The sell-off of Britain Plc: Revenue and Customs loses personal details of 25 million

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A number of extraordinary revelations over the last week are indicative of a deep malaise surrounding the Brown government, leading some to suggest that its days are numbered less than six months since the "seamless transition" from Tony Blair to Gordon Brown.

On Tuesday Chancellor Alistair Darling confessed that Her Majesty's Revenue & Customs (HRMC) had lost computer disks containing the personal and financial records of 25 million people, opening up the threat of mass identity fraud and theft.

In October, the name and birth date of every parent and child in receipt of child benefit, along with national insurance numbers and bank account details, was sent by the HMRC office in Newcastle on two unencrypted CDs to the National Audit Office in London by courier. The package, which was not sent recorded delivery, never reached its destination.

In a contrite statement to Parliament, Darling blamed a junior civil servant for the major breach of security. But the *Guardian* reported that subsequently a secret session of the public accounts committee was told that a senior business manager at HMRC had authorised the release.

Within hours, previous instances of the HMRC losing confidential data were revealed, including a computer disk with 15,000 people's details going missing on route to Standard Life's pensions department, also in October. As HMRC admitted to 41 laptops being stolen from its office in the past year, others, including one lawyer specialising in fraud cases, disclosed that they regularly received unencrypted confidential data from HMRC.

Only the day before his emergency statement on the missing disks, Darling had also been forced to admit in Parliament that the Treasury may not be able to recoup all of the substantial public funds—estimated at £24 billion and rising—loaned to keep the Northern Rock bank afloat.

For the last weeks, the government and the Bank of England have been casting around for a buyer for the ailing bank—whose attractiveness has been likened to a bucket of sick. As share prices plummeted further, the *Guardian* revealed that even if a suitor is found, there is little chance of the taxpayer recovering much of the monies spent so far.

Over 70 percent of Northern Rock's mortgage portfolio is held by an offshore Granite company in Jersey. And far from being an innocent victim of the sub-prime mortgage crisis in the US, Northern Rock itself had been indulging in extremely risky loans. During a three-year period up to 2005, the proportion of mortgage loans of over 90 percent issued by the bank had risen from £2.7 billion to £16 billion. Over the same period home repossessions by the bank had also increased from 80 a year to 1,000, while the numbers of homeowners who were a month or more in arrears had gone up from 2,500 to 10,000.

The chancellor was the immediate target for charges of incompetence by the opposition and business leaders, with one survey of 100 leading businessmen finding that 76 percent did not believe he is "well equipped to steer the economy." But the finger was also pointing at Prime Minister Gordon Brown. Numerous media reports, along with the Conservative opposition, pointed out that it was under his chancellorship that the Inland Revenue and Customs and Excise had been merged in 2004 to create HMRC and that he had also designed the regulatory system (or rather the absence of one) that enabled the Northern Rock debacle.

On Friday, Brown was placed directly in line of fire. In an unprecedented personal assault, five former military top-brass attacked the prime minister.

Speaking in the Lords, Admiral Lord Boyce accused Brown of treating the armed services with "contempt" and declared there would be "blood on the floor" of the Ministry of Defence over a "desperate" funding shortfall.

Royal Air Force head Lord Craig, chief of defence staff during the Gulf War, queried whether it was "immoral to commit forces that are underprepared and ill-equipped for their task," while General Lord Guthrie said Brown had been "the most unsympathetic Chancellor of the Exchequer, as far as defence was concerned."

Writing in the *Observer*, Andrew Rawnsley likened the series of damaging incidents to Black Wednesday when "sterling crashed out of the Exchange Rate Mechanism with an irreversibly shattering effect on the credibility of John Major. It is one of those political episodes that shreds all respect for and confidence in authority."

There are no principled differences between Labour and the Conservatives over foreign policy. Nor did the defence chiefs intimate any such criticisms in their attack, which was confined to how the current policy should be paid for. But the outburst points to a recognition within leading circles of an acute crisis in public finances and divisions as to how it should be handled.

The military have their own axe to grind. A series of coroners' inquests into fatalities in Iraq and Afghanistan have heard that equipment shortages were at least partially responsible for the servicemen's deaths. More specifically, the *Telegraph* reported that the treasury had recently changed the rules for funding urgent supplies for troops in Iraq and Afghanistan out of the government's reserve fund, forcing the MoD itself to meet more of the costs.

Since 2001, the treasury has spent £6.6 billion on urgent equipment such as armoured vehicles and enhanced body armour in Afghanistan and Iraq. With billions given over to hold up Northern Rock—and the government now agreeing with the banks to underwrite any repercussions from the disk loss—the fight over public finances is on.

According to Hamish McRae in the *Independent*, "the public sector this year is heading for a deficit of more than £40 billion.... We have had seven months of the financial year during which the government had to borrow £24.2 billion, against £17.5 billion for the same period the year before."

The *Independent* reported that earlier this month, Boyce, Craig and Guthrie had launched the UK National Defence Association. Suggesting Conservative Party involvement in the attack on Brown, it noted that Tory peer Baroness Park had tabled the motion on defence that had triggered the assault in the Lords. Earlier that day, Gerald Howarth, Conservative

Defence Minister, had hosted a "defence breakfast" for MPs and peers and was aware of what was afoot.

The charges of incompetence—with their suggestion that all that is involved is a lack of professionalism—obscure a more fundamental issue. Namely, that the chickens are coming home to roost on a political policy—shared by all the major parties—that has dictated economic and social life in Britain for more than two decades.

What was praised as Labour's successful management of the economy over the last 10 years was nothing more than a continuation of the Tory agenda of transforming Britain into a tax haven for the super-rich coupled with financial parasitism on an unprecedented scale. The impact of this on the lives of working people and the services on which millions depend was partly concealed by the explosion of cheap credit and a boom in house prices that helped fuel it and—more importantly—the complete transformation of Labour and the trade unions into the tools of big business.

The collapse of Northern Rock, the first run on a British bank for over a century, exposed the extent to which the British and global economy is dominated by speculative capital that is increasingly divorced from the actual process of producing goods and services, and consists of little more than glorified loan sharking on a massive scale.

Almost one-third of the UK's 700 largest businesses paid no corporation tax between 2005 and 2006. Last year alone the super-rich stashed some $491 billion worth of assets in Jersey to avoid taxation. As the rich have become exponentially richer, it has been left to the broad mass of working people to make up the shortfall, through a combination of increased indirect taxation and the gutting of public provision.

Government outsourcing grew by over 50 percent in the three years to 2005 and was set to rise by a further £20 billion between 2006 and 2007. This is all part of a privatisation policy that has funnelled billions in assets and subsidies to private capital.

Despite columns of coverage over the missing computer disks, the direct role played by this policy in the HMRC is being covered over—and with good cause. In the midst of the government's battle with postal workers over measures to further "liberalise" Royal Mail on the grounds of efficiency—and destroy jobs, pensions and working conditions in the process—there has been little questioning of the role of the private courier firm TNT, a major beneficiary of postal liberalization, in the "diskgate" affair.

The public sector outsourcing boom has been driven by the government's "efficiency" agenda, aimed at slashing 80,000 civil service jobs and making £21.5 billion in savings.

HMRC, which has lost thousands of jobs, reportedly declined a request to remove sensitive data from the disks before their transfer in order to avoid the office bearing the cost—estimated at £5,000—of paying the IT provider Electronic Data Systems (EDS) to remove it.

That EDS is involved at any level of government is itself revealing. It is just two years since it agreed to pay £71.25 million to HMRC in compensation for the tax credits debacle in 2003, when failed software caused massive backlogs and errors, costing almost £2 billion in one year alone. Forced off the contract that year, HMRC had threatened legal action to recover the losses.

A compensation deal was finally settled in 2005, but HMRC agreed that the staged repayments would be made out of future deals with the government. In March 2005, EDS won a $4 billion contract with the British government for the Defence Information Infrastructure (Future) project.

The consultancy firm Capgemini was paid £52 million to cover the costs of taking over the tax credit contract from EDS. As the estimated cost of the contract rose from nearly £3 billion to £8.5 billion over 10 years, a parliamentary report found that Capgemini stood to make a £1.1 billion profit.

Its chief executive, David Boulter, pronounced, "Governments will continue to squeeze the amount of money available for civil servants.... What is acceptable and what is not acceptable will continue to be challenged. I think we can expect more outsourcing."

From the MoD to the National Health Service and local government, the privatisation boom has paid out massive dividends to the private sector and senior public employees in on the ground floor. The defence chief's attack came after an NAO report found that leading civil servants had been allowed by the government to "hit the jacket" by signing off on a privatisation deal that netted them "mind-boggling" profits of nearly 20,000 percent.

When the formerly state-run defence research business Qineti Q sold a one-third stake to the private equity firm Carlyle, the 10 most senior officials invested £540,000 in the business and ended up with shares worth £107.45 million. A total of 245 senior managers bought shares for £450,000, only to see them rise to £65.26 million on flotation.

The NAO criticized the sell-off as poor value for taxpayers' money, but it is not a one-off. Last week it was revealed again that a 60 percent stake in Actis—created in 2004 from the government-owned CDC Capital, which invests in developing countries—had been sold for a paltry £373,000 despite the group having management of some £1.75 billion.

Writing in *Computing*, David Thomas said that only just over half of outsourcing deals establish security controls—including responsibilities and penalties. But the implications of the government sell-offs goes beyond identity fraud.

The recent collapse of Metronet, which was awarded the multibillion contract to maintain the London Underground, is a case in point. Broad swathes of the National Health Service and education have also been put out to tender, with the result that the NHS is in hock to the tune of £90 billion to the private sector.

Big business and the Conservative opposition have been at one with Labour in this get-rich quick bonanza. Their current demands for government competence have nothing to do with improving public provision, but with more effectively managing the interests of big business. Accordingly, Brown pledged to yesterday's CBI meeting that he would not "shirk" tough decisions under conditions of a global economic downturn and hinted that the government would rethink its recent hike in capital gains tax that had corporate chiefs up in arms.