies, following the same principle as the IFC. The sectors covered include the full range of production industries, but the funds also support private activity in sectors such as telecoms, energy, healthcare, higher education, and waste management. They can be described as donor-state-owned private equity funds. At the end of 2007, these private equity funds of European donors stood at €15.1 billion invested in 3,385 projects.⁵

These funds could not invest in any project or service run directly by public authorities, because they can only invest in commercially viable operations involving a private company. Swedfund states: "Our decisions regarding investments are based solely on business principles."⁶ Returns to private investors become the criterion of success. The CDC reports: "CDC's achievements in 2007 were impressive by any measure, outperforming the Morgan Stanley Emerging Markets Index by 20%."⁷

All the public money channelled through these funds is thus locked into profitable, private operations. This can create a significant incentive for municipalities to outsource waste management and refuse collection to a private company or a PPP rather than as a direct municipal service. For example, Germany's development bank, KfW, proposed in September 2008 to create a special fund urban infrastructure for India, covering roads, water and sewerage, and solid waste management, promoting PPPs, but none of it will go to municipal operations without a private company involved: "The objective of the proposed fund is to promote and finance public-private partnership projects in urban sector."⁸ The same month, India's minister for Urban Development, S. Jaipal Reddy spoke of the need for urban infrastructure in India, and the large sums of India's public money allocated to deal with the problem (\$27 billion), but added that: "Though the urban renewal mission is equally funded by the central and state governments through local bodies, going forward, the future projects would have to be taken up under the public-private partnership (PPP) model to meet the quantum of funds required. As in the case of infrastructure projects, we may have to involve the private sector in a big way through the PPP model for sustaining the urban renewal mission."

Table 3. European donor countries' private equity arms

EU	EDFI
Austria	AWS
Belgium	BIO
UK	CDC
Spain	COFIDES

Hungary	Corvinus
Germany	DEG
Finland	FINNFUND
The Netherlands	FMO
Denmark	IFU
Norway	NORFUND
Austria	OeEB
France	PROPARCO
Belgium	SBI-BMI
Switzerland	Sifem
Italy	SIMEST
Portugal	SOFID
Sweden	SWEDFUND

2.6. Influence of multinationals

Multinational companies are very conscious of the importance of the international institutions, and lobby very effectively to ensure that their interests are heard. A number of global institutions, especially the UN bodies, have been under-resourced and very ready to accept sponsorship from private companies. As a result the companies gain even more influence.

Table 4. Multinational companies involved in international institutions

institution	website		Private presence
CityNet	http://www.citynet-ap.org/En/user/home/home.php	Sponsors training networks (Citynet operates in Asia, participants include UNDP, UNITAR, Kuala Lumpur City Council, as well as Veolia)	http://www.google.com/search?q=site:www.citynet-ap.org+veolia&sourceid=navclient-ff&ie=UTF-8&rls=GGGL,GGGL:2006-23,GGGL:en
UNITAR	http://www.unitar.org/programme_en.htm	Veolia sponsors	http://www.google.com/search?hl=en&safe=off&rls=GGGL,GGGL:2006-23,GGGL:en&q=site:www.unitar.org+veolia&start=10&sa=N
UNESCO	www.unesco.org	Suez sponsors water work	

3. Global Service Companies

3.1. Overview

This section outlines some of the major trends in the contract catering, cleaning and wider service industries. A short series of company profiles outline some of the major changes in the global service companies: ISS, Compass, Rentokil-Initial, Sodexo, Aramark and Serco.

3.1.1. Outsourcing and market development

The introduction of contracting and outsourcing by the public sector stimulated the growth of many small providers, but a process of consolidation has taken place in the last 10-15 years. This has resulted in the development of a group of six global service companies.

There are two main reasons for this growth in combined service contracts. Companies are trying to achieve economies of scale by offering a range of services. In the UK, many of the Private Finance Initiative (PFI) contracts include agreements for companies to provide support services over 20-30 years.⁹ Combined service contracts provide advantages for large scale catering and cleaning companies.

There have been changes in the nature of the hospitality and catering market over the last decade. Initially when catering services were first outsourced by the public sector, the company providing the catering services would takeover the kitchens, charge a management fee and billed all costs. This has now changed from *“cost-plus, through guarantees and fixed-price to nil-cost as clients cut back on subsidies”*.¹⁰ Suppliers are trying to provide quality and provide more sophisticated services.

3.1.2. Types of contracts

- Cost-plus — management fee then all costs billed to the client
- Performance guarantee — that costs will not increase above a certain level
- Fixed price — contractor takes profit but bears any losses
- Nil subsidy — contractor keeps all income and deducts operating costs
- Partnership — client and contractor share revenues and costs
- Concession — caterer pays rent for operating on client's premises.

Source: Key Note Market Report, 2003

The traditional cost-plus has fallen from more than half contracts in 1995 to less than a third in 2001, reflecting the shift towards a more commercial approach. The level of risk that the contractor is expected to take on has increased. This can be seen in the move from *‘cost-plus’* contract, where the contractor charges a management fee and charges the costs to the client, to *‘total risk’* contracts, where the contractor rents space from a client and provides and markets services on-site.¹¹

There is limited room for growth in catering expansion in the business and industry sector so that catering companies are looking for alternative markets.¹² Large caterers such as Compass and Sodexo have expanded into facilities management. Contractors are also providing a range of other support services, such as housekeeping and maintenance, reception, security, laundry, bar and retail shops. About 30% of Sodexo growth has been in non-food services.

The Key Note report “*sees potential expansion into areas like education, healthcare, shopping centres, prisons and other institutions*”. However, there are high entry costs into sectors, such as education and healthcare. Profit margins are low, when a service has to be provided over 24 hours, for example, in a hospital, or across multiple sites, for example, for an educational institution.

3.1.3. Global service markets

Although the six companies all have global operations, there are slight differences in the extent of their global markets. Compass, a UK company, has expanded from the UK to North America and Continental Europe. North America is now its largest market, rather than the UK. Sodexo, originally a French company, has expanded into Europe and North America, which are now its largest markets. ISS, a Danish company is in the process of expanding from Europe, including Central and Eastern Europe, into the North American market. Aramark is an American company and has expanded into the European market. It is starting to enter the Asian market. Serco, a UK company, has expanded rapidly into the United States and Australian markets. For all companies, Africa is still an insignificant market. Asian and Latin American markets are just beginning to expand. North America and Europe still form the largest parts of these global service markets.

3.2. Companies

3.2.1. ISS- World

Table 1: Revenues, pre-tax profits and number of employees

DKKm	2007	2006	2005	2004	2003	2002	2001
Revenues	63,935m	55,772m	46,440m	40,355m	36,165m	37,984m	34,852m
Pre-tax profit	3,835m	3,234m	2,650m	2,279m	2,032m	2,010m	1,633m
Number of employees (global)	438,100	391,400	310,800	273,500	245,000	248,500	259,800

Source: ISS Annual Report, 2004, 2007

Table 2: Revenues by service %

Service	Revenue %
Cleaning	54%
Catering	7%
Property services	24%
Office support	6%
Facilities management	4%
Security	5%

Source: Annual report 2007

Table 3: Operational results by geographic region (DKK million)

Region	2007	2006
Nordic	16,448	15,475
Western Europe	37,709	33,666

Central/Eastern Europe	1,226	935
Asia	2,409	1,818
Latin America	1,484	1,049
Pacific (Australia/New Zealand)	3,519	2,846
Total	63,922	55,772

Source: Annual report 2007

ISS World, a Danish company, runs a global facilities management business. It has developed an increasingly integrated set of services, with a growing consolidation of suppliers, in the five years. ISS is one of the 10 largest employers in Europe, and the largest contractor in the NHS. 60% of its revenues from the NHS come from cleaning contracts (UNISON April 2003).

In 2005, the ISS company was bought by PurusCo A/S, a consortium of EGT (a Swedish private equity company) and Goldman Sachs Capital Partners and delisted from the Copenhagen Stock Exchange in June 2005. It is now a private company. This limits the transparency of the company because it is not longer obliged to publish detailed financial results. It is expected that the company will be re-floated as a public limited company after the company has been reorganised and restructured. It is now quoted on the Luxembourg stock exchange but EGT and Goldman Sachs operate as a single shareholder.

Since 2005, ISS has continued to expand globally. In 2007, it acquired the US company, Sanitors Inc, which enabled it to expand into the American market. Cleaning services remain its largest service. Sir Alastair Mackay, formerly of the Compass Group plc, became Chairman of ISS-World in 2006.

3.2.2. Compass

Table 4: Revenues, pre-tax profits and number of employees

COMPASS	2007	2006	2005	2004	2003	2002	2001
Revenues	£10,268	£9,768	£12,704	£11,772	£11,286	£10,617	£8,716
Operating profit	£529	£428	£711	£775	£797	£805	£676
Number of employees	361,327	355,323	400,000				

Sources: Annual reports 2004, 2003, 2007

Table 5: Global operations

Region	2007	2006
North America	4,162	4,290
Continental Europe	2,443	2,484
United Kingdom	1,931	1,882
Rest of world	1,622	1,611
Total	10,268	9,768

Source: 2007 Annual report

Compass is the world's largest contract catering company. It has diversified into facilities management. In 2004/5, it reported a 50% drop in profits, which was partly the result of poor publicity in the UK for school meals, provided by Scolarest, following a series of television programmes by Jamie Oliver, who criticised the unhealthy content of school meals. The company supplies meals to 2,000 schools in the UK.¹³ There was a drop of 30% in profits in the UK but in the United States, operating profits rose by 12%.¹⁴

However, there have been several problems facing the company recently. One of the most high profile issues is the accusation that a Compass subsidiary, Eurest Support Services, "*worked on more than one contract with IHC services, a company that helped suppliers win contracts with the UN*". The investigation focuses on a contract in Liberia but there have been calls for further investigations into contract in Sudan.¹⁵ In response to these allegations, Compass ordered its own internal investigation and sacked three Directors, the Head of UK and Ireland, Middle East and Africa Division, the former Chief Executive Eures Support Services and Eures Development Director.¹⁶ There has also been criticism of the company's approach to corporate governance, which has not been considered sufficiently rigorous.

At the same time as the company reported a fall in profits, suppliers have been vocal in either taking their business to other clients or have pressured Compass to pay more promptly. In 2004 the Chairman, Francis Mackay and the Chief Executive, Mike Bailey, agreed to pay suppliers more promptly. This was expected to impact on company profits. There have also been changes in management practice, so that incentive payments to managers now depend on profitability of contracts and financial return rather than seeking new business.¹⁷

Suppliers have claimed that they have been overcharged. Following the posting of a contract on the internet, a supplier Robert Scott & Sons, has to pay £1 million to secure the contract. It then had to "*double the prices it charged to another firm that distributes the cleaning products to Compass restaurants and hand the mark-up back to the caterer*".¹⁸ Compass has also been accused of taping conversations during price negotiations with suppliers.

Compass attempted to reduce costs by £50 million, partly through job cuts.¹⁹ It is also aiming to save £1,800 to £1,850 million of free cash flow between 2006 and 2008.²⁰

Compass is also facing a deficit in its pension scheme. Currently its assets are 67% of its liabilities. It has put £100 million into the pension deficit but the deficit rose from £426 to £530 over the past year. The final salary pension scheme is now closed to new employees.

Two cleaning contracts received complaints after receiving poor ranking in the government assessment of cleanliness in 1999. A cleaning contract at Kingston Hospital in 2002, was criticised because the contract has been priced so low that there were too few staff to do the work.²¹

In 2007, the Portuguese unit of Compass was visited by the Portuguese Competition Authority (PCA) as part of an investigation into "*possible past breaches of competition law by our Portuguese business and other caterers*". The company said the investigation relates to a part of the Portuguese catering business, Eures (Portugal) *Sociedade Europeia Restaurantes* LDA, which services mainly public-sector contracts.²²

By 2008, Compass reported increased growth and was operating in 60 countries. The company had been restructured following the appointment of Richard Cousins as chief executive in May

2006. Although hit by rising food prices, it has renegotiated contracts with suppliers, changed its menus, reduced waste and raised prices, which have reduced the impact of price rises.²³

3.2.3. Rentokil-Initial

Table 6: Revenues, pre-tax profits and employees £ Million

RENTOKIL-INITIAL	2007	2006	2005	2004	2003	2002	2001
Revenues	£2,203	£2,124	2,310	£2,181	£2,426	£2,339	£2.242
Pre-tax profit	£142	£199	£190	£256	£409	£390	£374
Number of employees	76,412	n/a	n/a	n/a	n/a	n/a	n/a

Sources: Annual Report 2007

Rentokil-Initial is also a global provider of support services, operating initially in Europe but expanding globally.

Rentokil-Initial has closed its final salary pension scheme. Like Compass, Rentokil-Initial had a deficit in its pension fund, which was estimated at £325 on 30 November 2005. Its assets represent 68% of its liabilities. Brendan Barber, TUC pointed out that *“Rentokil enjoyed a pension holiday where the company did not make any contributions, from 1999 to 2004 at a time when the company was producing 20% profit growth and paying large dividends to shareholders”*. In 2004 the company contributed £6.8m to plug a deficit of £187m. The deficit rose to £263m by December 2004 and then £286.5m by July 2005.²⁴

The company has a strong anti-union culture. UNISON is recognised in some local sites but there is no national trade union recognition.²⁵

There have also been problems with several NHS contracts. Bristol Royal Infirmary, Victoria Hospital, Kirkcaldy and St. George’s Healthcare Trust have all reported problems with the quality of the cleaning. Argyll and Clyde Acute Hospitals NHS Trust have had disputes because of a two tier wage structure, where workers taken on from the NHS are paid higher wages than workers recruited since privatisation.²⁶

In 2006, new management bought Target Express, a parcels delivery company and sold Rentokil’s electronic security business to the US company, United Technologies Corporation.²⁷ In Australia, it bought Campbell Brothers’ pest killing and washroom services operations.²⁸ In 2007, Rentokil bought Lancaster Cleaning, a London based company which was set up 30 years ago and employs about 3,600 staff with an annual turnover of GBP 45million.²⁹

These acquisitions were not enough to stop a fall in profits, which resulted from lost catering contracts, also triggered by bad publicity following a Jamie Oliver television programme on school meals.³⁰ Rentokil’s Asia Pacific operations showed some growth.

In 2008, City Link, part of Rentokil’s parcels services, City Link, reported poor sales. This was followed by the resignation of the both Chief Executive and Chairmen and subsequent new

appointments.³¹ There are also reports of a potential buyout of the company by the new management team.

3.2.4. Sodexo

Table 7: Revenues, pre-tax profits and employees € Million

SODEXHO	2007	2006	2005	2004	2003	2002
Revenues	€13,385	€12,798	€11,693	€11,494	€11,687	€12,609
Pre-tax profit	640	605	405	€397	€362	€359
Number of employees global	342,380	332,096	324,446	312,975	308,385	315,141

Source: Sodexho 20 F Securities and Exchange Commission, Washington DC 2004; Annual report 2007

Sodexo is a French, global facilities management company. Originally a catering company, it has diversified into facilities management. North America, UK/Ireland and France are its largest markets although all these regions recorded slight decreases in revenues during the period 2002-2004. The slight fall in revenue for 2004 was attributed to negative currency effects; although the company has also recorded the restructuring of its UK activities³² reported that Sodexo was putting a new plan in place to retain customers. Sodexo also recorded in its 2004 20F Report for the Securities and Exchange Commission in the US, that its percentage of total debt to total capitalisation was 49%.³³

On September 15, 2004, Pierre Bellon announced that in order to enhance the efficiency and cohesiveness of the Sodexo Group, the Board of Directors had decided to enhance the governance structure, currently led by two Chief Operating Officers, Michel Landel and Jean-Michel Dhenain".³⁴ From 1 September 2005, Michel Landel was appointed Chief Executive Officer of Sodexo Alliance. Pierre Bellon stood down as Chief Executive Officer but continued to serve as Chairman of the Board of Directors.³⁵

In 2001, ten current and former salaried Sodexo employees filed a lawsuit alleging racial discrimination in promotions. In 2005, Sodexo Alliance announced that a settlement has been reached in the U.S. class action litigation that had been filed against Sodexo Marriott Services, Inc. now known as Sodexo, Inc. Under the terms of the settlement agreement, Sodexo, Inc. has committed to make monetary payments to those who filed the lawsuit, including legal fees, for a total amount of up to US \$80 million. The Company will also continue to promote its diversity programs. Sodexo, Inc. has agreed to resolve this litigation in order to avoid protracted legal proceedings, and without admitting any liability.³⁶

There have been a number of problems with catering and cleaning contracts in South Glasgow University Hospitals NHS Trust and North Glasgow University Hospitals NHS Trust in 2002 and 2004. In December 2005, Bexley hospital announced that it would be replacing the Sodexo cleaning contract with a contract with OCS.³⁷ There have also been well-documented problems with Sodexo contracts in North America.

In 2006, there were demonstrations against the conditions within the Harmondsworth immigration reception centre in West London, which wrecked the building. The centre is run by Kalyx, a subsidiary of Sodexo.³⁸

In 2007, Sodexo was part of a consortium that won a contract with the UK Ministry of Defence to train officers. The consortium, called the Metrix consortium, won the contract worth £19bn. Training will be provided for the air-force, army and navy in South Wales. The consortium is made up of AgustaWestland, City and Guilds, Dalkia, EDS, Laing O'Rourke, Land Securities Trillium, Nord Anglia Education, The Open University, QinetiQ, Raytheon, Serco and Sodexo.³⁹

Sodexo also agreed a new PFI hospital agreement in Stoke on Trent, Staffordshire, in 2007 as part of a consortium with John Laing. Worth £361m, two new hospitals will be built. Haywood Hospital, a community hospital is due for completion in 2009. The second is a 90,000m² acute hospital acute facility, to be called University Hospital of North Staffordshire, due for completion in 2014. The contract will run for 37 years.⁴⁰

In Western Australia, in August 2007, the state government gave a contract for prisoner transport, court custody and security services, worth Australian \$70 million, to a private company, without a public tender process. Sodexo, the original holder of the contract, asked for permission from the government to sell the contract to the UK company GSL, which also operates private prisons. This was agreed and the contract handed over to GSL. The state government then extended the contract for 3 years.⁴¹

In October 2007, Sodexo reported further global expansion, with new contracts with a Romanian hospital, the University of Illinois, the Hungarian customs agency and the acquisition of a service vouchers business in Brazil. These have contributed to increased profits.⁴² 2007 also marked the entry of Sodexo into Ireland through a public-private partnership scheme to build four primary schools. It will build and operate the schools in Laois and Offaly for 25 years in a deal worth around EUR300m.⁴³

In Australia, in 2008, Sodexo, in partnership with Serco, was fined Australian \$7500 by the Federal Magistrates Court, after an investigation by the Workplace Ombudsman found that a 19 year old worker had been pressured to sign an Australian Workplace Agreement or be sacked.⁴⁴

3.2.5. SERCO

Table 8: Revenues, pre-tax profits and employees £ million

SERCO	2007	2006	2005	2004	2003	2002	2001	2000
Turnover Group	2,811	2,548	2,260	1,381	1,324	1,097	913.7	772
Pre-tax profits	123	105	86	73.9	67.0	57.0	45.2	37.7
Employees	41,445	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Serco Annual Report 2004 and 2007

Serco is a service company that works predominantly with government and public services. 90% of its clients are in the public sector. It was floated on the London Stock Exchange in 1988 and has expanded, particularly since 2000.⁴⁵ Serco is involved in total organisational management, business process management, asset and facilities management, training, consultancy and

specialist and technical services.⁴⁶ By 2008, it had operations in the United Kingdom, North America, Europe, Middle East and Asia-Pacific.

The health sector is an expanding market for Serco worldwide. The company already provides wide-ranging non-clinical support services to the healthcare sectors in Europe and Asia Pacific. In the UK, Serco was involved in two of the first wave of hospital PFIs in the UK – Norfolk and Norwich University Hospital and Withenshaw General Hospital. Serco is one of eight private companies approved by the Department of Health (England) to bid for the operation and turnaround of failing NHS Trusts.⁴⁷ In September 2007, it was reported that Serco was one of the preferred bidders in a £711 million PFI hospital scheme that has been abandoned in Leicester, UK.⁴⁸

Since 2006, Serco has expanded internationally. It was preferred bidder to run the Dubai metro. It operates in partnership with Sodexo in Australia and the United States in prison and military services.⁴⁹ In August 2008, Serco acquired SI International, an American company which provides IT services for the US Air Force and Nasa for \$423m.⁵⁰

After the death of a 14 year old boy in the custody of Hassockfield Detention Centre, the Lancashire County Council Safeguarding Children Board report demanded that the "*system failures*" identified at the inquest had to be addressed by the director of the Centre and the private operator, Serco, and reviewed by Ofsted and the Youth Justice Board. This was the youngest death in detention in the UK⁵¹. Serco also runs an asylum seekers removal centre Colnbrook, where there have been allegations of bullying and racist abuse.⁵²

Serco was contracted by Stoke-on-Trent authority to run the Children and Young People's Services. In 2007, plans were announced to close 18 secondary and five special schools. These would be replaced by 12 secondary and four special schools. All staff would have to reapply for their jobs.⁵³

In December 2007, Glasgow City Council announced that it was about to complete a deal worth £273.5m with Serco, to take over its IT and property management services. Serco has said it will create a Scottish HQ. The council hopes to save up to £73m over the next 10 years in a limited liability partnership. 285 employees are expected to transfer employment to Serco.⁵⁴

Serco already has contracts to manage educational records for Walsall Council and environmental contracts for local authorities in Hammersmith and Fulham, London and Milton Keynes, UK.⁵⁵ Serco has also been contracted to work for the National Health Service and other government agencies in Scotland. According to the Scottish Government's RSA report, Serco has promised to create 650 jobs in the IT and outsourcing sector.

In Western Australia in 2008, a report on Acacia Prison, by the Inspector of Custodial Services Richard Harding warned that equipment which alerts staff to breaches of the prisons perimeter fence needed preventive work, night lights on the fence were out of order and there were faults in the jail's closed-circuit television system. Serco Australia took over the management of the privately run prison in 2006. Responsibility for maintenance was split from the operational contract and lies with a separate private contractor but Serco is responsible for any operational failures which could be related to maintenance beyond its control.⁵⁶

Serco is expected to benefit from the ending of the monopoly held by KBR, holder of the Pentagon contract in Iraq. In the new contract, KBR will still get a sizable part of the business, but will work

with Fluor and DynCorp International. The U.S. Army also plans to outsource much of the management and oversight of the contractors to Serco, for \$59 million.⁵⁷

3.2.6. ARAMARK

Table 9: Revenues, pre-tax profits and employees £ million

ARAMARK	2007	2006	2005	2004	2003	2002	2001
Revenues	\$12,384	n/a	n/a	\$10,192m	\$9,447	\$8,356	\$7,369
Operating profit	\$31	n/a	n/a	\$537	\$552	\$529	\$415
Employees	165,000	n/a	n/a	242, 500	n/a	n/a	n/a

Source: Aramark 10 K 2004

ARA Services was originally a catering company, set up in 1920, which expanded into uniform rental in the late 1970s. In 1980 it bought National Child Care Centers Inc and expanded into child care services. In 1984, management were involved in a management buyout to avoid a hostile takeover bid. In 1994, ARA Services became ARAMARK. In 2001, ARAMARK bought ServiceMaster Management Services and this significantly expanded its facilities management capacity. Also, in 2001, ARAMARK moved from being a private company to becoming a public listed company on the New York Stock Exchange. In 2003, the company sold its child care division, in order to focus on catering, facilities management and uniform services.⁵⁸ In 2004, there were 163,000 workers in Food and Services in the US and 34,700 workers in the United States were covered by collective agreements.⁵⁹

In 2006, Aramark was holder of the cleaning contract where an outbreak of *C. difficile* at Sault Ste. Marie hospital, in northern Ontario hospital caused the deaths of 22 people. The Ontario Nurses Association president in the hospital reported that about 20 housekeeping jobs were eliminated when Aramark, a private management company, took over the cleaning department in 2003.⁶⁰

In December 2006, shareholders agreed to a buyout of \$6.3 from an investor group led by company chief executive Joseph Neubauer.⁶¹

In 2007, Aramark acquired Campbell Catering for E14.5m⁶² Aramark Ireland, whose operations include Campbell Catering, has established a facilities management division and planned to recruit up to 200 new employees that year.⁶³

Also in 2007, Aramark lost a contract for school meals with the Philadelphia School District, which it had been given in 2005 to eliminate the deficit on school cafeterias.⁶⁴ Service Employees International Union (SEIU) and Unite Here called for an investigation into the severance of the contract with Aramark.⁶⁵

In October 2007 food service workers at New York Life, Citigroup and 55 Water Street voted to strike against their employer, Aramark. They were demanding a living wage and high-quality health insurance. Officials with the union, Unite Here, were also having a contract dispute with Aramark at the Fashion Institute of Technology. Unite Here is also seeking to unionize 336 Aramark workers at AIG, Reuters, Price Waterhouse Coopers and several other companies, where Aramark is the food-service contractor.^{66 67} The dispute was still going in March 2008.⁶⁸

In 2008, after a six-week strike, 20 cleaners and cafeteria workers at Seneca College's Markham campus won major improvements to wages and benefits in a first contract with Aramark. The two-year agreement will give cleaners a 25% pay increase, while cafeteria workers will see a 16% increase. The workers, members of the UNITE HERE union, will also receive more sick days and be able to take part in a defined-benefit pension plan.⁶⁹

In Dublin 2008, following Aramark/ Campbell Catering Ltd being awarded a contract for catering at Mount Carmel private hospital, staff went on strike over the plans to outsource catering services. Under EU regulations all existing catering staff at the hospital would transfer to the new catering company on the same terms and conditions of employment they have had until now. There had been no negotiations with staff or union Siptu, which represents most of the 60 staff involved.⁷⁰ There were attempts to break the strike by bringing in temporary agency staff.⁷¹

The strike was successful, after the Labour Relations Commission brokered an agreement. Under the deal, the 65 employees, who work mainly in catering at the hospital, will be guaranteed employment with the new company, Aramark, on the same terms and conditions as they are on currently. As part of the agreement workers transferring to Aramark will receive a goodwill payment of €250 per year of service since September 8th, 2006. Half will be paid immediately and half on January 1st, 2009. Aramark also offered voluntary severance to up to 10 of the workers who did not wish to transfer to the new company.⁷²

Significantly, the agreement also covered a future possibility of Aramark losing the contract. In this case, the workers will be guaranteed continuing jobs on the same pay and conditions with whatever company takes up the contract. *"In the event of Mount Carmel deciding to employ direct labour once again to carry out these functions, the staff will be entitled to revert to their former positions at the hospital on the same terms and conditions as previously applied"*. The deal also allows for the current pension scheme to be improved although the level of contributions from employer and employee will increase, with both staff and Aramark each contributing 5 per cent. At present Mount Carmel contributes 3% and employees 4%.⁷³

3.3. Conclusion

Service companies depend on sources of cheap labour in order to make profits. Several global catering companies have become more involved in facilities management as a way of diversifying and achieving economies of scale. There are signs that providers of outsourced contracts, especially catering, can no longer generate large profits. Compass and Rentokil-Initial have both reported shortfalls in their pension funds. Sodexo, Compass and Rentokil-Initial have reported increases in debt, with organisational restructuring and some decreases in the number of jobs as a way of dealing with the problem. Serco represents a new form of outsourcing of administrative and technical services for the public sector. The major markets for all companies are Europe and North America. There are signs that expansion is taking place in the Middle East, Asia and Latin America.

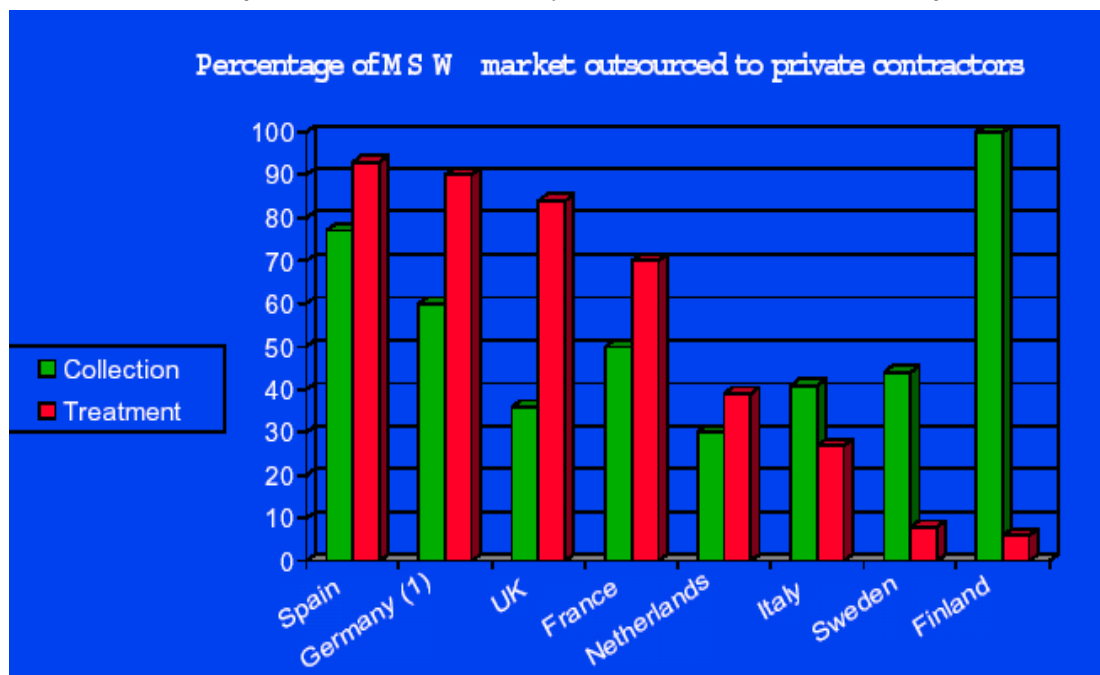
4. Waste management

4.1. Sectoral issues

Waste management is a significant municipal service that includes refuse collection and waste disposal. Far more people are employed in refuse collection than in waste disposal. Waste disposal now includes various forms of incineration and conversion to energy; recycling and extraction of materials; and hazardous waste disposal. These activities are more mechanised and, in addition to contracts for waste management, provide companies with extra income from the sale of energy or recycled materials.

The proportion of refuse collection carried out by contractors varies between countries, even neighbouring countries. In most countries in Europe the majority of refuse collection is carried out by municipalities themselves through direct employment, but in some countries the proportion contracted-out is very high.⁷⁴ It also varies within countries, reflecting different political priorities of different councillors (see below).

Table 5. Proportion of services run by contractors in different European countries



Source: PSIRU 2006⁷⁵, Veolia

4.1.1. Pay and conditions

Wherever refuse collection is contracted out, there are constant problems with poor pay, dangerous conditions, and insecure employment of workers. As a result, there are frequent disputes and strikes in the sector, in developed and developing countries. In the USA, disputes over dangerous working conditions and pay continue in 2008 as they did in 1968 (see below). In the UK, compulsory tendering of refuse workers resulted in even the largest contractors (Veolia/Onyx and Suez/Sita) – paying successively lower wages, cutting benefits, and exploiting a casualised two-tier workforce, often avoiding payment of social insurance or pension contributions.⁷⁶ For example, in 2007 and 2008 there have been strikes by refuse collectors in France in the Ile de France region, around Paris, against Suez/Sita, over pay;⁷⁷ strikes in Italy,

Greece, and Bulgaria also led to major problems with uncollected waste;⁷⁸ and a major dispute in Milwaukee, USA (see below).

The same pattern of problems appears in developing countries. In Hyderabad, India, the municipality contracted out part of its refuse collection service because of a ban on recruiting more staff as municipal employees. Because this allowed more workers to be employed, service improved throughout the city – including the areas still serviced by the municipality's own workers. But the pay, conditions and security of employment of contractors were far worse than those of workers employed by the municipality:

“... A major question is how their labour conditions compare with those of the [municipal] workers. The average net wage of the latter is *three* times higher than that of the private-sector worker. Furthermore, government employees enjoy several non-wage benefits, including pensions, health insurance, leave days, working clothes and boots, and cleaning products. Most of the private-sector workers have to make do without such fringe benefits. As a matter of course, contractors flout contract requirements concerning the welfare of their workers. Almost without exception, they do not contribute to the Employees State Insurance and Provident Fund. The average monthly wage of a worker is Rs1100, while the contract requires payment of the minimum wage of Rs1300. Female workers are not supposed to be engaged in night shifts to protect them from being harassed, yet almost all night workers are women. Security of employment is another aspect where private-sector workers compare unfavourably with their colleagues in government service. MCH workers are permanently employed, while contract labourers in the private sector can be dismissed at any time... if the MCH workers are sick, they can stay at home and make use of their leave days. Private-sector workers cannot easily report sick and almost half of them mentioned that they had worked when they were ill for a period longer than 1 day. For the MCH labourers, this figure was 4 per cent.”⁷⁹

4.1.2. Political decisions and public service

With municipal services such as waste the decision to contract out services, or keep them in-house, is taken by local politicians. Decisions reflect political priorities, and many councillors reject the ideological belief that the private sector performs better. In Botswana for example, some councils contracted out refuse collection, but in September 2008 Francistown City Council rejected it because of its effects on employment, standards of service, and corruption: “A motion calling for the privatisation of refuse collection in Francistown failed to pass muster last week when councillors voted 12-6 to throw it out. Baboni Mosalagae said that if private contractors are hired to collect refuse the 206 FCC workers are likely to lose their jobs. ... He said that a pilot project to privatise services at the council has failed. ... councillor Motlatsi Molapise opposed the motion strongly saying that privatisation breeds corruption at the council.”⁸⁰

Municipalities still have to deliver public services efficiently, or they are vulnerable to pressures from government and the private sector. In Kenya, for example, the government is threatening to disband or merge local councils and to “design a new system whereby local authorities would compete against each other” and justifies these threats on the grounds that basic services are not being delivered.⁸¹

In Nigeria, widespread failure to clear waste from streets is a major urban problem, with frequent publicity for complaints. But the private sector does not deliver solutions either for refuse collection or for waste disposal. In Lagos, private contractors have been brought in, but there are still ‘heaps of refuse’ in the city, and the Lagos State Waste Management Authority (LAWMA) has

had to threaten the contractors: “either the waste managers are prepared to deliver in areas assigned to them or they are sanctioned”, while attempting to blame residents for failing to pay the contractors.⁸² In the whole of Nigeria, according to a leading Environmental Health Officer, there is no safe landfill site which prevents leaks into the water table, and the numerous companies had failed to attract investment in incineration and other profitable forms of recycling, which could also create significant employment.⁸³

In Ghana, the use of contractors has not solved the basic problems of resources and financing for refuse collection. An Agenda 21 profile of Ghana says that the core problems rather include: “Inadequate funds.... Inadequate waste collection vehicles.... Inadequate Government financial support on sanitation: the shift of attention has gone to curative instead of the preventive aspect of sanitation... Inadequacy of law enforcement... There is no research unit in this sector. There is the need to establish one.”⁸⁴ The same applies to waste disposal in Ghana: “Rapid urbanization, poor financing capacity of local authorities, low technical capacity for planning and management of solid waste, weak enforcement of environmental regulations .. have all contributed to compound the problem.... Municipal budgetary allocations for operation and maintenance are inadequate.”⁸⁵

4.1.3. Other problems: over-charging, cartels, corruption, performance

Contractors exploit municipal finances for all possible profit. A multinational company, Cleanaway (now part of Veolia) had a major dispute with the city council of Tallinn, capital of Estonia, now an EU member state. Cleanaway had a 65% controlling stake in a joint venture handling the city’s waste, but still wanted:

- an annual management fee of €200,000 Euros, regardless of profits or performance
- dividend payments nearly double what was specified in the contract
- extra fees for collecting organic wastes
- accelerated depreciation of assets, as a way of allocating more profit to the shareholders.⁸⁶

The sector is also characterised by frequent cases of corruption and collusion between contractors to push up prices, in both Europe and North America. In the USA, the largest company, Waste Management Inc (WMI), has been repeatedly prosecuted for such offences:

- In 1971, WMI and several other companies were convicted and fined for price fixing through a cartel comprising 95% of Chicago's waste contractors. In 1974, a WMI subsidiary was found guilty of price fixing in Wisconsin. In 1984, WMI was convicted in Atlanta for engaging in price fixing with Browning Ferris Industries (BFI) and SCA Services: FBI investigators believed that the "activities in Atlanta were probably directed by corporate officials from the company headquarters." In 1987, WMI pleaded guilty and paid a \$1 million fine on price fixing charges in Toledo, Ohio. WMI pleaded no contest to price fixing in Florida in 1988, and in Los Angeles and elsewhere in California in 1989 paying over \$2.5million in fines. One of the most important cases to date was a civil class-action suit filed in 1987 in Philadelphia, PA, alleging that had engaged in. In 1990, WMI and their largest "competitor," BFI, settled a lawsuit brought by their customers, the municipalities, for allegedly running a nationwide price fixing conspiracy for 10 years, by agreeing to pay compensation of \$50 million and \$13 million in legal fees. The evidence in the case clearly indicated that WMI and BFI officials in their respective corporate headquarters had not only condoned price fixing activities, but also directed and participated in the scams.⁸⁷

In Europe, there is a steady flow of similar cases of corruption – for example, the Italian regional government in Campania is currently being prosecuted for corruption in the award of waste management contracts⁸⁸, and the former mayor of Naples, and 27 waste-management company executives have been charged with fraud and abuse of power in relation to waste management contracts.⁸⁹ Both of the two largest multinationals, Veolia and Suez, have been fined and prosecuted on a number of occasions, mainly in France, for anti-competitive behaviour, corruption, and failure to meet contractual requirements and safety regulations. For example:

- in May 1995 Veolia subsidiaries were fined over €1million by the Conseil de Concurrence - the French Competition Council - for collusion by 5 companies bidding for refuse collection contracts in Var, in the south of France (Hyeres, Nans-les-Pins et Villefranche-sur-Mer). Three of the companies were 100% owned by Veolia; one was 50% owned by Veolia; the other was 34% owned by Veolia. The companies all made bids for the same contracts, without revealing their connections, and after sharing information (Le Monde 11th May 1995).
- in Grenoble in 1996, a former mayor and government minister and a senior executive of Suez both received prison sentences for receiving and giving bribes to award the water contract to a subsidiary of Suez. In Angoulême, in 1997, the former mayor and one-time minister was jailed for two years, with another two suspended, for taking bribes from companies bidding in public tenders, including Veolia.⁹⁰ Executives of Veolia were also convicted of bribing the mayor of St-Denis (Ile de Réunion) to obtain the water concession.⁹¹
- Suez and Veolia formerly owned two of the largest construction companies in France, and, together with Bouygues, they were investigated in a scandal described as ‘an agreed system for misappropriation of public funds’. The companies ran a corrupt cartel over building work for schools in the Ile-de-France region (around Paris) between 1989 and 1996. Contracts worth about US\$500m were shared out by the three groups. The system involved systematic, almost bureaucratised, political corruption: a levy of two per cent on all contracts was paid to finance all the major political parties in the region.⁹²

Some current cases include:

- France’s Competition Council found in 2001 that the formation of joint ventures between Suez and Veolia for water concessions in a number of French cities constituted a ‘dominant market position’ and asked the government to require termination of these arrangements. After a series of inconclusive legal appeals no action has yet been taken against the companies.⁹³
- France’s competition council fined the Veolia subsidiary Sade €5 million in 2005 for participating in anti-competitive cartels in the Meuse region, and €5.4million in 2006 for participating in anti-competitive cartels to fix construction contracts with authorities in the Ile-de-France region;⁹⁴ France’s Competition Council in 2005 fined Veolia Transport €5 million for anti-competitive behaviour⁹⁵
- The city council of Atlanta, Georgia, USA, is suing Veolia for damages of €35million for failing to meet its contractual obligations in relation to treatment plants.⁹⁶
- Veolia reached out-of-court settlements of lawsuits complaining of offensive odours from a sewerage treatment plant in Puerto Rico.⁹⁷
- A waste processing subsidiary of Suez in France, Novergie Centre Est, has been prosecuted for endangering the life of others and violating administrative regulations, because of excessive release of dioxins in 2001. Suez is also party to the anti-competition rulings against Veolia and Suez over joint ventures in water in France.⁹⁸

4.2. Waste management companies

There are very few waste management companies active internationally. They can be divided into 3 groups:

- multinationals active internationally in all regions of the world. There are two dominant companies: Suez Environnement and Veolia Environnement. Both of these are also the leading multinationals in water supply, and also have large international operations in district heating and (in the case of Veolia) public transport. Veolia's operations in Latin America are through Proactiva, a company 50-50 owned between Veolia and the Spanish company FCC.
- Multinationals active in a number of European countries. In addition to Suez and Veolia, this category includes the German companies Rethmann/Remondis and Alba/Interseroh; the Spanish companies FCC, Urbaser/ACS and Cespa; the UK companies Biffa and Shanks; and the Dutch company AVR
- multinationals active only in North America: Waste Management Inc., Allied Waste and Republic services.

In addition to these companies, however, there are numerous waste management contractors in virtually all developing countries.

Table 6. Largest municipal waste management companies 2007

Company	Parent group	Parent country	Sales in waste management (€m.)
Onyx	Veolia	France	9000
Waste Management Inc		USA	9000
Sita	Suez	France	5000
Allied Waste		USA	4000
Remondis	Rethmann	Germany	2900
FCC	FCC	Spain	2800
Republic Services		USA	2200

Source: PSIRU 2007, Veolia 2008

4.2.1. Veolia

		2007	2006	2005	2004	2003
Revenues	€million	32628	28620	25570	22792	n/a
Operating profit	€million	2497	2133	1893	1490	n/a
Employees (total)		319502	298498	271153		
Employees (waste only)		92560	82704	71009	67764	

Veolia's business covers water, waste management (Onyx), energy services (Dalkia) and public transport (Connex). As shown by the table, environmental services – waste management - represent nearly 30% of Veolia's total business. Sales in 2007 were about 24% higher than in 2006, faster growth than other Veolia business, partly due to acquisitions of other companies (Sulo, Cleanaway). About 10% of the environmental services business is outside Europe and North

America, a lower proportion than in water. Veolia states that its geographical strategy is: “After western Europe, Veolia Environnement concentrates on eastern and central European Union countries, a few carefully selected Asian countries, such as China, and large markets with considerable potential that have so far not been very receptive to management by private environmental service providers (especially the United States)”.

Table 7. Veolia sales 2007 (€ millions Euros)

*	Water	Environ- mental Services	Energy Services	Transport	Total
Europe	8,190.5	6,889.4	6,566.1	4,291.8	25,937.8
North America	582.5	1,449.0	19.3	738.9	2,789.7
Rest of World	2,154.4	875.9	311.0	559.4	3,900.7
Total	10,927.4	9,214.3	6,896.4	5,590.1	32,628.2

It is the largest waste management company in the world by revenues, with sales of over €9.2 billion euros, and about 100,000 employees in 33 countries. Over 75% of its waste business is in Europe – and the great majority of that is in just three countries: France, the UK and Germany – 14% in North America, and just 9% in the rest of the world – of which Australia is the most significant.⁹⁹ Veolia states that it is party to 308 collective agreements.

Table 8. Veolia sales and employees in waste management by region 2007

Region	% of sales	Employees	Countries
Europe	77%	68552	Austria, Belgium, Czech Republic, Denmark, Estonia, France, Germany, Hungary, Ireland, Italy, Norway, Poland, Switzerland, UK, and Ukraine.
North America	14%	11243	
Asia/Oceania:	7%	5344	(Australia, China, India, Singapore)
Africa/middle east	2%	6963	(Egypt, Israel, Morocco, South Africa, Tunisia, UAE).
South America		458	(Brazil, Mexico)

Source: Veolia 2008¹⁰⁰

Municipal refuse collection accounts for 22% of its business, with the rest coming from industrial and hazardous waste collection, waste disposal, incineration and recycling. Veolia estimates that it collected nearly 40.6 million tons of waste and treated nearly 66 million tons of waste during 2007. The company states that its strategy is to prioritise waste treatment and industrial waste management, and: “increasing the profitability of our activities by renegotiating fees, maximizing productivity and reducing structural costs”. Amongst the drivers of growth it includes urbanisation, pressures for essential services, environmental legislation, outsourcing and PPPs.

It also sees recycling as a valuable market, where it can make money not only from the recycling activity itself but from selling the sorted and extracted raw materials, especially in developing countries. It argues that “...barring an economic or geopolitical crisis, demand for raw materials should remain strong in the decades to come.”

Table 9. Breakdown of Veolia waste business by type and profit margin

	% of total Veolia waste revenues	Operating profit margin (% of

		revenues)
Municipal collection	22	4-7
Commercial/industrial collection	24	5-9
Industrial/hazardous waste collection	18	2-8
Sorting/recycling	11	7-20
Hazardous waste treatment	8	11-19
Incineration	8	5-10, 20-30 (BOT)
Landfill	9	15-35

Source: Veolia 2008 ¹⁰¹

In the 1990s and early 2000s Veolia expanded its waste management business into developing countries. It still remains active in China and a number of other Asian and north African countries, with waste management contracts in China, South Korea, Taiwan, India, Philippines, Singapore, and street cleaning contracts in Singapore, Alexandria (Egypt), and Rabat (Morocco). In 2006 Veolia was a partner in a joint venture waste treatment and disposal plant in Cameroon, but it is not clear if it is still involved. ¹⁰² In Hong Kong, it has waste treatment plants and refuse collection contracts ¹⁰³; in 2008 it won a new BOT concession for waste storage in Jiujiang, mainland China ¹⁰⁴; in late 2007 it gained a new BOT concession for a waste-to-energy incinerator in Taiwan, in partnership with a local company, and now manages 37% of the waste-to-energy plants in Taiwan. ¹⁰⁵

Veolia has close relationships with development banks and donors, which have taken equity stakes in the water operations of the company. In November 2007, the European Bank for Reconstruction and Development (EBRD) bought a 10% stake in Veolia Voda, covering Veolia's water operations in central and eastern Europe. In December 2007, the World Bank's private finance division, IFC, and the French aid agency's investment company, Proparco, bought 19.5% of Veolia AMI, Veolia's water operations in Africa, Middle East and India.

In South America, it operates through a 50% share in Proactiva, the other 50% of which is owned by the Spanish group FCC. Proactiva operates in both water and waste; it has annual sales of €200 million, employs 10,000 workers in six countries: Argentina, Brazil, Chile, Colombia, México and Venezuela. In Mexico, 49% of the subsidiary is now owned by the Mexican company ICA. In these countries it has contracts with 88 municipalities for waste management services, covering 25 million people. ¹⁰⁶

4.2.2. Suez

		2007	2006	2005	2004	2003
Revenues	€million	11092	11447	12034	n/a	n/a
Operating profit	€million	1000	1060	1061	n/a	n/a
Employees		72130	57446	61915	n/a	n/a

Source: Suez 2008 ¹⁰⁷

Suez Environnement is a French multinational company operating in water and waste management. The waste division operates under the name of Sita, both in France and abroad. In 2008 it was floated as a separate company when the main electricity and gas section of Suez merged with Gaz de France (GdF). However, Suez/GdF still owns over 35% of Suez Environnement, a dominant shareholding, and the companies have agreed to "jointly perform a process of

identification and analysis of strategical issues” , and Suez Environnement will have access to central expertise of Suez/GdF and to loan finance from Suez/GdF. The largest shareholder in Suez/GdF itself is the French government, which thus can exercise a significant degree of influence over Suez Environnement.

In the 1990s Suez/Sita expanded globally. In South America for example, Sita acquired the Brazilian waste company Vega (which employed 10,262 people), and 50% of Cliba in Argentina, with operations in other countries in South America. From 2003 it withdrew from developing countries, and also from waste management in the USA and Canada (it remains active in water in the USA). Sita now operates only in Europe, Australia, and China, and a contract in Casablanca, Morocco, and collection contracts in United Arab Emirates. ¹⁰⁸

In 2007 annual sales on waste were about €6 billion Euros. Of this €5.6 billion was in Europe – over 75% in France, Germany, and the UK – including operations in Belgium, Czech Republic, Denmark, Finland, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Spain, Sweden, and Switzerland.

It owns 60% of Sita Australia, which has 800 employees and collection contracts with 20 municipalities. In China it owns 50% of Swire-Sita, which has 1,240 employees and €47million of business mainly in Hong Kong, where it “is one of the major players in the collection of waste, street cleaning and composting”, and it also operates a large hazardous waste incineration plant in mainland China, and a large waste-to-energy plant in Taiwan.

Suez Environnement employs nearly 62,000 people worldwide in water and waste combined. The company provides a breakdown of employees by geographical region, gender, occupational category and type of contract, but does not separate the figures sectorally between water and waste.

The company claims that “The portion of permanent contracts is very high within the Group. This demonstrates the Group’s willingness to retain employees for the long term.”, but also notes that “in Europe, several Group subsidiaries hire under fixed-term contracts before confirming most of the new employees under permanent contracts. The Group is also finding that companies active in the Waste Europe segment most often use fixed-term contracts for seasonal activities.”

Table 10. Suez employees in environmental services (water and waste) 2006

	2005	2006	2007
EMPLOYEES BY REGION			
European Union	47261	48364	52477
Rest of Europe	79	73	78
North America	3261	2553	2704
Latin America	15548	272	231
Africa–Middle East	3255	3552	3646
Asia–Oceania	2726	2632	2779
TOTAL	72130	57446	61915
CATEGORY			
Managers	6783	7091	7766

Technicians, Supervisors	11835	10406	11365
Workers, employees, technicians	53512	39949	42784
TOTAL	72130	57446	61915
WOMEN			
Percentage of women employees	18.5%	18.0%	18.3%
Percentage of women in management	21.4%	22.7%	23.9%
TYPE OF CONTRACT			
Indefinite	94.5%	92.9%	92.1%
Other	5.5%	7.1%	7.9%

4.2.3. North American companies

There are three large waste companies in north America: Waste Management Inc. (WMI), Allied Waste, and Republic Services Inc. The largest company, WMI, employs about 50,000 workers in the USA. Allied Waste and Republic are expected to merge: WMI was attempting to buy Republic Services, but abandoned the bid in October 2008. They are approximately the same size as the largest European companies, but none of them are active outside the USA and Canada. In the 1980s and 1990s Waste Management Inc and others did expand into Europe, but then withdrew at the end of the 1990s.

The USA companies have a long history of driving down pay and conditions, opposing union organisation, and dangerous working conditions. Since the 1970s, many municipalities have deliberately outsourced waste collection to the private companies as a way of driving down labour costs. The problems continue: a major dispute and strike took place in 2008 in Milwaukee, Wisconsin, over company attempts to worsen conditions; and the Teamsters union has just published a damning survey of the companies' unsafe policies: between 140 and 170 people are killed each year in the USA in garbage truck accidents; two-thirds of workers work over 10 hours per day; the largest company WMI has been responsible for 232 breaches of safety laws in the last 5 years.¹⁰⁹

<http://www.wm.com/>

<http://www.alliedwaste.com>

<http://www.republicservices.com/>

<http://www.teamster.org/landing.aspx?id=1798>

4.2.4. Companies in developing countries

Private waste management contractors exist throughout the world, mostly as small contractors. In some countries larger firms have developed. In Latin America, outsourcing of waste management grew from the 1980s: by 2000, in Brazil, for example, 65% of waste was collected by 40 different companies, which had diversified from construction or road haulage.¹¹⁰ An Argentinian company, Ruggio, has developed a waste division, Cliba, which still operates in Uruguay as well as Argentina.¹¹¹

5. Campaigns and alternatives

5.1. Living wage campaign

In the United States, the Service Employees International Union (SEIU) started the 'Living wage' campaign in 1985. 'Living wage' campaigns raise awareness of the need for improvements in pay, terms and conditions for low paid workers.

Janitors, a group which have often seen their wages reduced when their services have been contracted out, have been the focus of some campaigns. The 'Justice for Janitors' campaigns are broad based workers movement campaigns which work closely with community groups, faith groups and other local groups to form broad based alliances. The 'Justice for Janitors' campaigns have raised the profile of the Service Employees International Union (SEIU) over the past 20 years, although its work is much wider. SEIU brings different groups together to campaign and provides resources for training activists. As well as achieving improvements in terms and conditions of low paid workers, the 'Living Wage' campaigns also create stronger bonds between different campaigning groups, faith groups, and local communities. This often helps to introduce an 'ethical discourse' into institutions as well as demonstrating the value of trade union organising.

5.2. Community-based organisation: Telco

Set up in 1997, as a coalition of 37 local community organisations and local trade union branches in East London, UK, The East London Communities Organisations (TELCO) aims to bring these diverse communities into an effective alliance to:

'Press power-holders, in the public private sectors, to act for the benefit of families and communities in East London. TELCO trains leaders from its member organisations to be skilled and capable citizens, who can act collectively for the common good and take their case wherever it needs to be heard (TELCO, 2003). TELCO has now become London Citizens and is active throughout London.

In 2001, Telco published 'Mapping low pay in East London' which highlighted the gap between minimum and living wages and poor working conditions. One of its most successful campaigns led to improvements in pay and conditions for cleaners in large financial companies in Canary Wharf, a financial district of London. It achieved this by initially buying shares in HSBC which enabled a group to attend the HSBC Annual General Meeting in May 2002. At the HSBC AGM, Telco raised concerns about how the bank contracted out its cleaning services and how contracted cleaners were poorly paid. After many demonstrations and strikes and the development of widespread support for the 'Living Wage' campaign, both Barclays Bank and HSBC agreed to new terms and conditions for their contract cleaners in Canary Wharf in 2004. In the same year, the T&G union started to employ two full time organisers, based in Canary Wharf (QMC, 2008).

Another Telco campaign led to improved pay and conditions, for catering and cleaning services, in local hospitals. This campaign was successful in establishing a coalition between users and workers. It used arguments about reducing health inequalities, which were part of central government policy, to provide a rationale for the campaign. In the UK, there has been a growing awareness of the role that the public sector play as major employers, in disadvantaged areas.

Campaigns initiated by TELCO and SEIU, use research and training to inform strategies and prepare activists. This recognises that effective campaigning needs people with a wide range of skills, who are prepared to adopt many different approaches to campaigning.

5.3. Fair wages clauses

Countries can also protect workers and deter private companies from paying unacceptably low wages by using fair wages clauses. ILO Convention 94 formulates a standard clause, which is intended, firstly, to prevent companies bidding for public contracts from competing on the basis of cutting labour costs; and secondly, to ensure that public contracts do not exert a downward pressure on wages and working conditions. An ILO report published in 2008 notes that the increased use of outsourcing - including through PPPs - and the use of labour-only subcontracting, make the problems even more acute now than when ILO 94 was first agreed.¹¹²

In India, the government is applying such measures specifically for employees of contractors providing municipal services. In August 2008 it announced that the government would set new national minimum pay rates for sweepers and cleaners employed by private contractors, and for workers employed by contractors in public security services ('watch and ward'). A recent pay agreement at the public sector Neyveli Lignite Corporation company also provided protection for 13,000 workers employed by sub-contractors of the company: the minister for Labour and Employment called for this to become a 'standard model'.

More broadly, public authorities can use procurement contracts to require good employment practices. The Greater London Authority sets a 'London Living Wage' (LLW), significantly above the national minimum wage, which contractors are obliged to pay. In 2005 Hungary introduced a new law on 'orderly labour relations', which makes participation in public procurement tenders, and eligibility for government subsidies, conditional on employers observing good labour practices; Spanish law on public procurement favours the proposal which gives evidence of greater gender equality.¹¹³

5.4. Participatory budgeting and public referenda

There are outstanding examples of new forms of governance aimed at increasing participation from Brazil and Kerala state in India. The Participatory Budget process (*Orçamento Participativo-OP*) in Brazil is best known from its use in Porto Alegre. It is a form of direct democracy, allowing citizens to participate in the neighbourhood they live in or within a particular thematic area and choose which of their priorities the municipality should implement. It originated in 1989 when a new local government was elected, committed to a programme of tax reform and expenditure, which started using public meetings to ensure broad support for the implementation of this programme. The number of Associative and Resident Entities registered in the OP process today number about a thousand, and the council priorities have become more reflective of the needs of the communities.

The Brazilian model of participatory budgeting is now attracting attention in Europe and elsewhere. In Sevilla, the municipality allocated between 32 and 42 per cent of its budget to 18 districts; all residents in the neighbourhoods then voted for particular projects, social policies and actions in their area and elected representatives to go to the assembly of districts; then the assembly decided on an overall budget, a decision which is binding on the municipality. More than 100 Italian municipalities (including Naples and Venice) are setting up an association of local authorities which promotes the introduction of participatory budgets, the explicit model being Porto Alegre in Brazil.

In the USA, there is a long tradition of enabling democratic decisions to be made by local participation, and referenda can be triggered – two recent examples were votes in New Orleans over a proposal to privatise water, and proposals to municipalise energy in cities in California,

following the energy crisis of 2001. There are also European traditions of participation through direct citizen votes on propositions. Recent uses of these initiatives in a number of countries have resulted in votes against privatisation proposals.

Table 11. Support for public sector in European referenda and ballots

Country	Date	Issue	Result
Hungary	2004	Hospitals privatisation	65% reject
Germany	2001	Dusseldorf energy privatisation	Rejected by 90% (but implemented!)
Germany	2004	Hamburg water privatisation	Abandoned after successful campaign
Slovenia	2003	Rail, telecoms privatisation	Decisive referendum votes against
Netherlands	2002	Amsterdam public transport privatisation	Against privatisation of city transport GVB
Latvia	2000	Energy company Latvenergo privatisation	Government reversed policy because would lose referendum
UK	2006	Water privatisation	56-38 favour renationalisation of water in BBC poll

Source: PSIRU 2008¹¹⁴

5.5. Worker participation

Some initiatives highlight the value to the public service organisation of workers' knowledge, through worker participation in improvement of public services. In Sweden and Norway public sector unions have established systematic arrangements for improving public services; and the UK unions are beginning to develop the idea of 'co-production' of public services involving both workers and users. A general set of principles for Workers' Initiatives (WIN) which emphasise the importance of establishing tri-partite bodies including politicians as well as management and unions (as is done in Norway) is being developed by PSI.

5.6. Competing against the private sector

Some local authorities, with union support, have successfully competed against private companies for services. In Germany there is a strong tradition of public sector service organisations through its *stadtwerke*, enterprises which are usually owned by municipalities. In Bergkamen, the *stadtwerke* bid successfully for the waste management service, and so it was remunicipalised in 2006. The in-house service was able to reduce costs by 30% through cooperation with other councils, reduce fees to users, while still maintaining the level of pay and conditions. There are a number of other cases of remunicipalisation of services in Germany, including for example water in Bochum, engineers in Hanover, cleaning in Freiburg and Dortmund.

UK unions have been successful in some cases too, for example when the city of Newcastle beat private sector bids to run council services, including school meals and IT services.¹¹⁵ A set of guidelines summarising the approach used in Newcastle has been produced by the ESSU, which emphasises the scope for influence in the process: "Procurement is not simply a technical or legal process. Political decisions are made at various stages such as the criteria used to evaluate

options, the extent to which the authority ‘stimulates’ or creates markets and whether it supports an in-house bid.”¹¹⁶

5.7. Campaigns and elections

Unions in a number of countries have engaged in political campaigns, especially in the context of elections, to protect municipal and public services. Unions in Zambia for example played an active role in the nationwide campaign to oppose the privatisation of services demanded by the World Bank as a condition for debt relief.

The Norwegian union Fagforbundet (the Norwegian Union of Municipal and General Employees) has engaged in political campaigns to restore municipal public services. For a 2003 election campaign in the city of Trondheim the union drew up a 19-point plan, including the reversal of privatisations. The elections were won by the left parties, which then re-municipalised the city’s bus company and the cinemas, and ended the outsourcing of care for the elderly. The city council also increased investment in schools; improved social assistance for single mothers;¹¹⁷ introduced a system of planned maintenance for buildings, based on extensive consultations;¹¹⁸ and is developing free wireless internet connections across the city.¹¹⁹

5.8. Re-discovery of public housing

The provision of public sector housing at affordable rents was one of the major roles of municipalities in the 20th century. This role was cut back sharply in the last 25 years, as part of the general reduction in the role of the state, despite evidence of continuing need for such a service.

The global financial crisis has now sharpened the need to rediscover social housing. Since there is less social housing at affordable rent, poorer families have had to take out mortgages to buy homes: many could then not afford the payments, and so these ‘sub-prime’ mortgages became bad debts for the banks – and their repossession of the houses has made hundreds of thousands homeless.

The role of municipal housing services is being rediscovered, especially by UN agencies. The UN Economic Commission for Europe (UNECE) organised a conference in 2004 on housing problems in transition countries in central and eastern Europe, which concluded that:

“the increasing reliance on market forces has not been sufficient to compensate for the decline of the role of the state in the housing sector. For this reason, the housing needs of the poor and vulnerable are often not adequately addressed. The availability of affordable housing, however, is crucial for an individual’s well-being as well as for ensuring a social cohesive society. It is also an important factor for economic productivity: affordable housing is a prerequisite for labour mobility and an essential part of the creation of a policy environment conducive to enterprise formation and job creation. Realising this, countries are increasingly searching for ways to effectively and efficiently address the housing concerns of those most in need, and the provision of social housing is an important tool to achieve this.”¹²⁰

At the height of the crisis, in October 2008, the UN released a statement by its housing expert, Raquel Rolnik, arguing that the crisis shows markets alone cannot ensure housing for all, and demanded a re-appraisal of social housing policies:

“The belief that markets will provide adequate housing for all has failed. The current crisis is a stark reminder of this reality,A home is not a commodity – four walls and a roof. It is a place to live in security, peace and dignity, and a right for every human being.

...Excessive focus on homeownership as the one and single solution to ensure access to housing is part of the problem..... adequate housing for all is a public goal whose achievement requires a wide variety of arrangements, from tax advantages to buy a home to better legal protection for tenants and rent control areas; from direct subsidies to the poor to publicly owned housing and a range of tenure arrangements. Markets, even with appropriate regulation, cannot provide adequate housing for all.”¹²¹

This was followed by a statement from the Executive Director of the United Nations Human Settlements Programme (UN-Habitat), Anna Tibaijuka, who told a Un-Habitat Committee meeting that:

“Rapid, chaotic urbanization and the dearth of affordable housing were the underlying causes of the current financial crisis, and they could only be resolved through public financing and political will... housing was the repository of national wealth, as well as a market product and a social good.”¹²²

Public sector house building programmes can still play an important role in some countries. In Nigeria, the state of Borno has undertaken a large housing programme, using government funds: it not only provides homes for the poorest, but also provides employment in building and maintaining the houses.¹²³

6. Conclusion

International financial institutions and donors are still committed to policies based on the private sector. Pressures by unions in rich countries could become more important as a way of changing donor policies, and may also persuade governments to modify the position of the IFIs. UN agencies can be influenced through the existing ITUC representation.

The tone and content of several reports published by international local government organisations indicate that several international local government organisations are considering strategies that are not determined by international financial institutions but defined by approaches that meet the growing needs of local authorities, as defined by the local authorities themselves

Global service companies are experiencing problems with some of their traditional markets. In future, these pressures on global service companies will continue. The search for cheap labour will also become more intense as increasing numbers of existing workers retire in Europe and North America. Africa and Asia are likely to become a focus for expansion.

Waste management multinationals rely increasingly on waste processing for their business, so refuse collection is becoming less central to the multinationals' business. There is still significant political support for direct employment of refuse collectors, worldwide. This remains important as local contractors are a large part of the private sector in most countries, so campaigns directed principally at multinationals do not cover the whole problem.

There are a wide range of successful campaigns and alternative strategies for supporting and expanding municipal services. Participatory budgeting is gradually being adopted throughout the world. Research, information and training will be needed for people to participate actively in these processes. These needs will have to be identified alongside planning for future campaigns.

7. Notes

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