

**PRIVATIZATION, CONTRACTING-OUT AND
PUBLIC SECTOR INDUSTRIAL RELATIONS:
THE THATCHER YEARS IN BRITAIN**

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ABSTRACT

This article examines the nature of the Thatcher Government's program of privatization and contracting out in Britain during the course of the 1980s. The major points to emerge are that privatization has substantially reduced the size of public sector employment, particularly in the nationalized industries; there has been considerable debate about the nature of industrial relations changes in the privatized corporations; and the in-house success rate in competitive tendering has been relatively high in both the health service and local government. However, whether the latter result will hold through time is problematic.

The "antipublic sector" reputation of the Thatcher Government in Britain is closely bound up with the numerous privatization and contracting out moves it has initiated throughout the decade of the 1980s. Accordingly, the basic purpose of this article is to document the extent of these initiatives, identify some of their actual effects and highlight some of the major points of controversy surrounding their alleged impact and effectiveness.

The article proceeds by first examining the privatization of nationalized industries, their effects on the size of public sector employment levels and then introducing the debate concerning the extent and nature of industrial relations changes in these organizations, *postprivatization*. This is then followed by a discussion of contracting out or compulsory competitive tendering (as it is usually referred to in

Editor's Note: This paper was submitted before the resignation of P.M. Margaret Thatcher.

Britain), particularly in the local government and National Health Services areas. In the second part of the article, particular attention is given to the question of the proportion of tendering initiatives that have been awarded to the "in-house workforce." However, before discussing these matters, some preliminary points need to be made about the general nature of the privatization program of the Thatcher Government.

SOME PRELIMINARY CONSIDERATIONS

The Conservative Government's program of privatization has been categorized as follows: 1) denationalization of public corporations and the sale of public assets; 2) liberalization, or the removal of restrictions on private competition for public services; and 3) contracting out or compulsory competitive tendering [1, p. 7]. Interestingly, the privatization of public enterprises was hardly prominent on the Conservative Party's agenda at the time of its initial election in 1979. However, as the contents of Table 1 indicate, a substantial number of organizations were privatized during the course of the 1980s.

To this list can be added the water authorities and the British Steel Corporation, with the electricity supply industry to be privatized in 1991, and the coal-mining and railways scheduled for privatization if the Conservatives win a fourth consecutive term of office. This privatization program has been hailed, by economists

Table 1. Some Leading Examples of Privatization in Britain in the 1980s

British Aerospace (February 1981)
Cable and Wireless (October 1981)
National Freight Corporation (February 1982)
Amersham International (February 1982)
Britoil (October 1982)
Associated British Ports (February 1983)
Enterprise Oil (June 1984)
British Telecom (November 1984)
Trust Ports (GB) (April 1985)
British Shipbuilders (warship yards) (various from July 1984)
British Gas (December 1986)
British Airways (February 1987)
Royal Ordnance (1987)
British Airports Authority (1987)
National Bus Company (1984-89)

Source: IDS Public Sector Unit, *Public Sector Pay: Review of 1986 and Prospects for 1987* [2, p. 12].

sympathetic to the Thatcher Government's strategy, as one of the government's major success stories [3, pp. 68-70], although political scientists have reported that the early relatively favorable response from the electorate [4, p. 293] has tended to diminish over time [5, pp. 248-249].

The government's major arguments in favor of privatization have been essentially four in nature [6, pp. 70-73]. First, it will contribute to the general aim of restraining the size of the Public Sector Borrowing Requirement by generating an immediate cash flow to the exchequer. Second, privatization will contribute to increased efficiency. This argument follows from the belief that public enterprises are inherently less efficient because of the essential absence of market forces. Third, the program will contribute to economic freedom by increasing consumers' freedom of choice and spreading share ownership more widely throughout the population. And finally, privatization by introducing market disciplines will provide an important constraint on the level of wage settlements in the organizations concerned.

The validity and strength of some of these arguments have been challenged [7, pp. 14-17], although it is apparent that privatization has become a more common practice in a number of Organization for Economic Cooperation and Development (OECD) countries in recent years [8, p. 72]. Moreover, these moves are not confined exclusively to right-wing or Conservative governments. Furthermore, in Labour Party and trade union circles in Britain there is increasing concern that the privatization and contracting out moves initiated by the Thatcher Government will transcend the life of the government, largely as a result of the nature of the European Community Commission (EC) proposed Public Services Directive (issued in draft form in July (1990)).

PRIVATIZATION, THE NATIONALIZED INDUSTRIES AND PUBLIC SECTOR EMPLOYMENT

One of the most obvious effects on the privatization of public corporations or nationalized industries has been on public sector employment levels. For example, in 1979 (when the Thatcher Government came to power) approximately 7.4 million employees or 29.8 percent of the workforce were in the public sector, a figure which was made up of 2.3 million (9.3%) in central government, 3.1 million (12.3%) in local authorities and 2.1 million (8.2%) in public corporations. As the contents of Table 2 indicate, it is clearly the public corporations that have borne the brunt of public sector employment cuts.

If we concentrate on the head count figures in Table 2, we find that public sector employment as a whole declined by some 18 percent in the years 1979-89. The extent of the reduction in public sector employment since 1979 has, however, varied a great deal between the different parts of the public sector. The local authority sector declined by some 2.1 percent in these years and the central

Table 2. UK Public Sector Employment 1979-89,
by Major Categories (1000s)

<i>Head Count</i>	<i>Central Government</i>	<i>Local Authorities</i>	<i>Public Corporations</i>	<i>Total Public Sector</i>
1979	2387	2997	2065	7449
1980	2393	2956	2038	7387
1981	2419	2899	1867	7185
1982	2400	2865	1756	7021
1983	2384	2906	1662	6952
1984	2359	2942	1610	6911
1985	2360	2958	1261	6579
1986	2337	3010	1199	6546
1987	2312	3062	996	6370
1988	2322	3081	924	6327
1989	2303	2934	844	6081

<i>Full-Time Equivalent</i>				
1979	2188	2368	2034	6590
1980	2196	2343	2007	6546
1981	2225	2306	1862	6393
1982	2198	2274	1736	6208
1983	2181	2301	1641	6123
1984	2149	2320	1589	6058
1985	2144	2325	1247	5716
1986	2116	2352	1182	5650
1987	2091	2377	980	5448
1988	2084	2379	905	5368
1989	2072	2269	824	5165

Source: A. Fleming, "Employment in the Public and Private Sectors," *Economic Trends* [19, p. 94].

government declined by 3.5 percent, whereas the level of employment in public corporations fell by fully 59 percent. The latter reduction is very much associated with the government's privatization program. A few examples may usefully illustrate the size of the employment reductions associated with this program. For example, the privatization of British aerospace in 1981 reduced employment in public corporations by some 23,000, the transfer of Britoil (1982) and the Associated British Ports (1983) to the private sector reduced employment in public corporations by some 14,000, British Gas (1986) involved an employment

reduction of some 89,000, British Airways (1987) reduced employment by 36,000 and the privatization of National Bus Company subsidiaries (1987-8) reduced public corporation employment by some 30,000. The significance of such moves can be gauged from the fact that total public sector employment fell by 12.5 percent (head count) or by 15.6 percent (in full-time equivalent terms) in 1983-89, but if the employment effects of privatization are excluded, then the scale of reduction was only 5 percent (head count) or 8 percent (full-time equivalents) in these years [9, p. 72].

THE INDUSTRIAL RELATIONS EFFECTS OF PRIVATIZATION

What have been the industrial relations consequences of privatization? Have there been significant changes in the structures, processes and outcomes of collective bargaining since these public corporations were transferred to the private sector? Not surprisingly, such questions have generated considerable debate and disagreement, although the volume of systematic, empirical research to inform the debate has been somewhat limited. Some feel for the nature of this debate is provided by the following statement [2, p. 12]:

The TUC, and affiliated trade unions, have claimed that there has been a worsening of industrial relations in these privatised corporations, and this was given some credence by the British Telecom dispute in early 1987. The TUC claims that managements have become much more aggressive and the previous well-established consultative arrangements have been ignored. It also points to reductions in employment, reductions in employee benefits (such as pensions) and withdrawal of trade union rights. However, the evidence on pay bargaining suggests that, now that they are free of Government pay controls and free to share in the profits of these companies, pay settlements may be better than in the public sector. And employees in some newly privatized organisations can also benefit from profit sharing and employee share option schemes.

In fact, the views of some leading union officers involved in a number of the early privatization moves suggest the difficulty of generalizing about the extent and direction of industrial relations changes both between and within individual corporations [10, p. 478]. For example, in the case of Amersham International, union officers reported better changes in bargaining arrangements and easier management attitudes in pay bargaining, along with a worsening change in consultation and a toughening of management attitudes toward unions. In contrast, in British Aerospace the union officers interviewed suggested that there had been an accelerated job loss, although the changes in consultation arrangements and in management attitudes toward unions were both in the direction of improvement. The unions have pointed to increased decentralization of decision-making

tendencies within management, the derecognition of managerial unions and the associated growth of individual contracts of employment for managers (e.g., nearly 800 senior managers accepted individual contracts of employment, as an alternative to collective bargaining, in the preparation for privatization of the electricity supply industry) and increased initiatives to communicate directly with individual employees in the privatized corporations. However, such tendencies are not unique to such organizations; they are very much features of the remaining public corporations (e.g., British Rail senior management no longer has a union recognized for collective bargaining purposes), which suggest certain common incentives and pressures for change along these lines. However, one recent review has suggested a potentially interesting line of development for the future in at least some privatized corporations [11, p. 3]:

The shape of things to come may be represented by the failure of BT's unions to win recognition and bargaining rights in the corporation's new cable television and equipment manufacturing subsidiaries. With water and electricity companies likewise planning to diversify into other activities, one can foresee a dual pattern of industrial relations in which many of the aspects of the traditional public sector industrial relations—high unionisation, pervasive bargaining and consultation—are preserved in the core sectors, but the expanding new activities are the test bed for a range of new initiatives in industrial relations based around an 'individualistic' rather than collective approach to the workforce.

This is clearly a line of possible development in industrial relations of the privatized corporations that should and will be watched closely by both practitioners and researchers.

CONTRACTING-OUT IN THE HEALTH SERVICE AND LOCAL GOVERNMENT

In the National Health Service (NHS) there has been compulsory competitive tendering for cleaning, laundry and catering services from the mid-1980s, whereas in local government contracting out was initially a voluntary process associated with a relatively small number of Conservative-controlled local councils, with mandatory competitive tendering only applying in relation to construction, direct labor organizations (1980) and municipal buses (1985). (Mandatory competitive tendering has also existed for certain services (e.g., cleaning) in the civil service. In this case the in-house workforce has had little opportunity to compete with external contractors.) However, the Local Government Act 1988 contains compulsory competitive tendering provisions for a range of services, including refuse collection, cleaning of buildings and other cleaning, school meals and welfare catering, other catering, repair and maintenance of vehicles and ground maintenance. The increasingly mandatory nature of competitive tendering moves in the

public sector in Britain should be viewed in the light of one recent review of local government and NHS experience, which suggested that such initiatives are likely to be most effective in "nonpolitical" environments, where they arise naturally in response to local needs [12, p. 268].

For the individual employees concerned, competitive tendering is seen as likely to involve job losses, pay reductions, and a general decline in conditions of service; such adverse effects have been documented in various studies [1, p. 66]. (The IDS Public Sector Unit have estimated that much of the 17.7 percent reduction in ancillary staff numbers in the NHS in the years 1978-86 was due to contracting out [1].) Furthermore, the process poses a threat to the unions (as organizational entities) in the NHS and local government because of its capacity to reduce membership levels. This is because competitive tendering.

. . . generally results in a smaller number of staff proposed to undertake the contract by both in-house and external bidders. Regardless of whether the contract is awarded in-house or to a contractor, less jobs result from the exercise and the unions must increase their penetration among re-employed workers to sustain membership totals. If the contract is awarded externally, the effect upon membership is likely to be more dramatic as a high percentage of union members will not apply for jobs with contractors. Those who do and are hired privately are not always interested in renewing their subscriptions, especially if the fight to save the in-house service has been a particularly bitter one. New workers hired externally by the contractor, particularly part-timers, are usually reluctant to enter into any formal association with a trade union. Retention of both old and new members is difficult as staff turnover with contractors' organisations is high [12, pp. 102-103].

These concerns and dilemmas for trade unions in the public sector have produced a pattern of response whose major components have been: 1) various local level strikes against competitive tendering proposals; 2) attempts to forge links with political and pressure groups at the local level who are likely to favor the maintenance of in-house public services; 3) the seeking of various legal rulings in the courts on aspects of the process, and 4) extensive media publicity of 'the poor performance' of private sector contractors [12, pp. 113-123]. The degree of success of the unions' campaign of opposition to competitive tendering moves has been assessed as follows [12, p. 125]:

Overall, the unions' campaign has been successful on a number of fronts. It has helped to push the issues surrounding competitive tendering to the forefront of many local political agendas; this has generally meant that the process itself is undertaken more slowly and more carefully than might otherwise be the case. The unions' campaign has also had a recognisable impact upon the thinking of both authority members and officers. The dramatic portrayal of potential changes in the individual worker's environment has inspired many authorities to include fair wages clauses in the tendering documents; likewise the detailed descriptions of contractors' "failures" have prompted many to include "protective" clauses which place extra costs on the

outside tenderers. Both developments have helped to improve the competitive position of in-house labour forces.

The single (albeit imperfect) measure or yardstick for assessing the effectiveness of public sector union opposition to competitive tendering or contracting out has been the proportion of tenders that have been won and retained "in-house." In this regard the following figures provided by the Incomes Data Services Public Sector Unit should be noted: 1) to September 1986, 946 contracts had been put out to tender in the NHS, with 773 (81.7%) being retained in-house; 2) to mid-1987, 1178 contracts had been put out to tender in the NHS, with 971 (83.4%) being retained in-house; and 3) in 1987-8, 79 percent of NHS contracts had been retained in-house [1].

To try and appreciate some of the processes and influences that lie behind these figures, we present the major findings of an individual case study.¹ This case study was conducted in one unit of a large health board in Scotland (the compulsory tendering process in the NHS in Scotland has tended to lag that in England by some four years); the unit concerned has some 3,500 employees, with a further 8,500 in the other three units of the board. In the years 1988-90 the unit put out nine competitive tenders (e.g., porters/drivers, catering, domestic, caretaking), with eight of these being won in-house; in the other three units of the board some twelve contracts were put out to tender in the same period of time, with ten of these going in-house.

The basic steps involved in the competitive tendering process in the unit were essentially as follows: 1) the unit management draws up the contract specification (typically a 200-page document); 2) the works study specialists in the unit examine the specification to identify the necessary staffing level (numbers and hours) that will be involved; 3) the management convenes meetings of all the relevant staff members to seek their ideas, suggestions, and to inform them; and 4) a small union-management working group is established to discuss, negotiate and iron out the terms of the in-house bid. The union representatives involved in the working group are the relevant shop stewards, although discussions have frequently been held with some full-time officers of the union(s) concerned. The terms of the in-house bid reached by the working group have to be ratified and agreed to by all the relevant staff, otherwise management will not give a commitment to support the in-house bid. The basic time scale involved is two months to do the original specification; tenders are sought and returned in two months; one month is taken to assess the bids and reach a decision; and then some three and one-half months later the contract starts (the contract duration is typically three years).

¹ I am grateful to the officers concerned for the provision of this information, although they, like the unit, must remain anonymous.

The first major point to make about the experience in this unit is that for six of the nine tenders no outside bids were received. This fact reflected the small size of some of the contracts involved, the limited profit margins for some of them (particularly in catering), and the limited number of potential outside contractors who could respond to all of the tenders coming out from Scottish units and health boards in a relatively short, concentrated period of time. Second, the internal works study process associated with compulsory competitive tendering has generated considerable internal savings with the contracts retained in-house; the management of the unit estimate savings ranging from 15 and 45 percent over the previous working arrangements.

These savings have resulted from quite significant changes to the previously existing terms and conditions of employment of the staff concerned. Given the strength of national, industry-level collective bargaining arrangements in the NHS, the unit had to maintain the agreed hourly wage rates in the in-house bid, but substantial cuts in hours worked were negotiated and agreed. This involved 1) reduced staff numbers (i.e., voluntary redundancies or lay-offs of 3 to 4 people on the smaller contracts through to 30 on the bigger ones), 2) reduced working hours (e.g., in one domestic contract retained in-house, the normal working week was reduced from 39 to 36 hours), 3) reduced overtime hours, 4) more part-time staff, and 5) a tightening up of bonus scheme arrangements and payments. These changes were necessary to make the in-house bid competitive with that of any outside contractors who agreed to pay the relevant NHS hourly rates to their employees, but who typically do not have bonus payments and pay lower overtime hours premiums, etc. In the case of the one contract that was lost to an outside contractor, the in-house bid involved a reduction in bonus payments from 20 percent of weekly earnings to 10 percent, but the shop stewards would not accept any further reduction and the bid was narrowly lost; the result was that fifty-six employees were made redundant or laid off permanently.

Two final, general observations from this case are that, in management's view, the unions, particularly the full-time officers, have become increasingly realistic about the competitive tendering process over the course of time. For example, in relation to the recent contract that was lost to an outside contractor, they were willing to discuss and negotiate about compulsory, as opposed to voluntary, lay-offs and redundancies. And second, in management's view, the in-house success rate is quite likely to fall over time due to a variety of factors. For example, the number of outside contractors will grow and their expertise will increase; the capacity to cut back further on internal terms and conditions of employment will decline; if external contractors win one or two big contracts this may motivate them to bid for some of the smaller ones, which they can then link to the ongoing, bigger ones; and the unit management will be unlikely to put forward future in-house bids for a contract that went outside, unless substantial problems are associated with it.

In contrast to the NHS, compulsory competitive tendering in local government is a relatively late arrival in the form of the Local Government Act 1988. It is important to note that the provisions of this act rule out the possibility of inserting any clauses in contracts that are designed to achieve certain minimum standards of personnel practice and conditions of service. That is, local authorities are to be prevented from taking into account any "noncommercial" considerations when awarding a contract. This stipulation raised fears, particularly in union circles, that the in-house success rate might be relatively limited in local government. However, the early evidence does not seem to support these fears. For example, a report from the Manchester City Council indicated that 81 percent of 448 contracts in the first round of compulsory competitive tendering had been retained in-house [13, p. 41]. A survey in Scotland found that of 207 tenders in the period August 1989-January 1990 some 89 percent had been retained in-house [14, p. 8]. Also, a survey by the Centre for Local Economic Studies reported an overall in-house success rate of some 75 percent [15]. The latter survey did, however, report considerable variation in this regard for individual services (i.e., 97% of schools/welfare catering contracts had gone in-house, compared to only 57% of building cleaning ones). The major factors in accounting for these sorts of results have been 1) major reorganizations of council services into quasicompanies (Direct Service Organizations) in many councils and 2) a significant renegotiation of terms and conditions of employment at the local level [13, p. 41]. However, as with the health service, the unions remain concerned as to whether such figures can be maintained over time, and at what cost to individual employees and themselves.

More generally, the process of compulsory competitive tendering in the NHS and local government has had a number of effects on industrial relations arrangements and processes, most notably 1) an undermining of nationally negotiated terms and conditions of employment (as desired by the government), 2) the increased involvement of elected representatives in industrial relations matters [16] (i.e., a more overtly "politicized" process), and 3) increased interunion coordination and cooperation, at least at the national level, as reflected in the issuance of common guidelines for local-level negotiators in dealing with contracting out moves [17].

CONCLUSIONS

This article examined the nature of the Thatcher Government's program of privatization and contracting-out in Britain during the course of the 1980s. The major points to emerge were that privatization has significantly reduced the size of public sector employment, particularly in the nationalized industries; there has been considerable debate about the nature of industrial relations changes in the privatized corporations; and the in-house success rate in competitive tendering has

been relatively high in both the health service and local government. However, whether the latter result will hold through time is problematic.

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