

**PRIVATISATION AND THE TARNISHING OF THE SCOTTISH
PUBLIC SECTOR**

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Every government's activity is a combination of particular policies and a general strategy based on a view of society and government's place in it. The 1979 and 1983 Conservative governments have had a greater strategic grasp than most, and among their themes has been a faith in private sector consumption and ownership. Privatisation is a vague term, used in a variety of senses, but its main thrust is clear. It is the transfer of tasks from the public to the private sector, in the hope of increasing the range of consumer choice and reducing the load on public sector resources –legislative and administrative time as well as direct expenditure and employment.

For Scotland, this policy has posed a double challenge. The weak position of the Conservative Party in Scotland in the past two decades has made the party's United Kingdom strategy an Anglocentric one – principally geared to the interests of employed persons in the South and the Midlands. Scotland has to conform to the ideological themes this strategy has produced, including privatisation, even though they may be less appropriate to Scottish conditions. Secondly, the public sector in Scotland has been larger and more prominent than in England, not just in the share of national income and employment but in the political reliance put in the public sector to correct unwanted social and economic circumstances. In fact, Scotland could have been said to have a model public sector, in the sense that considerable scope was available for public sector agencies and employees to achieve their objectives.

This article seeks to relate the variables connected with Scotland and with privatisation, and to evaluate the relative success of the privatisation strategy in Scotland. The idea of 'tarnishing' reflects in part the progress that privatisation has made, in tandem with developments in the rest of the United Kingdom. But, just as the Scottish private sector has been defined rather differently from the English, the pattern of political confidence in it has also been distinctive. The idea of a monolithic, benevolent public sector has lost its attraction everywhere, and Scotland has been more exposed to this mood than most. At the same time, the extent of administrative devolution to Scotland might allow some departure from the full imposition of Conservative ideology, should Scottish Office ministers so wish. And so

the article first discusses some defining characteristics of the public sector in Scotland and particular considerations faced by the Conservatives. Evidence on the extent of private provision in different public services leads into an account of the different types of privatisation – assets sales, contracting-out, private health and welfare, and the extension of consumer choice. The pattern revealed is part of a United Kingdom-wide movement, but has many distinctive aspects.

THE DEFINING CHARACTERISTICS OF THE PUBLIC IN SCOTLAND

It is well known that the scale of the public sector is greater in Scotland than in England. Identifiable expenditure per head in 1983-84 was 121 per cent of the United Kingdom average, and this imbalance seems to have persisted since the early twentieth century. Public employment is somewhat higher than the average.⁽¹⁾ As a recipient area for regional aid since the 1930s, Scotland has had a disproportionate share of its workforce in areas eligible for assistance. In health and education Scotland has had a higher level of service. As a nation with both urban and rural deprivation and a large agricultural sector, Scotland has benefitted from the generosity of United Kingdom – and more recently European Community – policy in these fields.

What this represents is not so much special privilege for Scotland as the coincidence of United Kingdom policy with Scotland's circumstances and needs. In the relative weight of the public and private sectors in Scotland, it is United Kingdom variables that predominate. The structure of the social services and nationalised industries is a common one, and distinctive forms of organisation (most notably in school education) do not in themselves increase the size of the public sector. What is distinctive, though, is the historical development of the public sector before the twentieth century, and the political use to which it has been put since. Each of these has some bearing on the privatisation issue.

In historical terms, the Scottish public sector has always had a more 'planned' nature than the English. The main cities have a tradition of community social provision, especially through the foundation of hospitals and universities by the city. In the nineteenth century, the concentration of medical training in Scotland, and the opportunities offered to doctors by voluntary and poor law hospitals, established a tradition of high quality public sector service. Education, even when fee-paying, was closely integrated into the society of towns and cities. Public sector housebuilding, once it started after the First World War, was pursued with enthusiasm in most urban areas.

Added to this from 1885 was the office of Scottish Secretary, whose holder, even if not responsible for all public services in Scotland, had a residual role as 'Scotland's Minister'. The Scottish Office and its ministers have often seemed more ready than some of their English counterparts to use public sector policy instruments. In the 1930s Walter Elliott took a major initiative on housing and social deprivation.⁽²⁾ In the 1950s and 1960s Conservative Secretaries of State promoted industrial development. The Heath and Thatcher governments for a time tolerated the title 'Scottish Economic Planning Department' for one of the parts of the Scottish Office. Responsibility for a wide range of public services has forced Scottish Office ministers to take a view on how policies may best be combined to a given political end.

Another factor is the use of public services for political management in Scotland. The public sector does not only meet public needs and demands; it also provides governments with the means to pursue their political objectives. This is done principally by the manipulation of what is made available to different sections of society – classes, ages, occupations, genders and territory. Given Scotland's small size in relation to the United Kingdom as a whole, it is relatively cheap to solve an immediate political problem by an injection of public resources. It is important for Labour Secretaries of State to deliver tangible benefits of the Union in the industrial field, and for Conservative ministers to demonstrate that Scotland has not been given up as a lost cause by its party. In the 1970s there was the additional need to offer a practical rebuttal to the claims of nationalism.

It is possible, of course, to secure this political management by an injection of cash – as with the support provided to domestic and commercial ratepayers in 1985 from the contingency fund. A reducing size of the directly-employed public sector is quite compatible with a level of public expenditure that is increasing through transfer payments to individuals and organisations. But, in any privatisation decision, governments will weigh the implications of a loss of direct control. Among the losses are the ability to influence the location of an enterprise's activities, and to discriminate between one part of the United Kingdom and another. It is much more difficult to achieve political objectives through indirect financial means than through direct ownership, and given the history of the public sector in Scotland, this factor is likely to be an important one in Scottish conditions.

THE CONSERVATIVE APPROACH TO PRIVATISATION IN SCOTLAND

Privatisation as a policy tends to operate uniformly across the United Kingdom. This is because it is related to three variables – the structure of nationalised industries, the pay and conditions of public employees, and the rules for personal and corporate taxation – that are, in most cases, set nationally. Although the Scottish Office supervises the Scottish Transport Group and the two electricity boards, their financial operation is closely monitored by the Treasury. There is separate negotiation in Scotland for the pay of teachers and manual local government employees, but the arguments deployed tend to parallel those in England. The United Kingdom is notably centralised in its taxation policy, with no thought of encouraging owner-occupied housing, occupational pensions or private health insurance in particular geographical areas through fiscal discrimination. Hence, once a policy of privatisation has been agreed by the United Kingdom Cabinet, it is difficult to find good grounds to resist its extension to Scotland.

That said, it is possible to identify two variables that might tend to slow down privatisation in Scotland, and two that might speed it up.

Slowing down: the Mandate argument

With the Conservative Party gaining only 28 per cent of the Scottish vote in 1983, it has always been vulnerable to accusations that it has no public consent for its Scottish policies. With 'imperial' matters like defence and taxation the lack of a local mandate is less of a problem. With many of the social services it is acute, especially if the desired change is based upon ideology rather than pragmatism, appears to be better suited to English than to Scottish conditions, or has to be imposed upon local authorities not controlled by the Conservatives. Privatisation is vulnerable on all three counts.

Despite the ultimate failure of the devolution policies of the 1970s, they did suggest – and this was accepted by many Conservatives – that certain functions could have separate policies in Scotland without prejudicing the constitutional unity of the United Kingdom. The main legacy of devolution for committed unionists has been to increase their sensitivity to Scottish opinion and circumstances. This has meant that privatisation has had to be argued through in Scottish terms and in terms of its merits in a particular case, rather than as something the government is

entitled to do because of its 1983 election victory.

Slowing down: the Scottish lobby

The tradition of 'Scotland's minister' has cast the Secretary of State in the role of ambassador or advocate rather than ideologue or executive manager. 'Fighting Scotland's corner' has become an entirely respectable activity for Conservative ministers, especially when the issues to be defended are perceived as symbols of national identity. In recent years these symbols have taken on a more substantive aspect in the economic field. The concept has emerged of a 'ring fence' to protect the local ownership of certain industrial and financial institutions. This became evident in the disposal of Ferranti by the National Enterprise Board in 1980, and the blocking of proposed takeovers of the Royal Bank of Scotland in 1982. The same arguments have been used to resist plant closures like the Ravenscraig steelworks in 1982 and the Scott Lithgow shipyard in 1983, though in the latter case an outside purchaser had to be found in the form of Trafalgar House. What is interesting about these cases is that politicians and officials, especially in Strathclyde region and the Industry Department for Scotland, have in effect submerged their differences of party and level of government to promote the Scottish case.

A main means of privatisation is the sale of assets, and so the policy raises issues for the Scottish lobby. The issue has not yet arisen in these terms, but it is possible that a sale of shares in the Scottish electricity boards, or of the assets of the Scottish Development Agency or the New Town Development Corporations (now in prospect), would only be possible through purchase by non-Scottish interests. Public sector ownership might be the only means of securing Scottish control, thus posing a difficult choice for Conservative ministers.

Speeding-up: opportunities for private sector growth

An underdeveloped private sector, especially in social policy fields, may offer opportunities for entrepreneurs and call for explicit encouragement of privatisation by government. This is the argument of Michael Forsyth MP who, even before his election for Stirling in 1983, was associated with the privatisation issue as a public relations consultant. The right-wing Adam Smith Institute has argued on similar lines, in the hope of strengthening the resolve of Conservative ministers to challenge public sector interests.

Such a strategy, however, requires the support of private

entrepreneurs – like housebuilders, hospital managers, contract cleaners and the owners of residential homes. Some firms – notably Barratt the housebuilders – have gone into the Scottish market and forced the pace beyond what local firms might have sustained. There is also a countervailing tendency evident in the way that, for example, some national newspapers and supermarket chains have kept out of Scotland to avoid problems of distribution and management. Once this is overcome, the potential for growth and profit-making in Scotland might be a considerable spur to privatisation.

Speeding-up: disillusionment with the public sector

Where public sector solutions to social and economic problems seem to have been tried and to have failed, the potential for private approaches is correspondingly greater. In Scotland, the scale of the commitment to the public sector has been greatest in housing, where over half the stock is owned by public agencies. By the 1970s even Labour governments had accepted that the supply of housing for owner-occupation was insufficient and the rules imposed on public sector tenants too restrictive. The acceptability of the Conservatives' Tenants' Rights (Scotland) Act 1980 was correspondingly enhanced.

Another Conservative initiative – compulsory tendering for local authority works, with separate accounts for Direct Labour Organisations – was facilitated in Scotland by the dominance of direct labour departments protected by close relations between trade unions and Labour-controlled councils, and by the large volume of housing work. The attraction of 'testing the market' in areas where public sector trade unions are entrenched also applies, to a lesser degree, to ancillary services in the NHS.

In industrial fields, labour movement support for nationalisation as a panacea for lack of investment and weakness of demand seemed to fail successively in coal, steel, shipbuilding and motor manufacture. The public sector failed to prevent closures and protect jobs. From the mid-1970s industrial policy in Scotland was geared to the encouragement of private entrepreneurs through selective assistance. Because of their lack of profitability, the 'smokestack' public industries in Scotland are not candidates for denationalisation. Their more important contribution to the privatisation debate is to associate public ownership with a sterile approach to economic and social problems.

THE EVIDENCE ON PRIVATISATION

The way that these factors combine is revealed in the data on the major social services assembled in Table 1. There are no comparable data in the industrial field though, as discussed below, the extent of the transfer of industrial jobs from public to private sector has if anything been less in Scotland than in England. In the social field there are marked differences between Scotland and England in both the level of private provision and the extent of change under the Conservative government.

The greatest proportional difference between the two nations is in private health. Data are imprecise, but Donnelly's work (reported in detail elsewhere in the Yearbook) suggests that only about 2.3 per cent of the Scottish population were covered by private health insurance in 1979, and 3.8 per cent in 1984. This compares with British figures of 4.9 and 9 per cent. About half of the Scottish subscribers are individuals rather than enrolled through their employers. Less than 4 per cent of acute/surgical hospital beds in Scotland are in private hospitals, and there are notably few pay beds in NHS hospitals – only 108 in 1984, with seven health boards having none. England has twice the level of private beds.

Because the size of the private sector in housing is so much greater than in health, the differences there are of higher policy significance. In England, nearly three-quarters of houses are privately owned, against less than half in Scotland. 12 per cent of the total stock in England, and 10 per cent in Scotland, is rented: the rest is owner-occupied. The shift to the owner-occupied sector under the Conservatives has been greater in England, because a greater portion of the public housing stock has been sold to tenants – 8 per cent against less than 6 per cent in Scotland. But the movement of housebuilding activity towards private builders has been considerably faster in Scotland. In 1983, 80 per cent of starts were in the private sector, higher than the 78 per cent in England. The Scottish figure has risen rapidly from 66 per cent in 1979, and no more than 32 per cent in 1974. Opportunities for private sector growth as a speeding-up factor seem to be operating here.

In education, Scottish public sector provision also lags behind English. In 1982-83, 3.4 per cent of Scottish pupils were at non-maintained schools (1.8 per cent of them at grant-aided and 1.6 per cent at fully independent schools). The proportion was the same as in 1979 and the absolute numbers less. In England, 6.2 per cent of pupils in 1982-83 were outside the public sector, up from 5.9 per cent in 1979.

TABLE 1

THE SCALE OF PRIVATE SECTOR PROVISION IN SCOTLAND

	1979	latest	
1. Education	3.4 (England 5.9)	3.4 (1982-83) 6.2)	% of pupils in non-maintained schools
2. Health	2.3 (GB 4.9)	3.8 (1984) 9.0)	% of population covered by private health insurance
	3.2 (England 5.3)	3.7 (1983) 8.0)	% of acute/surgical beds which are NHS pay beds or in non-NHS hospitals
3. Housing	45.9 (England 71)	47.5 (1983) 73)	% of dwellings privately owned or rented
		5.8 (England 7.9) (1984)	sales under 'right to buy' as % of public sector stock
4. Social Services	34.9 (England 33.2)	34.9 (1983) 39.8)	% of elderly persons in residential accommodation who are in private sector homes

- Source: 1. *Educational statistics for the United Kingdom 1982* (HMSO 1982) Table 8; 1984 edition (HMSO 1985) Table 14.
 2. Scotland health insurance – estimates made by Donnelly (1985) from BUPA data. GB health insurance – industry sources Scotland beds – Hansard 1 February 1985 vol. 72 col 343-46; Common Services Agency, *Health in Brief* (1984) Table 6.1; England beds – Association of Independent Hospitals and DHSS data.
 3. *Regional Trends* (HMSO); SHHD Statistical Bulletins
 4. SWSG Statistical Bulletins; *England – The Health Service in England: Annual Report 1984* (HMSO 1984) Table 10

The final social service considered here – residential accommodation for the elderly – shows a similar pattern to education at a higher level of private and voluntary sector activity. 35 per cent of places in Scotland are outside the public sector, against 40 per cent in England, but recent growth has been very different. There has been a rapid proportional and absolute increase in England since 1979 (from 51,000 to 69,000 places, or over six percentage points) while Scottish places in non-public homes have remained static. Changes in DHSS regulations on the payment of board and lodgings in 1983 were a major inducement to growth in the private sector, but the response seems to have been faster in England.

Even though policy on privatisation in Scotland may not have been formulated independently from that in England, the results of it seem to be somewhat different. By considering in turn the various modes of privatisation that are used to give substance to the ideology, it may become clear what these differences are.

THE MODES OF PRIVATISATION

Because privatisation is not a specifically Scottish issue, much of its application in Scotland is a matter of adapting policies worked out in an English context. Policies related to the tax system, or to the disposal of public sector assets, are worked out in Whitehall, and the interest for Scotland is the incidence of the client groups or industries north of the border. Asset sales and private health and social services fall into this category and are discussed first. With the contracting-out to tender of public services, and the promotion of non-public provision in education and housing, the question tends to be whether Scottish ministers wish to accelerate or retard an English-derived policy, and have the political arguments to do so – within both Scotland and the British cabinet system.

1. Asset Sales

The Conservative government has denationalised several industries through the mechanism of converting them intact into public limited companies and selling off a majority, or near-majority, of the shares. As time has passed, the government has become increasingly bold in the range of industries considered suitable for disposal, the proportion of the total shareholding it wishes to sell, and in the financial targets of the asset sales programme. Once major utilities like British Telecommunications and British Gas – which had never been outside the public sector – were put into the programme, the government benefitted from the satisfaction of securing a major shift in the ownership of assets as well as a one-off yield of

proceeds that could be used to finance higher public expenditure without tax increases.

The main cases of asset sales are British Aerospace (1981) the National Freight Corporation (1982), Associated British Ports (formerly the British Transport Docks Board) (1982) and British Telecommunications (1984). None can be considered to have a particularly distinctive Scottish presence. British Aerospace has only one plant in Scotland – the former Scottish Aviation factory at Prestwick – and the desire to support it by keeping open Prestwick Airport seems to be as strong as ever. Associated British Ports operates only Ayr and Troon in Scotland. The Freight Corporation has a national network of road haulage with some decentralisation to Scotland, but it competes with private operators. British Telecom is the first monopoly to be sold off, and this has implications for rural parts of Scotland, whose telephone service may benefit from cross-subsidisation. But the fact that a direct-dialling phone service had already reached all parts of Scotland and British Telecom's social obligations are specified in their licence and monitored by the Office of Telecommunications minimises the risk to unprofitable services. It remains the case, though, that British Telecom's only licensed competitor – Mercury, owned by Cable and Wireless – is not yet available in Scotland.

Less significant than it might appear is the selling-off of Britoil, the operating arm of the British National Oil Corporation, in 1983. Following BNO, Britoil has its headquarters in Glasgow, the only British-wide nationalised industry to be run from Scotland. This location was imposed as a political gesture by the Labour government in 1975, but Britoil shows no sign of abandoning it even though it would now be free to do so and are constructing a major new building in Glasgow. But with only 2,000 employees in total, Britoil's direct presence on the Scottish mainland cannot compare with the scale of its exploration and financial operations.

The one distinctively Scottish operation in the asset-sale field is the attempt to sell the eight airports in the Highlands and Islands owned by the Civil Aviation Authority. This proved to be something of a flop in 1984: bids submitted were unsatisfactory and assumed that the government would write off the airports' debt. It is clear that the airports cannot be sold off as a whole and that local authorities will only accept them on favourable financial terms. Nor is the British Airports Authority, which runs Prestwick, Glasgow, Aberdeen and Edinburgh, and is itself to be privatised intact, interested according to the White Paper *Airport Policy* (Cmnd 9542 June 1985) the BAA is to be split into seven companies, one for each airport, but with a single holding company that will allow London airports

to continue to subsidise Scotland. The whole exercise shows that changes of organisation and ownership cannot remove the need for some income-earning public utilities to receive a permanent subsidy if they are to operate at all.⁽³⁾

The first nationalised industry to be privatised for which there is a separate organisation in Scotland is buses, and it is highly significant that the National Bus Company in England and Wales is to be sold off while the Scottish Bus Group is not. The White Paper *Buses* of July 1984 (Cmnd 9300) covered both nations and glossed over the divergence in policy. It suggested that 'while there are some differences between the state of the bus industry in Scotland and that in the rest of Great Britain, broadly the same problems exist and the Government is confident that broadly the same remedies are appropriate'. These remedies will extend to stage carriage services the deregulation of long-distance coaches introduced in 1980. Public sector carriers will have to compete for local authority subsidies on a tender basis with private operators. but while the National Bus Company is to be split into free-standing companies and sold off, 'it is not proposed at present to change the (Scottish Bus) Group's ownership'. This seems to reflect a government view that the SBG 'has improved its efficiency in recent years and measured against the public sector bus industry generally is an efficient operator'.⁽⁴⁾

The government's approach here expresses a common theme in Scottish administration – that while the policy objectives are the same as in England the appropriate means of achieving them are different. This line of argument is rather difficult to sustain in the privatisation issue, for there are seldom long-established separate Scottish practices. Where Scottish Office ministers wish to retain public sector instruments such as the SBG they need to be cautious in their arguments and not elaborate a logical case about the inconsistencies in policy.

Two other asset sale issues – Scott Lithgow shipyard and the Trustee Savings Bank – show the 'Scottish lobby' at work. The selling of Scott Lithgow to Trafalgar House in 1984 was not a planned denationalisation but the emergency rescue of a yard that did not seem viable under public ownership. In such a case, the fiscal regime is quite different for a private owner than for a nationalised industry. Whereas British Shipbuilders could not properly equip the yard for oil rig work, Trafalgar House could take advantage of the capital expenditure allowances available. Even though redundancies may follow, there are also political advantages in ensuring that exit from the public sector does not coincide with closure of the plant. This sale, where all the resources of the Scottish lobby were mobilised to

find a buyer, must be distinguished from the privatisation of warship yards announced in 1983, where viability is guaranteed by Ministry of Defence orders. Yarrow's on the Clyde was sold to GEC in 1985, and bidders for Hall Russell in Aberdeen for a time included British Aerospace.

The Trustee Savings Bank sale took on considerable symbolic significance in 1985, for it seemed to represent a loss of domestic control of a savings institution which originated in Scotland and has a large clientele there. The government's proposal was that the TSB should be floated on the stock market as a unified United Kingdom bank but with a Scottish operating subsidiary. As the previous legal status of the bank was obscure it is not clear how much of a loss of autonomy for TSB Scotland this represented; but it was contended, most vigorously by the SNP, that the Scottish bank should be separate. An amendment to this effect was passed by the House of Lords in April 1985, but a compromise was later reached which made cosmetic improvements to TSB Scotland's position. Political interest in the issue was mobilised late in the day, and the main interest of the case was to demonstrate the uneasiness among elite Scottish opinion that privatisation – which is necessarily orientated on the London stock market – might be a cover for centralisation in London. It was much less a question of the merits of privatisation itself.

2. Health and Social Services

The privatisation issue is of considerable importance for health and social work as it marks the injection of United Kingdom variables into services with a separate Scottish administration. In health, the impulsion for the development of private hospitals has been the spread in coverage of private health insurance. This is part of the 'occupational welfare state' and does not necessarily represent a demand for more or better health care. Scotland has far fewer private hospitals and beds than England and, as Donnelly has documented, the growth in the number of employees covered by health insurance has created opportunities for private hospital development. This may also be welcome to NHS consultants who wish to take private patients.

In Glasgow, Ross Hall hospital opened in 1983, managed by the profit-making AMI Hospitals Ltd; it is competing with an older BUPA facility (Nuffield McAlpine). In Edinburgh, Murrayfield hospital was opened by BUPA in 1984. To an extent, these hospitals are testing the market, and their build-up to profitability and full occupancy has been slow. Their importance is that they reverse the trend that had seen the private health sector in Scotland dwindling towards extinction in the early 1980s,

especially in Edinburgh.

Just as important as the direct scale of provision are the implications for consultants and health boards. It is little use having the contractual right to accept private patients if there are neither pay beds nor private hospitals, but, once the supply of these increases, patients and physicians face choices and Health Boards must monitor the use of NHS facilities for private work. The social and political setting of health care changes. It is possible that the NHS in Scotland may shift from the model of socialised provision it was becoming to the English pattern of public-private symbiosis in which the choice between sectors becomes an everyday part of health care. Greater Glasgow Health Board has banned the use of NHS equipment for private work, whereas Lothian board allowed it in one case and suffered a breach of the limit of two private patients at the Edinburgh Royal Infirmary in 1983-84. So far, Scottish health boards have avoided the problems over recovering the costs of private use that led the Comptroller and Auditor-General to qualify the accounts of English health authorities in 1982-83; but they are coming under conflicting pressures to either facilitate or impede the growth of a private sector that looks to the NHS for some of its resources.

Social work services have faced these problems for some years, as residential provision for children and the elderly has always relied on a large measure of non-public – especially voluntary – provision. The main change of policy in recent years throughout Britain was the acceptance by DHSS in 1983 of financial responsibility for new entrants without other means to residential homes for the elderly. This relieved Social Work Departments of a financial burden but also gave a powerful inducement to the establishment of private homes for entrepreneurial reasons. To control this, the maximum sums payable were reduced in 1985. Transfer of financial support from social work to social security works in favour of national uniformity as opposed to local discretion, and so suppresses the Scottish aspect of the issue.

3. Contracting-out

The connection with United Kingdom policy is further evident in the contracting-out to tender of routine support services like cleaning, catering and maintenance. The aim is not only to yield savings but also to set up a framework of cost awareness in which in-house provision must test its efficiency in comparison with outside operators. This turns on its head the tradition of the public sector as a model employer, offering reasonable pay, conditions and stability of employment, especially to low-paid workers.

This tradition has been strong in Scotland because of the influence of the Labour Party, and it has influenced administrators as well as politicians. The model now is the new accounting regime for Direct Labour Organisations enacted for both England and Scotland in 1980.

Scotland has had to follow the English lead on contracting-out, and the process of adaptation of the policy is best illustrated in the health service, where central government has strong, but not complete, control of the way the service operates. From June 1980 a series of ministerial encouragements to contracting-out was given, but it was not until September 1983 that Scottish Home and Health Department circular 1983 (GEN) 13 asked boards to 'test the cost-effectiveness of their domestic, catering and laundry services by seeking tenders for these services from outside contractors and comparing them with the cost of in-house services'. A DHSS circular issued to English health authorities at the same time made a similar call, with the addition of a firmer timetable for implementation and mandatory tendering where investment of more than £½ million in an NHS laundry was proposed. The Scottish circular was longer and more sensitive to the practical problems of tendering in the NHS: it emphasised the cost-testing aspect of the exercise, especially when costs were above the national average.

Since 1983, contracting-out in the Scottish NHS has been more half-hearted than in England, because of the reservations of health boards and the reluctance of ministers to force the issue. Advice from the centre is exhortatory rather than mandatory, and even health board members appointed by the Conservatives have been reluctant to disturb existing arrangements. In June 1984 a second SHHD circular, 1984 (GEN) 14, reported that 'while Boards have not so far been able to let contracts to private firms, some have made very useful progress, in consultation with local staff interests, in identifying areas for improved and more cost-efficient operations of existing services'. Mainland boards were now required to seek tenders for domestic and catering services for their head offices and two hospitals by the end of 1984, and draw up three-year programmes for tendering from April 1985.

Only six of the twelve mainland boards agreed to comply with this request.⁽⁵⁾ Both Greater Glasgow and Lothian, the two largest boards, expressed a preference for in-house provision, the Glasgow chairman, Donald Macquaker, saying 'the board has not looked at this from the political point of view. We don't wish to be involved in privatisation at this time'.⁽⁶⁾

In November 1984 the Minister, John MacKay, wrote to chairmen of the non-complying boards insisting on progress reports by April 1985; in July 1985 he instructed them to reduce their expenditure on catering, domestic and laundry services by 5 per cent by the end of the financial year. This strategy presents a test of the boards ability to improve efficiency by in-house means. In contrast, progress in England has been faster, with 114 contracts awarded for domestic services by the end of March 1985, two-thirds going to private operators.⁽⁷⁾ This still covers only about 5 per cent of the market, and well-publicised failings of private services (notably at Addenbrooke's Hospital in Cambridge) have been picked up by Scottish unions.

Outside the health service, the contracting-out issue has not yet been faced in Scotland. In May 1983, Edinburgh District Council Conservative group decided not to seek to privatise refuse collection after examining the experience of Wandsworth. Since 1983 all Scottish Office cleaning has been done by contractors, though not necessarily the lowest tenders. But Scotland is included in the government's consultation paper *Competition in the Provision of Local Authority Services* of February 1985. This foresees legislation to extend compulsory tendering to refuse collection, domestic cleaning (except for social work homes), ground maintenance, vehicle maintenance and catering (except for social work services, but including schools). Professional and office services would be subject to value-for-money comparisons with outside bodies. Quite apart from the question of whether there will be enough contractors willing and able to tender for the services – likely to be a particular problem in Scotland – the task of winning compliance from local authorities in matters so liable to delay and evasion are massive. Nor is there evidence of public consent for the changes – a MORI poll of May 1985 in Scotland showed that 67 per cent of respondents, including 38 per cent of Conservative supporters, were opposed to putting local services out to tender.⁽⁸⁾

Contracting-out is an expression of two themes in the Conservative strategy: a wish to challenge the inflexibility of labour practices in the public sector, and a desire to retrench the direct activities of government, especially by reducing the size of the civil service. Just as physical materials can be bought from outside suppliers without investigation of how they are produced, so can packages of labour services. Government maintains its services but reduces its exposure to management problems; political pressures on it are separated from its role as employer. This strategy is very evident in the decision announced in April 1985 to contract-out the management of naval dockyards, Devonport and Rosyth, while retaining ownership. After tendering in 1986, they are to be handed over on a 5-10

year franchise and with a core of fixed-price refit orders. Privatisation is being used to secure managerial changes that might not be possible in the public sector, even though the task touches on national security.⁽⁹⁾

The dockyards contracting-out is a United Kingdom-wide policy from which Rosyth cannot claim exemption. Elsewhere, where implementation is controlled by the Scottish Office, there are signs of reluctance to disturb satisfactory working practices. Scottish Office ministers are compelled to respond to their English colleagues, but the issue spells little but trouble for them: they lack a public consensus that private solutions are the answer, and they are unable to provide examples of the success of the policy in Scotland. As a result the policy faces frustration through administrative delay and a lack of political will.

4. Education and Housing; the extension of choice

The most striking transfer between sectors in Scotland has been the sale of 60,000 council houses. The pace of sales has been slower in Scotland than in England because of the opposition of many housing authorities, but the government's commitment to the strategy has if anything been greater. This is because the motif of 'tenant's rights' had gathered some impetus from the previous Labour government, which had adopted the goal of increased private ownership as a policy objective. Relaxation of public sector tenancy rules, release of land for private building, and channelling of public sector money to housing associations need not imply a general 'right to buy' policy, and Labour criticism was fierce. But the climate had already then been set for the rapid increase in the level of owner-occupation which could in practice be provided only by council house sales.

As with so much privatisation, the motives for the right to buy are mixed⁽¹⁰⁾. The primary one is the wish to extend individual choice and consumer freedom in the housing market; but this may mean little for the tenants of difficult-to-let houses who are seeking a transfer. The yield from capital receipts is substantial and add to the attractions of housing as an area for net reductions in public expenditure. The political advantage for the Conservatives in underwriting an extension of property ownership cannot be overstated: in 1983, 47 per cent of owner-occupiers in Scotland supported the Conservatives, and the party's biggest increase in share of the vote was in Livingston, one of the new towns where sales are an attractive proposition.⁽¹¹⁾

As well as sales, there are other instruments for privatising housing activity. Shifting investment from local authorities to housing associations

reduces the extent to which housing can be a counter in political debate. The release of local authority land and granting of planning permission enable the public sector to stimulate private building. Joint public-private initiatives have begun to be used as a way of supplementing public investment: notable among them is the sale of 750 council houses in Pilton, Edinburgh, to a consortium of three builders for £3.8 million in 1983 prior to rehabilitation. In this way public provision becomes a residual matter for the poor and special needs groups, while private ownership is normal for people in employment. With over half the housing stock still publicly-owned, Scotland is still far from conforming to this model, but has moved much closer to it than seemed conceivable in the 1960s.

Education, though of very different character as a social service, has a rather similar relationship to privatisation. Even before 1979 there was pressure for more parental choice and a relaxation in the rigidity of catchment areas. The Education (Scotland) Act 1981 introduced a system of 'placing requests' which made the currency of choice a legal one: instead of payment or a voucher system, parents' choice of school could be challenged by the local authority on specified grounds, principally lack of facilities. Nearly 50,000 requests have been made and 95 per cent have eventually been successful. The transfer of discretion from producers to consumers is a clear one and very much jeopardises the notion of a public sector system planned on educational grounds.

Whereas the 'parent's charter' is a Scottish initiative, speeded-up by perceived deficiencies of the public sector, policy towards independent schools is derivative from England. Although the 45 grant-aided schools in Scotland were not abolished in the 1970s with direct-grant schools in England, the grants are being phased out over five years by 1985. Instead, the assisted places scheme was introduced in Scotland in 1981, making available financial support for needy pupils at independent as well as grant-aided schools. For the first time, this integrates public policy towards English-orientated boarding schools and the city-based grant-aided day schools, and so represents a conformity of Scottish to English practice.

The theme uniting education and housing is that of marketing – of individual schools, of the assisted places scheme, of financial arrangements for home-buying, of housing projects. Previously, schools and houses were allocated according to professional norms; now, they need to be sold through techniques that are similar to private sector advertising. With this goes consumer responsiveness and a preparedness to trust the judgment of the non-expert. This tarnishes the traditional place of the public sector in Scotland just as much as does the direct selling-off of assets or contracting-

out of services.

CONCLUSION

Privatisation is an issue still in the making. At present it is an amalgam of policies which seek to address Conservative preoccupations with cost-saving in the public sector, the financing of public expenditure, and the satisfaction of voter demands. The limits of its feasibility have not yet been explored, and many of the claims made for it have not yet been tested.

In Scotland, there are several distinctive features. Private provision in many areas of social and economic life had tended to become marginalised as public action seemed both desirable in itself and the only answer to the scale of Scotland's problems. Hence there was a 'catching-up' potential once private sector approaches seemed relatively more attractive, especially in housing and health. But this has been counterbalanced by administrative immobility, the perceived lack of a political mandate to encourage the private sector too strenuously, and the attractions to Scottish Office ministers of retaining direct control of the instruments and organisations that give them political discretion.

Also affecting the issue is the rather quirky way that Scottish identity expresses itself. Matters like the Trustee Savings Bank and the Highland airports raise the suggestion that Scotland is being sold short, and make it possible to mobilise a wide range of political opinion. As the Royal Bank takeover bid showed, the loss of domestic ownership is a particularly sensitive issue. Similar issues are likely to arise frequently in privatisation, for the scale of the investment necessary to buy shares, build houses and hospitals, and take on contracts, may be beyond the scope of the indigenous private sector in Scotland.

Privatisation, like other free-market approaches, resists claims that special circumstances rule it out in some geographical or functional areas. Given Scotland's integration into the United Kingdom economy and society, the issue must be faced. Although firm adherents of their party's ideology, Scottish Office ministers have tended to be pragmatic and even vacillating in their approach except when they see clear political advantage. A response must be made to English-derived policies, but frequently there is a suspicion that they have not arisen from Scottish political debate and may be unnecessary or even damaging in the Scottish context. Since 1979 Conservative policy on privatisation has become increasingly bold, and what had seemed like a modest correction to a model public sector grown complacent has become a much more far-reaching challenge.

The most likely prognosis for privatisation is that it will have a self-limiting character. Once the market has been tested, it may deliver a negative verdict. Once assets have been sold the exercise cannot be repeated. Public authorities will have to acquire expertise as managers of contracts as well as direct employers, but if they go too far may end up with the worst combination of both. The market for private health and education may weaken as costs run ahead of income. The limits of privatisation may have been established in England before the policies are fully implemented in Scotland. In this way some of the distinctive character of the Scottish public sector may be preserved.

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