

PREM 19/1704

176

CONFIDENTIAL FILING

POLICY TOWARDS PRIVATISATION

ECONOMIC POLICY

DISPOSAL OF PUBLIC SECTOR ASSETS

PART 1 : JUNE 1979

CONTRACTING OUT OF PUBLIC SECTOR FUNCTIONS

PART 14 : JULY 1986

(CABLE + WIRELESS REPORT IN ATTACHED FOLDER)

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PART 15 begins:-

SS/SCOTLAND to SS/DOG 19/11

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CEB 4



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

29 October 1986

The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
LONDON
SW1

NBP 7

Dear Malcolm

WILL REQUEST IF REQUIRED

Thank you for copying me your letter of 21 October about the Scottish Transport Group's Corporate Plan Review.

You will no doubt remember discussions held at the time of the publication of the Buses White Paper about the future of the Scottish Transport Group in a deregulated bus market. I argued strongly at the time that in order to make the bus policy work, the Scottish Bus Group, like the NBC should be broken up and privatised. However, George Younger and I eventually agreed that the White Paper should say that no changes were proposed "at present" to the ownership of the Scottish Bus Group.

I had hoped that some consideration would be given in the intervening period to the future structure and ownership of the SBG in the light of the bus policy. I am very concerned to see that it has not. I believe from the evidence of the Corporate Plan Review that this omission is likely to do the gravest damage to the bus policy in Scotland (where I see from John Moore's statistics there is enormous potential for savings). Not only that but failure to tackle this issue is likely to do the gravest damage to financial control of the industry as well.

I just pick out one or two points from the report which seem to me to provide evidence that the SBG's real intention is to drive its competitors out of business by use of cross subsidy under the protective umbrella of public ownership.

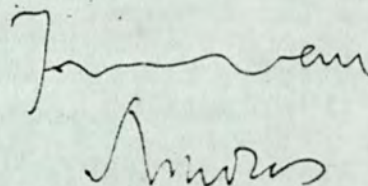
- You say you have secure "assurances" that no cross subsidy between operating companies is allowed. Yet I note that the plan contains "little factual information" about express services. You say "many of the figures are hidden within the wider operation" and no doubt used to cross subsidise local bus services (as happened with NBC in England!).

- How can a company which is having financial difficulties be planning such large increases in manpower (400 more in the first two years!) and investment? In England, I understand, the NBC companies are embarked on programmes of retrenchment and are reducing staff, as are the other overmanned and inefficient public sector bus operators. I can only assume the SBG is intending to use its public sector monopoly position and extensive use of cross subsidy to flood the market.

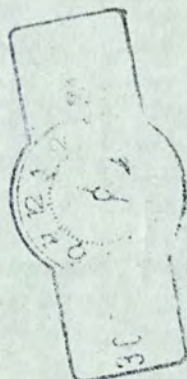
- You say that budgetting for a 5% real reduction in operating costs per mile by 1990 is a tough target. I cannot agree. If SBG were really subject to competitive pressures, I would expect savings on that scale and more to be obtainable within a much shorter timescale.

I get the very strong impression that what lies behind the corporate review is a determination on the part of the Scottish Transport Group to use a public sector monopoly position to swamp the opposition. If the SBG manages to remove its competitors before 1990, I do not suppose it will have much difficulty in meeting its target of a 4% average annual return in the years to 1990!

I am copying this letter to the recipients of yours.



NICHOLAS RIDLEY





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

mt
24 October 1986

Dear David,

Prime Minister 2

*DS
24/10*

As you know, Sunday 26 October is Deregulation Day for the bus industry in England (excluding London), Wales and Scotland. My Secretary of State has suggested that the Prime Minister and other Cabinet colleagues might be interested in the attached Eve of Deregulation speech which he will make at the Conservative Political Centre London Area Conference tomorrow.

I am copying this to other Private Secretaries to members of Cabinet.

Yours ever,

Jon.

JON CUNLIFFE
Private Secretary

THE RT HON JOHN MCCRE MP

12.15hrs, Saturday 25 October 1986
616/86

Speech by the Rt Hon John Moore MP (Croydon Central), Secretary of State for Transport, to Greater London Area Conservative Political Centre at International House, World Trade Centre, on Saturday 25 October at 12.15.

Tomorrow morning a totally new system of organising local bus services comes into effect in every part of Britain with the exception of London. It is the most radical shake up of the bus industry for more than 50 years.

Why has this Government felt it necessary to carry out this change? The situation we faced was extremely bleak. The post war years have seen an enormous increase in personal travel. To look at the history of the bus industry over those years you might think that the opposite was true. The bus industry has been in decline for 30 years: between 1955 and 1985 the bus's share of the travel market fell from 39 per cent to a mere 8 per cent. Costs have become ridiculously high: between 1975 and 1985 local bus fares increased by 24 per cent more than the cost of living and 19 per cent more than motoring costs. In the same period the actual level of service fell by 15 per cent. Now this would all have been deeply depressing on its own. But in addition the industry has become ever more dependent on subsidy. As the years have gone by it has needed a greater and greater dose of public money to keep going each year. Revenue support increased

from virtually nothing in 1970 to over £500 million last year, even though its levels of service have been declining. One would have expected the bus to have suffered from the rise of car ownership but not to this extent.

The faint hearted could have been forgiven for thinking that the bus industry's future was devoid of all hope. But this Government was not faint hearted. It was spurred on by the fact that even in this age of high car ownership 39 per cent of people do not have regular access to a car; old age pensioners, the young, women who stay at home. It is on behalf of those who depend so much on bus services that we as Conservatives want to restore the bus industry to health. We are deregulating not for any kind of ideological reasons but for benevolent ones. But it was also the existence of this large group that gave us the confidence that it was possible to check the industry's seemingly unstoppable demise because it was obvious that here was the market by which the bus industry could, and ultimately must, live.

The system we are replacing tomorrow was embodied in the Road Traffic Act of 1930. Now this Act appears to us today to be a curate's egg - it is good in parts. The good parts are the excellent regulations it contains safeguarding the quality and safety of bus services. These we are keeping. - Don't be taken in by any of the cynical scaremongering of opposition parties who have suggested buses will be less safe after deregulation: it is not true. Safety standards have been tightened up and there will be more staff making inspections than before. There will be no room for cowboy operators in the deregulated industry just as there was no room in the

old one. The other parts of the Act, while they may have had their relevance to the 1930s, when the road system and the traffic it carried was quite different from today, are now wholly inappropriate to the age of the car. It is those parts we are removing. They imposed limits on the quantity of buses.

Operators needed a licence for each route they ran, but once they had got that licence life was made comparatively easy for them: if another operator applied for a licence to run on the same route they were allowed to object, and their objection was normally upheld. So once you had got a licence there was little chance that you would have a competitor to keep you on your toes. No competitor to make it essential that you ran on time. No competitor to encourage you to keep your fares down. No competitor to make you respond to changes in your customers' needs. Now this cossetting of existing operators by the licensing system was defended on the grounds of cross subsidy. The argument went that operators who ran unprofitable routes should be compensated by allowing them to cream off the profits from heavily used routes. Now knowing this it becomes easier to understand one of the reasons why the 1930 Act has been so bad for buses: when the operator charged higher fares than necessary on profitable routes to pay for unprofitable ones customers began to ebb away, until those profitable routes eventually started losing money too. So cross subsidy by its very nature ensured that there was an inbuilt tendency for bus services to worsen, not to improve and it led to a spiral of decline.

Protection from competition, to protect cross-subsidy was not only a mistake. There was also something essentially unfair about it. The subsidy for unprofitable routes came not from the general public but from other bus users, who as a group generally have a lower income than average. So cross subsidy meant the less well off were being asked to subsidise themselves - it was a hidden tax, imposed by bus operators.

A vigorous rethinking of how to run our buses was necessary and this Government provided it. In 1980 we made our first step towards reform by deregulating long distance coaches. The results were startling. 700 new services started up and there was a dramatic fall in fares. The operators vied with each other for customers each trying to provide a better service, some providing attendants for the journey, serving food and drinks, or offering videos for passengers to watch. This was just the kind of innovation we were hoping for.

With this success under our belt we introduced a Bill in 1985 to remove the out dated controls on local services.

/.. I must pay

I must pay tribute to the perseverance of my predecessor Nicholas Ridley who introduced that Bill. He had to put up with a barrage of criticism, mainly from vested interests: from the parts of the bus industry which had got their hands into the deep pockets of local government subsidy and did not want to have to take them out; from the socialists who in their hearts loathe the idea that people should be allowed to state their own preferences on where and how they want to travel; from the empire builders in local councils who didn't want to lose control of their networks of often hopelessly inefficient bus services; and even from the Bishop of Durham. The object of this Bill as with the deregulation of long distance coaches was to put the customer first by allowing the industry to compete and innovate to serve him. To do that, the two types of bus services are clearly, and separately identified, for the first time: those which are profitable and those which needed subsidy. It is not for a local planner or bureaucrat to decide whether a route is profitable. He can't possibly know whether it is. Only the free market can determine which routes are profitable, and only the free market can truly match buses and bus routes to the needs of the passenger.

/.. Under the

Under the new Act all operators were told that they could run any route they liked if they thought they could make money on it. The result was a seemingly miraculous transformation. For example whereas in 1985 the Greater Manchester Council Transport Committee had said that 90 per cent of routes in the area were in need of subsidy in other words, only 10 per cent were commercially viable, when the commercial registrations were completed it was found that the market's answer was that 56 per cent were actually commercially viable. In West Yorkshire around 50 per cent of bus mileage was estimated as in need of subsidy in 1985 but under the new system 70 per cent of bus mileage was registered. Overall about 75 per cent of bus mileage was considered by the market to be profitable and was registered. But of course we recognise that there are socially worthwhile services which are nonetheless unprofitable. That is where local authorities are stepping in with subsidy. But they are not allowed to throw it around with the gay abandon with which so many of them did before. They are not to decide on their own or in conjunction with an inefficient in house bus undertaking how much subsidy is needed to run particular routes. The Transport Act stipulated they must ask the free market about this too. They have been compelled to put all the unprofitable but socially necessary services which they want to subsidise out to tender. They specified the route they wanted a service on, and the frequency and position of the stopping places and asked which bus operator could run it for the least amount of subsidy. The answers that the market gave have been excellent news for all concerned.

It has been revealed that when there is scope for competition there are usually savings on subsidies, often enormous. That is good news for the ratepayer and good news for the passenger. The passenger may find his local authority subsidising extra routes with the savings, and he knows that because the subsidised services he uses are being provided more cheaply their future is much more secure.

A competitive market has to be a fair market before it can bring maximum benefit to the consumer. To ensure that the National Bus Company will not become the bully boy of the industry it has been broken up into about 70 separate companies and as a spur to efficiency they are being privatised. Already four have been sold. One of them, Devon General, to a management buy out led by its manager, a former bus conductor. All these smaller companies will have to stand on their own and compete with other local operators. There will be no unfair competition from municipal and passenger transport executive undertakings either. They have been hived off, and formed into Companies Act companies, and the only way they will receive any subsidy will be through the normal tendering process.

/. . The results

The results of tendering for subsidised services have been excellent. There is one result which has given particular pleasure to all of those who have been connected with bringing in the new system. That is the result from Lancashire. Lancashire County Council hated the Transport Bill, and the threat it posed to the Council's ability to run people's bus services for them. They disliked it so much that they spent £135,000 on a publicity campaign to try and stop it. There were masses of leaflets and advertisements in the press all pointing out the folly of the Government's policy. There can hardly have been a Lancastrian who was not told that deregulation would lead to disaster. Well tomorrow the people of Lancashire will wake up to find that, apart from the odd alteration in timetabling, their bus service will be of broadly the same level as before. But what is really remarkable is the savings made on subsidy: £5.8 million, or 70 per cent of last year's subsidy. Lancashire is far from alone: Surrey has saved some £2 million or 50 per cent; West Sussex £1.25 million or 70 per cent; Cumbria 25 per cent; Clywd 30 per cent. And all of these are maintaining their levels of service. Our critics said deregulation would never work. They tried to scare people living in isolated parts of the country by saying that they would be left without transport. Well they were wrong. Very wrong. Look for example at Highland Region, one of the most sparsely populated areas in the country. They jumped the gun with deregulation and started in August.

/. . The regional

The Regional Council have kept the same level of service as before while saving £179,000 on subsidy over contracts for eight months, the equivalent of a 17 per cent saving over a full year. In addition competition has improved services there. Castleton is a village in Caithness with a population of about 1,500. Since deregulation it has been enjoying three times the number of bus services it used to have on the route to Thurso, five miles away. The fare has fallen too, and there are another half dozen bus routes in the Region which are enjoying similar benefits.

So what will the bus industry be like tomorrow? It is going to be in very good shape, better shape than it has been in for years. And it will stay in good shape because we have restored its ability to innovate so that it will be able to adapt to future changes in its market. It is being opened up not just to competition but to new ideas too. You can already see that innovation in the scores of minibus services that are springing up. By the end of this year the old NBC companies alone intend to be operating 3,000 minibuses. And as a result of deregulation taxi operators can now provide new types of services: from tomorrow there will be some 60 services running with taxis acting in just the same way as small buses.

We have set the bus industry free from the chains of over regulation and are reversing its decline. Tomorrow will see the bus industry in a position to serve its customers with efficiency and innovation for years to come.

ENDS



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

COB

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

20 October 1986

NBM

Dear John.

USING PRIVATE ENTERPRISE IN GOVERNMENT

Thank you for sending me a copy of your letter of 23 September to Douglas Hurd along with the enclosures.

I welcome the report of the multi-departmental review and agree that, in so far as operations of public bodies cannot be privatised completely they should be subjected to the fullest practicable application of competitive tendering and contracting out. Already all our road construction work, and nearly all major highway design work is done out-house, we have more recently contracted out the management of maintenance in three metropolitan areas, and are contemplating this arrangement for a fourth. In addition, we are contracting out an increasing amount of Research and Development and we are planning the contracting out of seamen's examination work, and we are investigating the scope for this in connection with port emergency planning depots. All that is quite apart from our major programme of privatisation in the transport field, and the new regulations which we have proposed to secure more contracting out by local highway authorities.

I am asking officials to draw up a programme of further action on the lines you propose, and submit it to the Central Unit on Purchasing, as requested.

I am copying this letter to the Prime Minister, Ministers in charge of Departments, Sir Robert Armstrong and Sir Robin Ibbes.

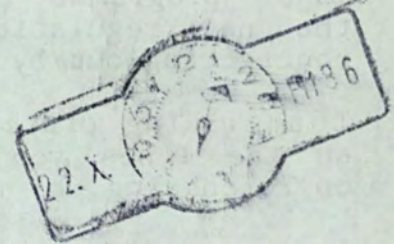
John Moore
JOHN MOORE

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PRIVATISATION

PT 14

1986





SECRETARY OF STATE
FOR
NORTHERN IRELAND

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

nbpm

The Rt Hon John MacGregor MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 October 1986

John Teh

USING PRIVATE ENTERPRISE IN GOVERNMENT

Your wrote to Douglas Hurd on 23 ^{at 11.05} September.

The Report of the multi-departmental review makes worthwhile proposals and provides a quarry of advice which we shall mine in Northern Ireland. You may be assured that along with my Ministerial colleagues and senior officials I shall give full encouragement to the development of a rolling review of areas for testing. We have of course our own arrangements for guidance and monitoring in Northern Ireland and I have asked my officials for a report by December on forward plans, priorities and targets.

I have also read with interest the Treasury progress report for 1985/86. Disparity of scale makes it difficult to compare Northern Ireland with the range of GB Departments, or even with MOD or the Home Office. While in some areas I think that our performance has been respectable and even creditable, especially in the light of our peculiar difficulties, more can be done. In particular, we shall be concentrating in the immediate future on cleaning and security services. In the former we have recently completed a special study which suggested clear and substantial advantages on contracting out in sheer value for money terms, but you will be very sensitive to the constraints which the security situation may impose on the scope for practical action in regard to cleaning as well as to security services. We now intend to move rapidly to the implementation stage wherever we can sensibly do so.

I am copying this to the **Prime Minister**, Sir Robert Armstrong and Sir Robin Ibbs.

TK
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ECON POL Privatization 2174





DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

CAF
NEA to see

Prime Minister &

May be worth
a sentence in the
Debate on the Address,

Oct 16 '86

Dear Colleague.

JMS
17/10.

As I promised at Cabinet today, I am circulating herewith a brief on bus deregulation. It sets out the background to the policy, and the main provisions of the legislation, as well as outlining the results so far.

Colleagues will find of particular interest the annex to the brief which shows the subsidy tendering results in the counties where they have their constituencies, together with some other interesting cases. I would draw attention especially to Lancashire, where the saving is as much as 70%, and, at the other end of the country, West Sussex with a 70% saving. Surrey also shows a reduction of 50% in the subsidy bill, and it seems clear from the information available to us that some of the metropolitan areas will also show good savings.

As I mentioned at Cabinet, as well as a general publicity effort to get across the emerging success story of our policy, I am also arranging for press advertisements in the three weeks around deregulation day, drawing attention to the new business opportunities in the deregulated bus industry. The advertisement will refer to a leaflet and booklet we have prepared for small businessmen thinking of coming into the industry; I attach a copy together with copies of earlier leaflets in the same series, explaining different aspects of the policy, for bus operators and the general public.

JOHN MOORE

DEREGULATION OF LOCAL BUS SERVICES

BACKGROUND

1. Local bus service industry in long run decline - the bus share of total travel has fallen from 39% to 8% over the last 30 years, and employment in the industry has fallen 22% in the last 10 years. All this despite an increase in subsidy from £20m in 1970 to £532m in 1985 (at 1985 prices).
 2. Industry subject to quantity controls since 1930. Operators need a licence (Road Service Licence - RSL) for each route they run; competitors can object to grant of that licence. Justified on grounds that RSL system permitted 'cross-subsidy' whereby profits on good routes were protected, and could thus support little-used ones.
 3. RSL system removed from express coaches in 1980 legislation. Results good: more services, higher quality, lower fares.
- 'BUSES' WHITE PAPER 1984
4. Argued that bus industry stifled by quantity controls; innovation and cost consciousness inhibited by lack of competition. Cross-subsidy a burden on a declining number of profitable routes. Claimed that:
 - 'the main network of services will continue, and will better meet the needs of the traveller'.
 - ratepayers and taxpayers would 'reap the benefits as gains in efficiency reduce the need for subsidy'.

TRANSPORT ACT 1985. MAIN PROVISIONS

5. Deregulation removes outdated controls; sets industry free to compete and innovate; means putting customer first.

6. The chief provisions of the legislation were:

i) Replace quantity licensing with registration

The road service licence system is being abolished (except in London for the time being); operators merely register details of the service with Traffic Commissioner for their area.

(ii) Introduce a new system of tendering for local authority subsidy

Hitherto subsidy usually paid on a network basis; ie local authority bought package of profitable and unprofitable routes from few large operators. In future subsidy will be paid only for unprofitable services, which must be put out to competitive tender.

(iii) Restructure the industry

The National Bus Company is to be privatised as separate subsidiaries. Municipal and Passenger Transport Executive undertakings have been hived-off to arm's length companies (owned by parent authority) competing on equal terms. The industry's exemptions from competitive legislation are ended.

(iv) Provide grants for rural services

Two new grants: a four year transitional rural grant, £20m in GB at first, paid at 6p per rural bus mile; and a rural innovation grant, £1m in 1986/87, administered by the Development Commission.

(v) Concessionary Fares

New arrangements to stop hidden subsidy. Eligible groups increased. All operators entitled to participate in local authority scheme; conversely local authority can require operator to participate.

(vi) Taxis

Relaxation in taxi licensing; taxis enabled to run as small buses; shared taxis.

PRESENT POSITION

7. 'Deregulation day' is 26 October; RSL controls removed, services start running under new system.

8. Preliminary to 26 October was registration of all commercial services, to run without subsidy, by end February 1986. Gap between end February and 26 October was for local authorities (County Councils in Shires, Passenger Transport Authorities in Mets) to assess commercial registrations and put contracts for extra, subsidised services out to competitive tender. So both commercial and subsidised services ready to run by 26 October.

9. After 26 October, three month transitional 'freeze'; services cannot be introduced or withdrawn (with small exceptions) until 26 January 1987. Thereafter, full freedom to vary services, with 6 weeks notice to Traffic Commissioners

RESULTS SO FAR

10. Results so far good; service levels maintained; valuable savings made (thanks to competitive tendering for subsidy contracts); innovation (especially minibuses) already visible.

11. About 75% of services registered to run without subsidy. Local authorities have used subsidy system to maintain service levels broadly. No major cuts.

12. Substantial savings in subsidy bill; around 25% in English and Welsh Shire Counties overall. Savings also in Met Counties. Many new minibus operations already running, stimulated by prospect of deregulation.

13. 60 services using taxis as small buses registered to start after 26 October.

14. Industry being restructure for fair and lasting competition. 4 NBC subsidiaries already sold, 3 by management buy-out. Local authority bus undertakings being turned into companies.

Defensive points

15. Safety: all existing safety controls being kept. (Licence still needed to become bus operator; only licensing for individual routes being abolished). Extra staff for vehicle checks. Traffic Commissioners can discipline those who behave badly on the road.

16. Traffic Congestion: Traffic Commissioners have powers to impose traffic regulation conditions on bus services.

17. Service Withdrawals in New Year: wait and see. Some operators may want to come in after looking at new market. Anyway, local authorities have overall made subsidy savings, so scope to buy back extra services.

18. Information to passengers: in operators' interests to publicise services. And local authorities have powers to publicise (eg Surrey spending up to £½m; Lincolnshire pull-out supplements in local papers).

19. Redundancies/wage cuts: redundancies merely suggest existing inefficiency; how long could this have gone on? Most redundancy voluntary. Lower wages means new job opportunities - eg minibuses.

20. Travelcards/through ticketing: won't necessarily end. Operators may want to continue joint arrangement (and Office of Fair Trading has discretion). And joint ticketing reflects previous lack of competition, with all its other disadvantages.

BUS DEREGULATION: RESULTS FOR INDIVIDUAL COUNTIES

The following notes outline the position on bus deregulation after 26 October, with especial reference to subsidy figures. The counties selected are those in which Cabinet Ministers have their constituencies, plus a few others where the subsidy results appear to be good.

It should be stressed that the subsidy figures, whilst public, have mostly been reported orally by county council officers; they should therefore be treated with some care, as they may be subject to revision, or reinterpretation. A note on the source is given for each county.

Cleveland

Budget for 1986/87 £6m.

Expenditure post deregulation £2m (on a full-year equivalent basis).

Saving of £4m - 67%.

Savings generally maintained - daytime services improved in many areas

Strong competition between United Counties (NBC) and Cleveland Transit (municipal) and also Trimdon (independent) in Stockton.

Concessionary fares: no change to district free travel concessionary pass schemes.

(Source: informal report from county council officials)

Cumbria (Mr Jopling)

Expenditure 1985/86 £1.26m.

Expenditure 1986/87 £0.9m.

Saving over previous year is £0.36m - 28%.

Services have been broadly maintained.

No change to Barrow-in-Furness and South Lakeland district concessionary fare token schemes. Issue of tokens reduced in Copeland but scheme maintained.

(Source: note prepared by county council officials)

Dyfed

Revenue support 1985/86 £1.6m.

Revenue support Oct 1986 - Oct 1987 £1.2m.

Saving of £0.4m - 25%.

Services have been broadly maintained.

(Source: informal report from Welsh Office)

Essex (Mr Tebbit, Mr Channon, Mr Wakeham)

Budget for 1986/87 £3.8m.

Expenditure expected to be within budget.

Service levels broadly maintained. Some increase in bus mileage, mainly because of introduction of minibuses, eg Colchester, Braintree, Clacton (Eastern National).

County council now coordinating concessionary fares scheme. Most district concessionary fare passes now give half-fare travel throughout county or better.

(Source: informal report from county council officials)

Gloucestershire (Mr Ridley)

Expenditure 1985/86 £0.42m. (Council estimate)

Expenditure 1986/87 £0.355 (on a full-year basis).

Saving of £65,000 - 15%.

Service levels broadly maintained.

Minibus schemes in Cheltenham and Gloucester.

Concessionary fare token schemes maintained and extended in some districts to include rail, dial-a-ride or social car schemes.

(Source: county council press release)

Greater Manchester

PTE budget forecast (made in July) for 5 months from October £8.3m.

Latest PTE estimate (for same period) about £6m.

20% saving on budget.

Service levels have been broadly maintained - frequency reductions on some routes (overall reduction of 20% in bus mileage) but equally some improvements, eg new bus links to Oldham run by independent operator.

Prospect of United Transport International introducing large fleet of minibuses into area next year.

Concessionary fare raised from 10p to 12p but scheme maintained.

(Source: report prepared by PTE officials for committee, and press reports)

Hereford and Worcester (Mr Walker)

Expenditure 1985/86 £1.3m.

Expenditure 1986/87 £1.05m.

Saving of about £0.25m - 20%.

Some reductions in the frequency of service, otherwise services broadly maintained.

Trial area for deregulation (from Transport Act 1980) around Hereford showed significant savings and service improvements since 1981.

Minibus schemes in Worcester, Redditch, Kidderminster.

Concessionary ½ fare pass reintroduced in Hereford. No changes reported elsewhere.

(Source: informal report from county council officials)

Lancashire

Budget for 1986/87 £8.3m.

Saving of over £5m - 70%.

Service levels broadly maintained.

Strong competition between Ribble (NBC subsidiary), GM Buses Ltd, and Lancashire municipals.

Countrywide ½ fare concessionary pass scheme extended to all districts.

(Source: report prepared by council officials for committee)

Leicestershire (Mr Lawson)

Expenditure 1985/86 £2.3m.

Expenditure 1986/87 £1.3m.

Saving of about £1m - over 40%.

Minibus service in Hinckley, Coalville, Leicester, Market Harborough.

No changes to either token or reduced fare pass schemes reported.

(Source: informal report from county council officials)

Lothian (Mr Rifkind)

Lothian Regional Council reluctant to release figures, however significant reduction in subsidy is believed to be in prospect.

Evidence of competition between SBG (Eastern Scottish) and Lothian Regional Transport (LRT). New minibus service between Wester Hailes and Restalrig (SBG).

Concessionary fare scheme improved in May to give free travel to OAPs, blind, disabled. Hours restrictions removed. Child fare scheme (under Transport Act 1985 powers) giving half fare for 5-15 year olds.

(Source: informal report from SDD)

Norfolk (Mr MacGregor)

Rural Norfolk 'trial area' under provisions of Transport Act 1980 - made significant savings.

Budget 1986/87 £0.4m - reasonable savings expected, no figures available yet.

Services will be broadly maintained.

Some innovations, minibus scheme in Norwich, Cromer/ Sheringham; 1 taxi operator using 8-seat taxi as bus, some new competition.

District councils are considering introducing a county wide coordinated concessionary fare scheme from 1.4.87.

(Source: informal report from county council officials)

Nottingham (Mr Clark)

Awaiting committee papers from county council.

Press reports indicate that service levels will be maintained.

Early indications of tendering results were encouraging with possible savings, though too early to say.

County $\frac{1}{2}$ fare concessionary pass scheme maintained (no information on Nottingham).

(Source: press reports)

Oxfordshire (Mr Hurd)

Budget for 1986/87 £0.67m.

County council to be within budget, but no significant savings.

Broadly the same level of service as before.

Some evidence of innovation; minibuses in Oxford run by City of Oxford (NBC) and taxibus linking rail and bus stations in Oxford (though problems at present with district council over taxi licences). A few independents registered competing service with Midland Red (NBC).

No changes to district concessionary fare token schemes. (No information on Oxford and Cherwell).

(Source: informal report from county council officials)

Shropshire (Mr Biffen)

Budget for 1986/87 about £0.8m, some small savings expected.

80% of tendering completed, so results not yet final. Services broadly maintained, some small 'good housekeeping' service reductions.

NBC started commercial network from 1 September.

No changes to district council concessionary fare schemes reported.

(Source: informal report from county council officials)

Strathclyde (Mr Younger)

Substantial savings expected (PTE unwilling to supply information yet). Some tenders said to be as much as 90% below previous subsidy cost; some, in remote areas, higher than before. Worries about unfair competition by SBG. Level of commercial registrations very high, equivalent to existing subsidised level - expect improved service especially on bus routes, but press coverage of congestion in central Glasgow. (Traffic Commissioner has power to impose traffic regulation conditions if need be).

(Source: report of meeting with DTP's Transport and Road Research Laboratory - TRRL)

Somerset (Mr King)

Expenditure 1985/86 £0.5m.

Expected expenditure 1986/87 £0.25m.

Saving £0.25m - 50%.

Service levels generally maintained, better matched to passenger demands in some areas, some small 'good house-keeping' reductions.

Minibus scheme Taunton, Chard (Southern National).

South Somerset extending $\frac{1}{2}$ fare concessionary passes to extra groups of disabled people. No other changes from 1985/86.

(Source: informal report from county council officials)

Surrey (Mr Howe, Mr Baker)

Budget for 1986/87 £4m.

Expenditure 86/87 £2m.

Saving of £2m - 50%.

Services broadly maintained, frequency reductions on some routes.

May be some complaints about ending of through ticketing or travelcard arrangements.

Child concessionary fare scheme terminated. $\frac{1}{2}$ fare for OAPs, blind and disabled maintained.

(Source: report by council officials to committee)

West Midlands (Mr Fowler)

Budget for bus revenue support £8.5m.

Latest estimate of expenditure £4.5m.

£4m saving - 50%.

PTE budgeted on basis of 90p per subsidised vehicle mile, tenders have resulted in cost of 47p per mile. Very high level of commercial registrations - almost 85%.

Frequency reductions on some routes.

Free travel concessionary pass scheme maintained.

(Source: informal report from PTE officials through TRRL)

West Sussex

Present annual budget: £1.75 million.

Annual budget after deregulation: £0.5 million.

70% saving.

Services broadly maintained (though frequency reductions on some routes).

"The picture is very encouraging" said the Chairman of the County Council Public Transport Sub-Committee. "The very competitive bids we have received mean that we shall be saving well over half a million pounds a year."

(Source: County Council press notice).

Some changes in concessionary fares, including Arun which is introducing a half-fare scheme where there were no concessionary fares before.

CC Econ Pol
GOWER
PT 4

PRIME MINISTER

You said at Monday's Strategy Group that you wanted to ask at this week's Cabinet:

- 1) Mr. Channon about the Government's presentation of its interests in the Big Bang and;
- 2) Mr. Moore about the Government's presentation of bus deregulation day.


You could raise these under Home Affairs.

The two Ministers' offices have been warned.

W. L. W.


N. L. WICKS

15 October 1986



cc Mr D Norgrove —
Professor Griffiths

MR SHERBOURNE



Please see the attached note on how far and fast the privatisation virus is spreading, sent to me by a friend in British Columbia.

500
B INGHAM

13 October 1986

AM-McDougall, 0455

By Daphne Bramham

X | VANCOUVER (CP) + The Canadian Mint and the Bank of Canada are the only Crown corporations excluded so far from the federal government's list of 56 companies considered for sale, Minister of State Barbara McDougall said Tuesday.

"We looked at the mint and some of its operations and we put it well to the back burner," she said. "It's the only one so far, but I don't think we're going to sell the Bank of Canada."

She stressed in her address to delegates to the Canadian Chamber of Commerce convention on Tuesday the economic arguments for selling companies to the private sector.

However, she added "our obligation is to maximize the economic and social benefits of each sale to the country and that's how the taxpayer will obtain the maximum benefit in the future."

A delegate from Moncton, N.B., expressing concern about the loss of jobs and services to Atlantic Canada because of government policy regarding CN Rail, questioned whether it's for sale.

McDougall, responsible for privatization and regulatory reform, said the sale of CN Rail is possible.

"The reality, according to what I hear from the directors of CN, is that the work is shifting gradually west and that in order to keep their finances in order they need some rationalization.

"Our job is . . . not to ensure that CN stays in Moncton, but to ensure that the future of Moncton is built up with new renewal programs."

SETS STANDARD

The minister said if a Crown corporation can't perform equal to or better than a private company and at less cost, "then we'll have to take another look at it."

She told a news conference that jobs are an important consideration in the decision, but written job guarantees are not part of any sale.

"Our objective. . . is to really build the job opportunities for the future while there may have to be at some point, some adjustment."

Outgoing chamber chairman Harold Milavsky criticized the government on Monday for not implementing enough of the regulatory reforms recommended in the Nielsen task force and urged members to pressure cabinet ministers to make the necessary changes.

McDougall said changes are coming and, starting in October, draft copies of new regulations will be published for discussion before they become law.

McDougall, who is also minister of state responsible for the status of women, presented the chamber with her own wish list.

At the top of the list is that she can convince businesses to use the talents and skills of women to their fullest; that Crown corporations "either work for us or are sold to you;" and, "to make sure that regulations work for Canada and not just for Ottawa."

+++++

16-09-86 1624ed



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

23 September 1986

Dee Douglas,

USING PRIVATE ENTERPRISE IN GOVERNMENT

...
attached
folder.
Your Department, with five others, participated in the multi-departmental review of competitive tendering and contracting out which Robin Ibbs and I jointly commissioned earlier this year. I enclose a copy of the central report from the Efficiency Unit, as edited for publication. The Prime Minister has endorsed the report for publication and action by Departments.

...
I intend to publish the report towards the end of September. I propose to use that occasion to restate our policy in the terms of the attached draft.

...
I am also enclosing the latest annual report by the Treasury, for 1985-86, on progress so far. The cumulative annual savings from contracting out by central government Departments have reached £22 million; and the number of posts contracted out 19,000. Last year the additional savings were only £2.1 million, compared with £3.7 million in 1984-85. The scope for further savings from the specified services is limited (in fact, one-third of the new savings identified in 1985-86 were from services other than the five specified).

These results for 1985-86 confirm the message of the multi-departmental review that we must widen the scope of competitive tendering and give it fresh impetus if we are to achieve further substantive gains. The main proposals in the report on the review are summarised on pages 15-17.

Recommendations 4 and 5, that Departments should establish a rolling programme for identifying the areas to be tested by competition, and should set priorities and targets for this, are of key importance if the use of competition is to

nbpm

ccBG
report not
checked.

become a natural part of the way Departments are run. How this can best be done will be a matter for Departments to judge for themselves. But the net should be cast as widely as possible. And we need to demonstrate strong Ministerial commitment to the success of this further work. I hope that you and colleagues, along with your senior officers, will take a continuing personal interest in the implementation of the report by your Department, and publicise your Department's successes.

To move this along, I propose that Departments should report by December this year to the Central Unit on Purchasing (CUP) on the action they have decided to take on recommendations 4 and 5. This report should describe their forward plans for competitive tendering and contracting out, including information about their priorities and targets. Thereafter the CUP will monitor progress as part of the Treasury's already established annual scrutiny of competitive tendering and contracting out by Departments, and provide specific operational advice and guidance in implementing the policy.

Revised central guidance by the Treasury and the Central Unit of Purchasing on the practice of competitive tendering and contracting out and on cost comparisons (recommendation 9) will be issued at about the same time as the report is published. The Treasury, with DTI, is also implementing recommendation 8 on supplementing the Public Purchasing Policy Guidelines.

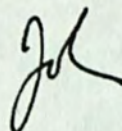
It is for Departments to decide how best to provide the necessary training and motivation of line managers. The CUP is discussing with the Civil Service College what training might be provided centrally. The idea of ploughing back savings into improved services in suitable cases should also encourage managers. The Prime Minister commented recently in this connection (on the recommendations in Sir Robin Ibbs' report on Value for Money Targets) that efficiency improvements of all kinds must continue to make an important contribution towards containing public expenditure and giving effect to the Government's spending priorities. We must strike the important balance between the need to secure savings for the taxpayer and the need to motivate managers to search for improvements.

The report also suggests that the principles it recommends, adjusted to suit their different circumstances, could be applied in the National Health Service and local government, and also in non-departmental public bodies. Norman Fowler and Nicholas Ridley will wish to consider how best to take this forward; and I hope that all Ministers will consider it in

relation to the NDPBs which they sponsor.

I am sending copies of this letter and enclosures to the Prime Minister, Ministers in charge of departments, Sir Robert Armstrong and Sir Robin Ibbs.

Yours ever,

A handwritten signature in cursive script, appearing to read 'John'.

JOHN MacGREGOR

COMPETITIVE TENDERING IN GOVERNMENT: PROGRESS REPORT 1985-86

Note by RCM Division, H M Treasury

Central Government Departments

Ministers agreed proposals by the then Chief Secretary in January 1984 to launch a programme to increase competitive tendering for work from government departments and to make market testing mandatory for five specified services (cleaning, laundry, catering, security guarding and maintenance work) over a three year period to April 1987 (1988 for catering). This was announced by Mr Heyhoe on 4 March 1984. This is the second report on progress, dealing with results for 1985-86.

2. The table at Appendix 1 shows the proportions contracted out and subjected to market testing by 1.4.86.

3. The figures for MOD and Northern Ireland (and for Home Office in respect of laundry, catering and maintenance) are shown separately from other GB departments.

4. For MOD, the headquarters receive details only of successful contractorisation. There is no centrally collected information about value of market tested. For Home Office, the special features of prisons, where the services concerned are a regime activity for inmates, mean that there is very little scope for further market testing.

5. For the remaining GB departments, the table shows that for cleaning and laundry the programme of market testing and contracting out is all but complete. For security guarding the scope for further testing is limited because of the need to observe Cabinet Office criteria over acceptable levels of security in certain buildings. However a number of departments have notified their intention confirmed plans

to market test in-house services by 1.4.87 and 1.4.88 which should serve to increase the market tested proportion from 48% to over 60%. The returns from departments for catering and maintenance included, as "contracted out" services, those services provided by CISCO, PSA and HMSO which are external to the department but provided in-service by civil servants (although some of the PSA and HMSO services are themselves contracted out). An estimate of the proportion of this "in-house" work is given in the notes to Appendix I. Departments are required to subject these services (where they are untied) to market testing. The future programme should include estimates of the application of competitive tendering to these areas; to be completed by 1 April 1987 for maintenance, 1 April 1988 for catering.

6. Appendix II shows the estimated savings achieved over the years since 1980-81, with a breakdown for 1985-86 of the savings between contracting out and work retained in-house. The cumulative figure is nearly £22 million annual savings. The figure for 1985-86, at £2.1 million, is the lowest since 1980-81. This is disappointing, but probably reflects the proportions of work already contracted out in the specified services; the scope for further savings in these services is now limited. The cumulative figure understates the full benefit because it does not fully capture the greater efficiency of in-house services under the spur of competition.

Local Authorities

10 The latest estimate for local authorities is that they are now saving £20-25 million a year from contracting out. In the past year there appears to have been some quickening of interest about contracting out among authorities (16% of councils contracting out compared with only 11% a year ago). The potential is thought to be for savings of £200 million a year, when the legislation, intended for the 1986-87 session, is passed. This will extend the range of services to which compulsory tendering applies to refuse collection and street cleaning, cleaning of buildings, ground and vehicle maintenance, and catering.

National Health Service

11. In the report to Cabinet in July 1985 it was estimated that the NHS had let 60 contracts to outside contractors at an estimated saving of £10.4 million a year. Additional savings of £2.7 million a year were attributed to work which had been awarded in-house - a total of £13.1 million a year.

12. At the latest count (to 31.3.86) just over half Health Authority support services had been subjected to competitive tender. Annual savings are now estimated at £52 million a year, split between £22 million for outside contracts and £30 million in-house work.

13. A circular letter was sent to RHA chairmen in January 1986 which urged them to complete the exercise by end-September, and clarified some of the problems which had arisen in appraisal of tenders by health authorities.

APPENDIX 1

SPECIFIED SERVICES CONTRACTED OUT AND MARKET TESTED
BY DEPARTMENTS BY 1 APRIL 1986

	TOTAL COST OF SERVICE (£000s)	TOTAL CONTRACTED OUT (%)	TOTAL MARKET TESTED BY 1.4.86 (%)
<u>CLEANING</u> (Note 1)			
MOD	28,700	96.5	n/a
Other GB depts.	37,135	79.6	93.1
Northern Ireland	3,326	9.5	14.1
TOTAL	69,161	83.3	90.7
<u>LAUNDRY</u> (Note 2)			
MOD	6,300	95.6	n/a
Home Office	3,031	10.9	10.9
Other GB depts.	2,233	96.1	96.5
Northern Ireland	136	67.6	81.6
TOTAL	11,700	73.4	73.6
<u>CATERING</u> (Note 3)			
MOD	78,650	10.7	n/a
Home Office	28,560	4.5	4.5
Other GB depts.	6,700	89.9	91.1
Northern Ireland	7,326	85.9	91.7
TOTAL	121,236	18.2	18.6

	TOTAL COST OF SERVICE (£000s)	TOTAL CONTRACTED OUT (%)	TOTAL MARKET TESTED BY 1.4.86 (%)
<u>SECURITY GUARDING</u> (Note 4)			
MOD	30,500	9.3	n/a
Other GB depts.	26,044	38.6	48.3
Northern Ireland	5,380	13.7	15.3
TOTAL	61,924	22.0	26.2

MAINTENANCE (Note 5)

MOD	n/a	n/a	n/a
Home Office	66,017	84.0	84.0
Other GB depts.	78,120	86.7	91.6
Northern Ireland	32,965	71.7	72.6
TOTAL	177,102	82.9	85.2

NOTES TO APPENDIX I

NOTE 1: CLEANING

Northern Ireland Departments. Plan to completely test the market by 1.4.88.

NOTE 2: LAUNDRY

(a) Home Office. 90% of costs for Prison Laundry service, on which inmates employed - no plans for further contracting out.

(b) Northern Ireland. Virtually all laundry (outside of prison area) contracted out).

NOTE 3: CATERING

(a) CISCO. Contracted out and market tested figures include services provided by CISCO to departments; exclusion of these services reduces the percentages for Ministry of Defence and "other GB departments" to about half those shown.

(b) Home Office. 95% of costs for prison catering services on which inmates employed - no plans for further contracting out.

(c) Ministry of Defence. Catering currently under review in many parts of the Ministry; expected that a large proportion of current in-house services will come under detailed consideration for market testing.

NOTE 4: SECURITY GUARDING

(a) PSA. Contracted out and market tested figures include Custody Guard services provided by PSA to departments in London; exclusion of those services reduces the contracted out and market tested percentages for Ministry of Defence to ½% (both) and for "other GB departments to around 23% (contracted out)

and 35% (market tested).

(b) Ministry of Defence. Internal guidelines drawn up on use of private security firms - latter not to be used if more expensive or if secret materials involved; further significant contracting out considered unlikely.

(c) Northern Ireland Departments. First stage of a security guarding review recently completed; detailed consideration to be given to achieving comprehensive market testing by 1.4.88.

NOTE 5: MAINTENANCE

(a) Ministry of Defence. The Ministry is unable to provide figures for maintenance costs; the required data is not collected centrally and to obtain it would involve disproportionate costs. Most maintenance of MOD land and buildings is carried out by PSA (see (b) below).

(b) PSA and HMSO. Contracted out and market tested figures shown include services provided to departments by PSA (maintenance of land and buildings) and HMSO (maintenance of office equipment). PSA's total expenditure on the maintenance of land and buildings for all departments including MOD in 1985-86 was £560 million of which £475 million (85%) was spent on contracted out services. For HMSO the total cost of their services to departments was £11.4 million of which £8.5 million (75%) was contracted out.

SAVINGS FROM CONTRACTING OUT

£ million

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
ACTUAL	-	0.6	7.5	4.5	3.6	3.7	2.1
CUMULATIVE	-	0.6	8.1	12.6	16.2	19.9	22.0

Sources: (a) 1979-80 to 1984-85: Annual Reports on Manpower Reductions to the Treasury and Civil Service Select Committee.

(b) 1985-86: Departmental returns.

£ million

ANALYSIS OF SAVINGS ACHIEVED IN 1985-86

	Work contracted out	Work retained in house	TOTAL
Cleaning	.518	.019	.537
Laundry	.006	-	.006
Catering	.292	-	.292
Security Guarding	.051	.035	.086
Maintenance	.355	-	.355
Home Office "Domestic Services"	.184	-	.184
Other	.658	-	.658
TOTAL	<u>2.064</u>	<u>.054</u>	<u>2.118</u>

DRAFT PRESS NOTICE

USING PRIVATE ENTERPRISE IN GOVERNMENT
STATEMENT BY THE RT HON HON MACGREGOR, OBE, MP
CHIEF SECRETARY TO THE TREASURY

1. I am today publishing a Report which I commissioned jointly with Sir Robin Ibbs. It results from a multi-departmental review of competitive tendering and contracting out for services in Government Departments. I welcome it as an important contribution to getting value for money in the public services.

2. Government Departments have concentrated so far on giving private enterprise an opportunity to tender for a limited range of services. For example, over 90% of government cleaning has been subjected to competition in this way; nearly three-quarters of laundry work; one-quarter of security guarding; and over 85% of maintenance in civil departments. Competitive tendering has resulted in a net saving to the taxpayer of £22 million a year.

3. In addition, competitive tendering has saved an annual:
 - £52 million in the health service;

 - about £25 million in local government.

4. That's about £100 million a year of efficiency savings by this one technique alone - enough to build at least three hospitals or provide 20,000 places on the Community Programme. And this is of course only a small part of the efficiency improvements obtained by better management, careful planning and cutting out waste; for example efficiency scrutinies in Government Departments have alone led to improvements worth £300 million a year.

5. The Report on competitive tendering and contracting out highlights ways to build on these achievements.

6. The Government will now:

- consider all its activities to see which could be put to competition,
- set targets for reviewing the proportion & value of Department's activities to be put to competition each year.
- ensure that progress towards these targets is systematically monitored by senior officials, with managers fully accountable.

7. We will also, as soon as the Parliamentary timetable permits, introduce legislation requiring local authorities to put more services out to tender - refuse collection, street cleaning, cleaning of buildings, ground and vehicle maintenance, and catering. I am convinced that this could save at least as much again as has been saved so far.

8. All this is part of our determined drive to get better value for the taxpayer's money.

NOTES TO EDITORS

The report "Using Private Enterprise in Government" - was jointly commissioned by the Rt Hon John MacGregor, (Chief Secretary to the Treasury) and Sir Robin Ibbs, (the Prime Minister's Adviser on efficiency), with the objective of: "extending the application of the Government's policy on the use of competition in the provision of departmental services and improving ways in which the policy is delivered in practice".



cc B1
 cc B6
 2

Prime Minister

MO 10/2V

PRIME MINISTER

The Yinger proposes to
 publish early next week
 the likely scale of job losses
 at Devonport and Rosyth.

DLN
 19/9.

COMMERCIAL MANAGEMENT OF THE ROYAL DOCKYARDS

With my minute of 22nd July 1986, I enclosed a report on the progress made towards the introduction of commercial management of the two Royal Dockyards at Devonport and Rosyth; I indicated that we would need to consider soon after the Summer Recess how we handled the announcement of the employment consequences of a falling Naval load at both locations.

2. There are two important reasons why we need to provide this information to the Trades Unions now. First, we have to meet our obligations under the Dockyard Services Act, as a result of Lord Denning's amendments, to consult on any aspects of the transfer which could be held to have legal, economic or social consequences and thus to prepare an adequate defence against what is likely to be an inevitable High Court action. Secondly, all three Devonport bidders have made it clear that they are not prepared to carry the responsibility of announcing such a significant scale of job losses there, since they are an inevitable consequence of the reduction in the Defence load and the necessary future gain in efficiency, whoever manages the yards.



3. The timetable for the project is now becoming critical. Bids for Rosyth have been evaluated and the Department is preparing its negotiating position to enable contract negotiations to start within the next two weeks; the target is to complete these by early November so that a final recommendation on contract signature can be considered by Ministers towards the end of that month. This will permit a contractor, if one is selected, to start a period of parallel running in early December through to April 1987 when the formal transfer of responsibility would take place.

4. While a Government-owned plc remains an unlikely option, we can properly divulge the related redundancy figures in the knowledge that in fact they relate closely to those anticipated by bidders. The bidders' figures themselves are commercially sensitive and therefore confidential.

5. The latest forecast run of figures for the GO plc suggest possible job losses at Devonport of over 5000, with possible redundancies of 2000-2500 in the early years of the contract; the short term picture is therefore broadly as it was in July but the long term pattern is gloomier, as a result of a falling Naval Load under our 1986 Long Term Costings and a lower prospect of commercial work. The announcement of these forecasts - with all the necessary caveats on their lack of absolute precision in the mid to long term - will not be welcome



locally; but nor will it come as a real surprise either to the Unions or to the Local Authorities. At Rosyth, there is a slightly better picture over the earlier forecast, with some 1200 job losses over the seven year period and up to 1000 in the early years; the commercial bids suggest that this early period should be manageable largely by natural wastage and voluntary redundancies.

6. Because of the importance of releasing this information as part of the wider process of consultation I intend to include it in a consultative document to be published early next week. I shall ensure local MPs are informed in advance.

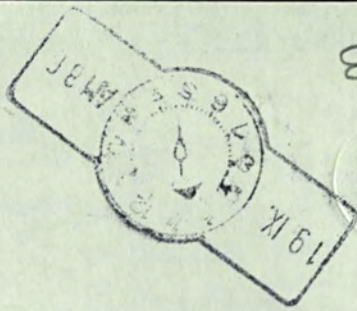
7. I am sending copies of this minute to other members of E(A) and to Sir Robert Armstrong.

Ministry of Defence

18th September 1986

G.Y.

Econ Pol: Privatisation AT14



ROBERTSON
THE
LONDON

CB



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 September 1986

W R Fittall Esq
Private Secretary to the
Secretary of State for the Home Department

N B M

Dear William

PRIVATISATION OF THE TOTE

at flap

Thank you for your letter of 2 September.

The Chancellor was grateful to be kept in touch with developments and noted that the question of who would benefit from any proceeds will be examined as part of the forthcoming review. No doubt you will be in touch again with detailed proposals for the review once preliminary discussions with Sir Woodrow Wyatt have been concluded.

I am copying this letter to David Norgrove (No.10), Mike Gilbertson (DTI) and Michael Stark (Cabinet Office).

Yours ever,

Tony Kuczys
A W KUCZYS
Private Secretary



ccBG



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

2 September 1986

NRBN

Dear Sir,

PRIVATISATION OF THE TOTE

ATTACHED 19

Thank you for your letter of 15 July.

The Home Secretary notes that the Chancellor is content that the position of the Levy Board subsidiaries should not be covered in the fresh review of the Tote. As I said in my letter of 7 July we will consider separately whether any further work could usefully be undertaken in relation to the Board's subsidiaries.

The earlier review established firmly that there would be no obvious beneficiary if the Tote were privatised. The Government would have no moral claim because no public funds have gone to the Tote or its predecessor in any way. We will be looking further at the constraints affecting the issue of who should profit from any proceeds.

Arrangements are being made for Mr Giles Shaw and Sir Woodrow Wyatt to have a preliminary discussion later this month. Until then the Home Secretary would prefer to keep an open mind on the Chancellor's suggestion that financial advisers might be involved in this review.

I am copying this letter to David Norgrove (No 10), Mike Gilbertson (DTI) and Michael Stark (Cabinet Office).

Yours
Clare

MS CLARE PELHAM





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 August 1986

Thank you for your letter of 15 August about the industrial dispute involving Huyton Local Office in which you set out what the Government would do in similar circumstances. The Prime Minister has noted the tactics proposed and has commented that her interpretation of your letter is that we should expect to institute legal proceedings forthwith in the event of such a dispute.

(Timothy Flesher)

Tony Laurance, Esq.,
Department of Health and Social Security.

DBS

LEBB
2



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Secretary of State for Social Services

D Norgrove Esq
Private Secretary
10 Downing Street
London SW1

In other words we should expect
to initiate legal proceedings for contempt
The Ministers

15 August 1986

Dear David,

15/8

INDUSTRIAL DISPUTE INVOLVING HUYTON LOCAL OFFICE

Thank you for your letter of 28 July in which you convey the Prime Minister's request to describe exactly what the Government would do if a similar dispute were to occur. Meantime you have received Stephen Boys Smith's letter of 31 July about the powers for dealing with mass picketing under the Public Order Bill.

My Secretary of State believes that a recurrence of such a dispute is a possibility since we have cleaning firms under contract in other Merseyside offices who pay their cleaners less than the Transport and General Workers' Union wants. In the event of a recurrence we should benefit from the ground work done over Huyton because:

- i. Ministers have already indicated their willingness to take action against the Transport and General Workers' Union, including if necessary proceedings for contempt.
- ii. They have also indicated a willingness to set precedents, first by applying for an injunction, in a dispute to which the Government is not a party as employer, and second by applying for that relief in relation to unlawful picketing.
- iii. We have rehearsed the processes for obtaining legal advice and for Ministerial consultations.

In effect we would start from the basis of known Ministerial policies, which was not the case at Huyton.

The report with my letter of 16 July described the consultations that took place between officials and Ministers. If a similar dispute were to occur, we should first need to seek legal advice that we were on firm ground in seeking relief before the Courts - disputes of this kind are never precisely the same in all respects. Ministers would then need to confirm that they did wish to seek this

E.S.

relief. Relief would be sought by instructing lawyers to apply to the Courts. The particular relief sought would depend on the legal advice. It would probably be either an application for an injunction on an ex parte basis, or an application on notice to those responsible for the unlawful picketing. In the latter case the legal advice would probably be to send a warning letter to the Union calling for an immediate cessation of the unlawful picketing.

My Secretary of State would feel a great deal more confident a second time round in that the important matters covered in paragraph 2, which needed careful examination on Huyton, would already have been settled.

Copies of this letter go to Alex Allen (HM Treasury), Stephen Boys Smith (Home Office), Robin Young (Department of the Environment), Michael Saunders (Law Officers' Department), John Turner (Department of Employment) and Susan Chappell (Paymaster General's Office).

Laws

Tony Laurance

A LAURANCE
Private Secretary

28/03



N L Wicks Esq
Principal Private Secretary
to the Prime Minister
10 Downing Street
LONDON SW1

11 August 1986

Dear Nigel

at top

Thank you for your letter of 4 August.

The Financial Secretary has read John Redwood's paper with interest and asked Treasury Officials for comments. He will also be seeing John Redwood in mid-September and will discuss his paper with him then.

Yours ever
Vivien

VIVIEN LIFE
Private Secretary

ECON FOR Privatisation 07/11



FILE

CAJ



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 August 1986

The Prime Minister has seen the Chief Secretary's minute of 4 August on using private enterprise in Government. She has noted the Efficiency Unit's report on the multi-departmental review of competitive tendering and contracting out of services by Government Departments and, as proposed, has endorsed it for publication and action by Departments. She would be grateful if the Chief Secretary could circulate it to colleagues and adopt the strategy for publication and implementation set out on page 3 of his minute.

TIMOTHY FLESHER

Miss J. Rutter,
H.M. Treasury

sc



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

5 August 1986

Dear George,

COMMERCIAL MANAGEMENT OF THE DOCKYARDS

You copied your letter of 22 July to the Prime Minister to members of E(A).

In January 1985, E(A) agreed that contractorisation offered the best future for the dockyards. The decision was taken on the basis of an MOD paper which included a financial assessment showing there would be net savings from commercial management. Your progress report now states that contractorisation will cost the defence budget £67 million a year; and that even taking into account certain Exchequer savings there will be a net deficit.

*Not
 what it
 says.*

I would be grateful if my officials could have a full explanation of the underlying figures. To the extent that the costs arise from the maintenance of uneconomic capacity in the dockyards, it will be essential for MOD to have proper plans for reducing that capacity, whether under contractorisation or by some other means. Clearly continuing costs of this order would be unacceptable. I hope that, when you consult colleagues again in the autumn, we shall have a proper assessment of the best way of minimising these costs. Only in the light of such an assessment, combined with your evaluation of tenders, will it be possible for us to judge whether contractorisation is indeed the best course for either or both dockyards.

You mentioned the Dockyard Services Bill which has now received Royal Assent. In securing the Lords agreement to the Bill, the Government conceded Lord Denning's point that trades unions, if aggrieved over the consultation process, could appeal to the High Court rather than as usual an industrial tribunal. I very much hope that it will be generally accepted that the dockyards must be treated as a peculiar case requiring special treatment so that this concession does not affect other privatisations.

ECON POL: Privatization PT14

I am copying this letter to members of E(A) and
Sir Robert Armstrong.

*Yours
JH*

JOHN MacGREGOR



CCB
(Letter only)

FROM: CHIEF SECRETARY
DATE: 4 AUGUST 1986

PRIME MINISTER

The Minister.

Yes we agree to the Proposals set out in page

USING PRIVATE ENTERPRISE IN GOVERNMENT

3

W 6/8

I attach a copy of the Efficiency Unit's report on the multi-departmental review of competitive tendering and contracting out of services by Government departments. Robin Ibbs and I commissioned it earlier this year. I am also taking this opportunity to enclose the latest annual report on departmental progress on contracting out.

2. Departments are already working to a programme proposed by my predecessor in July 1985, whereby they spread the net as widely as possible, but specifically seek to test the market for five specified services (catering, cleaning, maintenance, security-guarding and laundry) by 1 April 1987 (1 April 1988 for catering). My predecessor proposed the MDR "to keep up the pressure". The review considered how to extend the use of competition and improve the ways it was delivered in practice.

Progress in 1985-86

3. Departments have so far concentrated on the five specified services. I attach a fuller list in Annex A to this minute. For most departments the programme for most services is almost complete, and relatively small areas of catering, maintenance and security-guarding remain to be tested. Cumulative annual savings on contracting out since April 1979 are estimated at £22 million. This is equivalent to a saving on the volume of business already tested of about 10%. But last year the additional savings from new contracting out were only £2.1 million compared with £3.7 million in 1984-85. The scope for further savings from the specified services is limited.

Indeed, one-third of the new savings identified in 1985-86 were from services other than the five specified.

4. For substantial further gains we must widen the scope of the policy and give it fresh impetus. The MDR will help in this.

The MDR

5. The report's recommendations and an indication of the way ahead are summarised on pages 15-17. The key proposals are:

- (i) a restatement of the policy as aimed at value for money ✓
- (ii) giving the policy fresh impetus by
 - Ministerial commitment ✓
 - ensuring a systematic approach to competitive tendering by top management ✓
 - effective monitoring by senior officials of progress achieved
- (iii) improvements in practical guidance from the centre; ✓
- (iv) making the policy "self starting" by training and motivating management ✓

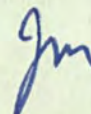
6. These are not dramatic proposals but they are important. We need to use them to encourage departments to range widely in examining areas to be market tested. Examples from those departments given individual scrutiny include inter alia, library, typing and secretarial, professional services (e.g. lawyers, surveyors), computer services; the potential candidates are even wider.

7. The idea of ploughing back savings into improved services in suitable cases should encourage managers to go wider. This is a good example of applying the general recommendations in Sir Robin Ibbs' report in May on value-for-money targets. In

endorsing that report (Nigel Wicks' letter of 30 May) you commented that "Efficiency improvements of all kinds must continue to make an important contribution towards containing public expenditure and giving effect to the Government's spending priorities". We must strike the important balance between the need to secure savings for the taxpayer and the need to motivate managers to search for improvements.

Proposed action

- (1) I invite you to endorse the report for publication and action by departments. I will circulate it to colleagues before publication, inviting them to implement it.
 - (2) When the report is published I will announce the re-expression of the policy which the Report recommends. I will let you see the form of words we propose to use nearer the time.
 - (3) I will ask departments to report by December this year on the decisions they have taken about competitive tendering particularly to implement the key recommendations 4 and 5. Thereafter the Treasury will monitor progress as part of its regular scrutiny of departmental tendering.
 - (4) At the centre the Treasury and the Central Unit on Purchasing have already started to revise the guidance according to recommendation 9 and these should be issued when the Report is published. The Treasury and DTI will also supplement the Public Procurement Guidance indicating how it applies to the procurement of services.
8. I understand Sir Robin Ibbs is content with these proposals.

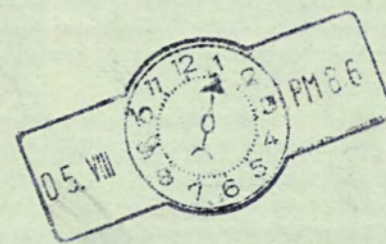


JOHN MacGREGOR

LONDON

THE

CONQUEROR



APPLICATION OF COMPETITION TO OTHER AREAS

Market testing is mandatory in all central Government departments for:-

Catering, cleaning, laundry services, security guarding and some types of maintenance - buildings, land, vehicles and office equipment.

Many departments have cast the net wider and have successfully contracted out work in the following areas:-

Computer Services.

Document copying or reproduction.

Typing and secretarial services.

Laboratory services.

Research and development support services.

Professional Services:

Computer managers, advisers etc.

Advice on sale of property

Advice on legal issues

Design services

Design and supervision of civil engineering projects.

Quality assurance

Surveying

Insurance

Training tuition or education.

Aerial surveillance for sea fisheries protection.

Ground Estate Management

Pest control

Transport services

Maintenance of I.T. equipment.

Storage and distribution

Telephonists services.

Teleprinter services.

Press cuttings.

Range support services including target towing.

RADAR calibration

Advertising.

Disposal of vehicles and equipment.

Editing and bookbinding.

Waste disposal.

Small ships registration.

Transportation services.

Alteration, repairs and maintenance of road schemes.

RAF marine services



EFFICIENCY UNIT

**USING PRIVATE ENTERPRISE
IN GOVERNMENT**

**Report of a multi-departmental review
of competitive tendering and contracting
for services in Government Departments**

May 1986

MANAGEMENT IN CONFIDENCE

USING PRIVATE ENTERPRISE IN GOVERNMENT DEPARTMENTS

Report of a multi-departmental review of competitive tendering
and contracting out of services

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Numbers in brackets in the text refer to the notes which begin on page 18.

MANAGEMENT IN CONFIDENCE

Key points from this report

- * The prime objective should be value for money.
- * All activities should be examined.
- * Managers should account for decisions to stay in-house.
- * Value for money does not always mean lowest tender.
- * Contracts need active continuing management.

Introduction

It is the Government's policy to subject as much work as possible to competition and to contract work out whenever it would be 'commensurate with sound management and good value for money' to do so. This is the report of a multi-departmental review which was jointly commissioned by Mr John MacGregor (Chief Secretary to the Treasury) and Sir Robin Ibbs (the Prime Minister's Adviser on Efficiency) with the objective of:

"extending the application of the Government's policy on the use of competition in the provision of departmental services and improving the ways in which the policy is delivered in practice".

2. Six Departments - MOD, DTI, PSA, MAFF, HO and DEN - have completed scrutinies of their use of competitive tendering and contracting out (1). The terms of reference for the scrutinies and a note on how they were conducted are at Annex A.
3. The Council of Civil Service Unions and the Joint Coordinating Committee for Government Industrials submitted a memorandum of evidence which is attached at Annex B.
4. The cost of the six Departmental studies was £58,000 and of the central study £35,000, making a total of £93,000.

MANAGEMENT IN CONFIDENCE

MANAGEMENT IN CONFIDENCE

WHAT THE SCRUTINIES FOUND

5. The scrutinies place it beyond dispute that contracting out is viable over a wide range of activities in government. There is by now a substantial body of experience which demonstrates that it is possible to obtain the standard of service required, to give the contractor a reasonable profit, and to make worthwhile savings at the same time.

6. Both competitive tendering and contracting out are being used to good effect:

- competitive tendering is improving efficiency by introducing the discipline of drawing up a proper specification, exposing outdated and restrictive practices and pointing up opportunities to deliver better services at lower cost;
- contracting out is yielding savings of money and manpower, while providing satisfactory services (improved services in some cases) and hitherto unexpected advantages in terms of management control.

Some examples:

- * By contracting out the catering and domestic services at its residential training establishments the Home Office has saved £1.6 million a year and 760 posts. "Everyone acknowledges that the contractors have introduced a high degree of professionalism and staff management which had been lacking previously".
- * Two years ago DTI saved some £100,000 by putting its daytime security guarding out to contract. The Department is now putting its silent hours guarding of 6 Headquarter buildings to contract and anticipates a further saving of £100,000 per annum as a result.
- * In 1980 the DEN's press cuttings service cost £37,000 a year. Now it costs £12,800; and the Department has recently been able to cut its newspaper bill by £2000 a year.

MANAGEMENT IN CONFIDENCE

7. Departments are now finding that contracting out can be used with advantage in areas other than the traditional 'Cinderella' functions:

- * In PSA the recent introduction of competitive tendering for new construction design work is currently showing reductions of between 10% and 26% on typical fees previously paid.
- * A senior MAFF official told us, 'One very useful spin-off of contracting out R&D is that it brings us into contact with people who are in the very front line of research work, and this is vital in keeping us up to date and in touch with what is going on outside'.
- * MOD have contracted out more mainstream activities than any other Department. Their Report concludes: "In recent years the sustained drive to contract out services has produced useful cost and manpower savings without affecting operational performance".

Obstacles

8. But the policy is still highly contentious and there is much reluctance among managers: competition has not yet generally 'arrived' as a management philosophy. Progress is also hampered by confusion about the objectives of the policy: some Departments are prepared to contract out even where it costs more, others only when it offers a significant saving. Departments are not steering the policy positively enough: too much reliance is being placed on the initiative of the individual manager. And competitive tendering and contracting out require commercial skills, including in particular purchasing expertise, which are in short supply in the Civil Service.

MANAGEMENT IN CONFIDENCE

GIVING THE POLICY A FRESH IMPETUS

9. There has been substantial progress in contracting out the basic ancillary services. 87% of cleaning, 86% of maintenance and 72% of laundry services have been contracted out. But the figures now coming in to the Treasury suggest that momentum is being lost (2). The Examining Officers have identified a number of new candidates for contracting out in their Departments. They have also suggested ways of making the approach more disciplined. Drawing on these we recommend:

First - the policy needs to be clarified and communicated better;

Then - its implementation needs to be sharpened up. Departments need to:

- adopt a systematic approach to identifying candidates for contracting out;
- widen the area of search;
- ensure that candidates once identified are thoroughly and correctly tested;
- clear away the obstacles to successful contracting out; and
- make sure that managers are trained and motivated to get value for money from it.

MANAGEMENT IN CONFIDENCE

CLARIFYING THE OBJECTIVES

10. To date the aims of the policy have comprised:

- reducing civil service manpower numbers;
- saving money; and
- increasing the share of the economy in which market forces can operate.

The scrutinies show that manpower numbers have hitherto been the main driving force (3). But different Ministers have given the policy a different emphasis. Some Departments will only consider contracting out if there is a significant money saving: others have been prepared, where other benefits were judged important, to contract out even where it has been 10 or 20 per cent more expensive.

11. It would be wrong to make too much of this divergence of approach: money and manpower savings usually work in the same direction. The main thing is that the policy should be clear. A dogmatic policy of contracting out, on principle, everything that can be separated off would often be uneconomic.

12. The recommendation that emerges from the scrutinies is that the policy should be re-stated so as to place clearer emphasis on value for money. It should be a policy focussed on running costs rather than manpower numbers - although it can be expected in the process to help with the numbers. The more it can be seen as a consistent part of the Government's drive for managerial efficiency the sooner managers will pick it up and run with it, using it on their own initiative.

13. We recommend that the positive element in the policy, as it is in the United States, should be accountability to the public. Departments should be required to explain why they are not putting out to tender any service in which a contractor has expressed an interest. And if they decide, after competition, to keep a service in-house they should give the unsuccessful tenderers a proper account of their decision.

14. It is important that Ministers and top management should make their support for the policy visible in their Departments. It was clear from the scrutinies that a lot depended on the attitude taken by the individual Minister, especially when it was clearly expressed as his personal policy.

Targeting and measuring success

15. The main quantity to target each year will be the proportion or value of services to be subjected to competition. Departments will want to aim for running cost savings too, but in doing so they should bear in mind the danger that unthinking emphasis on savings may push managers into choosing the lowest tender rather than the tender that offers best value for money. Running cost savings should be recorded year by year and scored as part of the Department's overall efficiency effort (4). But savings are not the whole measure of success, just as they are not the whole reason for contracting out.

MANAGEMENT IN CONFIDENCE

MANAGEMENT IN CONFIDENCE

A MORE SYSTEMATIC APPROACH

16. Competition should be a regular part of every Department's efficiency armoury. Although the strategy needs to be set firmly from the centre it would be a mistake to try to do too much by detailed central prescription: the nature of these contracts means that they have to be worked out case by case by the managers responsible (5). Departments vary in the scope they offer for competitive tendering and each will need to develop a strategy to suit its own circumstances.

17. Each of the six Examining Officers has recommended, as part of his or her report, a suitable approach for that Department. Other Departments will wish to develop their own strategies. The most important features seem to be:

- (a) that a comprehensive, rolling review of possible areas for competitive tendering should be built in to the annual survey of activities in the top management round;
- (b) staff inspectors and other review staff should also identify possible candidates and report them to the PEO and PFO systematically (6);
- (c) targets should be set for the proportion or value of activities to be tested each year;
- (d) priorities should be established and expert resources concentrated in support of those competitive tendering exercises which appear to offer the best return;
- (e) top management should use internal audit to check that candidates once identified are promptly and thoroughly examined.

MANAGEMENT IN CONFIDENCE

WIDENING THE AREA OF SEARCH

18. In the MOD and the PSA contracting is already a significant feature of mainstream activities. But in most Departments the policy has so far largely been determined by the Treasury's standard list:

Mandatory testing

Cleaning
Laundry
Catering
Security guarding
Maintenance work

"also worth considering"

Messengers
Libraries
Postal services
Press cuttings

19. That list has served a useful purpose. And the Chief Secretary has made it clear that "Departments should cast their net as widely as possible" (7). Nevertheless it seems to us by now to limit Departments' thinking more than it stimulates it. It also tends to cloud the important differences between the activities and industries concerned. Rather than adding to the list we recommend that Departments should start to think for themselves what services might be tested by competition (8).

20. Departments should review all their activities to see if they offer scope for contracting out. There will be some activities close to the heart of the Department over which management will want to retain direct control, particularly where it is essential that there should be no possibility of a divergence of interests. But they need to think in each case whether the degree of trust, confidentiality or responsibility for taking decisions on the Minister's behalf makes it essential to keep the function in-house.

21. As Annex G explains, we have put in hand the preparation of new draft guidance to managers on competitive tendering and contracting out. Departments will need to tailor it to their own circumstances. It is important to guard against automatic acceptance of certain common objections to contracting out (9) and to be rigorous in demanding explanations for decisions not to go to competition. We recommend that Departments should designate a senior official (eg the PEO or PFO or a line manager) whose responsibility it is to check that these explanations are satisfactory.

MANAGEMENT IN CONFIDENCE

Mainstream activities

22. The general rule is that contracting out saves money on ancillary services but is likely to cost more than in-house provision of 'professional' services (10). But it may still be worthwhile to test such activities through competition:

- (1) the exercise of drawing up a specification for the service, knowing that every function cut out will save money, may be beneficial;
- (2) a contractor may (subject to any specific requirements placed upon him) have complete freedom about how many staff of what grades to employ, where to locate them and how to accommodate and equip them. There may be lessons for civil service management more generally to be derived from examples of 'rational' behaviour of this kind;
- (3) contractors may, in some areas, be able to offer Ministers a more expert and possibly more purposeful service (11). Small improvements in the effectiveness of programme expenditure have the potential to give an excellent return on small increases in running costs.

Actual and potential contractors

23. In some 'mainstream' fields commercial firms, business schools or professional institutions are potential contractors. Other areas of research or expert advice can be let to university staff or industrial research associations (as the Production Engineering Research Association administers DTI's business consultancy scheme for them). Alternatively arrangements could be made to facilitate existing civil service Divisions turning themselves into contractors either as sole contractors, partnerships or co-operatives (12).

24. The real potential of the market will only be exploited as the opportunities for work in the civil service are made clear and as Departments go out and make contacts, formal and informal, with potential suppliers (13).

MANAGEMENT IN CONFIDENCE

REMOVING THE OBSTACLES

25. The scrutinies revealed obstacles of several kinds:

- negative attitudes
- technical difficulties and lack of the necessary managerial skills
- lack of motivation.

Negative attitudes

26. There is widespread prejudice in the civil service against the use of contractors. It fails to distinguish between very different types of contracting industry, and between good and bad firms within those industries (see Annex J).

27. Some of the opposition is inspired by the unions: contracting out reduces unionisation and costs them membership. Some reflects a genuine concern about the employment prospects of long-serving and low-paid employees (14). But there is also managerial prejudice - a presumption that in-house services are best in principle and that contracting out may save money but only at a price in terms of management control.

28. Unless managers have had particularly bad experiences with their own workforce they feel a false sense of security in staying in-house: "false" because they are not measuring by an objective standard. Until there is a contract it is rare to find an explicit specification for a service in the public sector - still rarer to find performance and output measures in force. When an external contractor is employed, minor derelictions and cost variations are brought to light.

29. Contractors have to work to the price they have specified. An in-house workforce is never subject to the same degree of discipline. If costs overrun money can be transferred from some other service to supplement the budget, or staff can be used to cover for one another. Tighter, more effective budgeting and rigorous audit control are needed to check on this, as the recent review of budgeting emphasised.

MANAGEMENT IN CONFIDENCE

Management control

30. Managers who have contracted out successfully do not feel less secure. On the contrary many feel more in control (15). As one senior manager put it to us:

"My detachment from the daily routine of 'running the show' presents real advantages in supervising standards".

A PSA manager reported:

"It makes the day-to-day management of the programme considerably easier. I no longer have to cope with industrial relations problems. I can leave all that entirely to the contractors".

A Departmental Security Officer told us:

"My day-to-day involvement in management problems has significantly reduced, and I have more control: if a guard is not working properly I can get the contractor to replace him at once".

Learning to handle competitive tendering

31. Managers who are still learning how to handle competitive tendering have little guidance at present to help them. It is not sufficiently recognised that the placing of service contracts is essentially a purchasing function. It requires similar expertise to the purchasing of goods.

32. But in certain respects competitive tendering and contracting out of services (both before and after the contract is let) is even more demanding:

- detailed specification is often laborious in relation to the value of the contract;
- the definition and measurement of quality can be difficult;
- good information on the cost of the in-house service is not always readily available;
- the terms and conditions of contract introduce new complications in regard to insurance, for example, or moral responsibility for health, safety and welfare;
- monitoring standards requires constant attention: the contractors are not angels, and they are operating in a highly competitive environment;
- enforcing a contract or obtaining redress is difficult once goodwill has been lost.

MANAGEMENT IN CONFIDENCE

33. What is being bought is, in effect, a long-term business relationship, which will depend on trust as much as on legality. This requires both commercial judgment in choosing the contractor and skill and determination in obtaining value for the contract - see para 38 below. It is not surprising that mistakes are made from time to time (16). But the Civil Service has shown its ability to surprise contractors who thought government would be a soft touch:

- * DTI dismissed a firm of security guards who did not provide a reliable service. They kept careful records of observed failures and, when warnings went unheeded, acted promptly to terminate the contract.
- * In DEN a new manager in office services was dissatisfied with the quality of service being provided by contract porters. After a number of verbal warnings he was able to terminate the contract without comebacks when they failed to turn up for a job.
- * PSA does not hesitate to use sanctions as the need arises, ranging from pointing out deficiencies for correction, through refusing re-employment in further contracts to terminating contracts and suing for negligence.

34. We recommend that:

- (a) the Government's public purchasing policy guidelines should be re-stated in terms appropriate to the purchase of services (Annex F): they cover the main elements of sensible purchasing.
- (b) the Central Unit on Purchasing should issue new model guidance on competitive tendering - see Annex G. The Treasury guidance on how to compare in-house costs with a contractor's bid needs to be revised and clarified in several respects (17). The CUP should promulgate flexible guidance on the terms and conditions of contracts;
- (c) the CUP should take the lead in ensuring that information about contractors is pooled. The Unit should invite certain Departments to take responsibility for compiling data about the performance of contractors in certain industries (18).

MANAGEMENT IN CONFIDENCE

35. We also recommend that, following what is already the practice in some Departments:

- (d) short, intensive training courses should be arranged for managers who are likely to have to conduct a competitive tendering exercise. Competitive tendering should be taken into account in planning the long-term basic training requirements for all civil service managers (19).
- (e) larger Departments should ensure that there is sufficient expertise, in or allied to their purchasing units, to help line managers with implementation. The Management and Efficiency Divisions of the Cabinet Office (MPO) should offer smaller Departments a consultancy service for this purpose.

Lack of motivation

36. Competitive tendering places considerable burdens - emotional as well as functional - on managers. They have to do it alongside their regular job, and there is no countervailing reward. It is no wonder that, as noted in para. 26, attitudes towards contracting out are generally negative, and managers will try to avoid it if they can. Nor, it should be said, is there usually much pressure on managers to tackle it.

37. If competitive tendering is to become self-starting in Departments there is a need not only for a strong policy steer and better information but also for positive incentives, both at the personal and the institutional level:

- at the personal level, achievement in carrying through a successful competitive tendering exercise should be recognised for reward, in appropriate cases, under the merit pay scheme;
- at the institutional level, there should be scope in suitable instances for sharing savings from contracting out between the service in question and the centre (20). Where such savings have been ploughed back into improved services the chance should be taken to publicise the success, for example in house magazines.

MANAGEMENT IN CONFIDENCE

GETTING THE SERVICE YOU PAY FOR

38. A tight specification, a realistic contract price and choice of a reputable contractor are pre-requisites. But contracts for services require continued active management if value for money is to be obtained:

- monitoring needs to be regular and on an agreed basis;
- there needs to be sufficient in-house expertise (where relevant) to make a judgment on the quality of service;
- channels of communication need to be established at the outset;
- relations need to be tough but amicable.

39. Contractors need as their counterpart a named individual who they can see has the responsibility and authority to deal with them. The presence in the wings of expert advisers - legal, contracts or technical - must not be allowed to detract from the responsibility of the line manager. He or she must be closely associated with the specification for the service and the initial choice of contractor, and the contractor must know that his chance of renewing the contract depends critically on satisfying that manager.

40. Contractors face a learning curve at the start of a contract and service tends to deteriorate as uncertainty sets in towards the end. There is much to be said, therefore, for stability in contractual relations provided the Department is satisfied that it is still getting value for money. That means keeping in touch with developments in the market. The scrutinies showed that after a few years contracting out may be practically irreversible. This need not be a cause for concern provided the contractor still has the sense that he is subject to a competitive situation.

41. The balance of advantage between in-house and contractors may change over the years with changes in technology, in work patterns and in relative rates of pay and conditions. In the long run, therefore, the boundary should be allowed to remain fluid. Where the outside competition appears to be thin an in-house alternative should be costed, both as a benchmark for value for money and so that contractors understand that they must behave competitively.

MANAGEMENT IN CONFIDENCE

MAIN RECOMMENDATIONS

1. Because of the evidence of the success of the policy so far Ministers should keep up the pressure in their Departments both for completion by 1987 (1988 in the case of catering) of the current programme of competitive tendering and for its extension into new areas. But Departments need to be on their guard and build up their competence in implementing the policy.

A: Policy

2. Ministers should re-state the objectives of the policy with a greater emphasis on value for money, making it clear that the aim is no longer, if it ever was, simply to reduce civil service manpower numbers (para 11).

3. Individual Ministers should state to their own Departments how they mean that the policy should be applied, and should show the importance they personally attach to it. They should publicise their Departments' successes, showing how they have been able to apply savings or to provide a better service (paras 15 and 37).

4. Departments should establish a rolling programme for reviewing their activities with a view to identifying areas to be tested by competition. They should set targets for the proportion of their activities to be reviewed each year. All activities and parts of a Department should be considered with regard to their potential for contracting out (paras 17 and 20).

5. On the basis of that review Departments should decide each year their priorities for competitive tendering; invite line managers to plan their work accordingly; and concentrate the limited management support services available on the priority areas which have been identified (paras 17 and 35).

6. If Departments tackle competitive tendering systematically in this way the Treasury should not add to the list of prescribed services for competitive tendering (para 19).

7. Departments should designate a senior official, possibly the PEO or PFO, to check on behalf of the Minister that sufficient reason has been given either for not testing an area or for deciding to keep in-house even though competition has shown that contracting out would be possible (para 21).

MANAGEMENT IN CONFIDENCE

B: Practice

8. The Government's 'Public Procurement Policy Guidelines', suitably amended and supplemented, should form the basic guidance on contracting for services (as they do for goods) throughout the public sector (para 34).

9. The Central Unit on Purchasing (CUP) should take responsibility for the provision of central guidance on the practice of competitive tendering and contracting out. It will probably need an addition of one post to cover this task. The Treasury should revise its guidance on cost comparisons (para 34).

10. The CUP should facilitate the sharing of Departmental experience, perhaps inviting individual Departments to take the lead in collating information about contractors in different contracting industries, including data on their performance (para 34).

11. In the medium term Departments should aim to train a sufficient number of line managers to handle competitive tendering on their own. But in the short term managers in most Departments will rely heavily on their own Department's stock of central purchasing expertise (para 35).

12. Managers need to be motivated to undertake the effort involved in competitive tendering on their own initiative. In suitable cases ploughing back some of the savings from contracting out should give valuable encouragement to managers to identify and secure such savings (para 37).

13. Once tenders have been received the decision, subject to reasonable safeguards, should rest with the line manager. If contracting out is to be successful the manager concerned must feel that he owns the decision, because he is going to have to manage it on a continuing basis. The placing of a service contract is a matter of judgment and should not be treated mechanically (para 39).

C: Wider application

14. In our opinion these principles, adjusted as necessary to suit their different circumstances, could be applied also in the National Health Service, in local government and in non-departmental public bodies.

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WHAT HAPPENS NEXT

42. We recommend that, if Ministers approve, this central report should be revised for publication within the next two months. Within that time the Central Unit on Purchasing, in conjunction with the Cabinet Office (MPO) and the Treasury, should prepare revised guidance on the practicalities of competitive tendering (including how to cost the in-house service) so that the Report and the new guidance can appear together. The revision of the Government's Public Procurement Policy Guidelines will take longer because of the consultation required, but the aim should be to complete it and issue new Guidelines for services by the end of 1986.

How will Ministers know if this Review has been worthwhile?

43. As with all scrutinies, this review will fall due to be evaluated in two years' time.

44. The main objective is to secure better value for money. One of the indicators will be whether Departments have reversed the declining trend of new savings from contracting out. But Ministers will also want to look for:

- (1) completion of the basic programme of testing ancillary services and its extension into new, mainstream activities;
- (2) integration of competitive tendering into the regular efficiency strategies of Departments so that it is self-starting within Departments;
- (3) better informed practices in the placing and management of contracts, resulting in fewer disappointments and better value for money;
- (4) an acceptance by both management and unions that the boundaries between direct and contract provision of services should be flexible as changes in technology, in relative rates of pay and conditions and in work-patterns alter the balance of advantage.

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NOTES

1. 'Competitive tendering' means testing the efficiency of in-house services against tenders from outside contractors. 'Contracting out' means letting a contract for those services.

Contracting out differs from privatisation in that the service in question remains a public service, publicly financed. Ministers or other public authorities continue to decide what service shall be provided to whom, and to be accountable for it.

The review covered provision by the private sector both of support services within Departments and of services to the public. It excluded contracts for the supply of goods and contracts of a capital nature, which have been the subject of other recent studies: "Government Purchasing", HMSO, 1985; and "Capital Expenditure Contracts", pilot study by the Efficiency Unit, 1985 (Commercial in Confidence).

2. Savings from contracting out (source: HM Treasury)

	<u>£ million</u>					
	<u>1980-81</u>	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u> (provisional)
Actual	0.6	7.5	4.5	3.6	3.7	[1.5]
Cumulative	0.6	8.1	12.6	16.2	19.9	[21.4]

The provisional estimate for 1985-86 suggests a continuation of the general downward trend since 1981-82. The Treasury points out that additional savings have been produced by competitive tendering which has not resulted in contracting out.

3. Objectives

The Prime Minister's original policy statement (13 May 1980) was in the context of civil service manpower numbers, and manpower numbers have continued to be the main driving force - contracting out if possible, subject to the constraints of sound management and good value for money. As the scrutinies found:

"In most cases the main impetus behind contracting out decisions seems to have been the need to meet manpower targets" (DTI).

"The primary aim... is seen as achieving manpower reductions, even at greater cost" (MOD).

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When the Treasury re-launched the policy in 1984 it was in value for money terms, with the emphasis on saving money. It was seen as one of a range of efficiency measures which would essentially save money, but incidentally help to achieve manpower targets and have some beneficial effect on the supply side of the economy.

Annex D discusses, for comparison, the reasons for which private firms and other organisations go in for contracting out:

- (1) saving money;
- (2) saving management time for better uses;
- (3) obtaining expertise;
- (4) retaining flexibility to cope with changing circumstances;
- (5) re-establishing management control.

Some firms have an explicit contracting out policy and will only keep in-house the things that constitute the main business of the company. Others are more pragmatic and leave decisions to the local level.

4. With the passage of time it becomes increasingly difficult to estimate the savings from contracting out. MOD has contracts which have been in force for 20 years. An estimate of the cost of bringing such services in-house would often be artificial, though it may be worth making in certain special circumstances (see para 41).

5. The problem for top management is, as usual, what to hold tight and what to leave loose. We have seen examples of contracting out going badly wrong when managers were not allowed to use their judgment about the selection of the tender, and so did not feel responsible. And yet there needs to be firm central direction about the general policy, and some pressure on managers to implement it. The NHS Management Board has not found it easy to reconcile the two.

6. The DTI scrutiny advocates the approach known as 'greenfielding': that is, starting conceptually with the very core of the Department and rebuilding it, as it were, on a greenfield site. As each function is bolted on the question can be asked "is it more appropriately provided by the civil service or by the private sector?".

7. "Departments should continue to cast their net as wide as possible so as to ensure that as much work as possible is subject to competition. Every opportunity for competitive tendering, across the wide range of departmental activity, needs to be identified." Chief Secretary, 14 January 1985.

8. There are no theoretical limits. In principle contractual relationships could be established everywhere in the civil service. In practice, however, some relationships are more easily and more efficiently handled informally, in-house, instead of being formalised into legal contracts. (An intermediate step which can be valuable is to create a customer/contractor relationship within the public sector).

Several Examining Officers sought to establish criteria for defining the 'core' of activities that need to be kept in-house. But there is a danger that any such criteria will unnecessarily limit Departments' scope in one way or another.

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9. The main ones are confidentiality, unpredictable demands and very high standards required. Confidentiality is discussed in para 20: there is a need for fresh guidance from the MPO about which categories of guarding, transport and other services must be kept in-house for security reasons. Unpredictable demand may be a positive reason for contracting out, rather than a counter-indication. Contractors are often better able to cope economically with fluctuations than the civil service. As high standards can be obtained from a contractor as from an in-house workforce: it is a question of pitching the specification appropriately and checking that the contractor has the requisite capability.

10. See Annex E.

11. The PSA, for example, has long pursued the practice of contracting out some specialist areas of construction design and maintenance work rather than develop additional expertise of its own and add to staff numbers.

12. This could be thought of as a logical extension of delegated budgeting, in which central controls are stripped down to the minimum required for the contract specification. But note that there will be a problem for Departmental running costs control if contracting out means that actual pension contributions have to be substituted for the notional contributions at present made to the PCSPS.

13. The MOD scrutiny showed how contractors are prepared to adapt to meet unusual needs once they are clearly stated. At RAE West Freugh two contractors, RCA and Flight Refuelling, have combined forces to meet the specified need. At RAF Quedgeley RCA and Securicor operate together to provide a support package.

14. The trade unions draw attention in their submission (Annex B) to the way in which the policy impacts particularly on the lowest paid public employees (and spares the managers who have to implement it). Contractors often take over a large part of the existing workforce, but they impose substantially poorer conditions and a harsher regime with less job security. Private as well as public sector employers often have misgivings for this reason about contracting out, and may take steps to phase it in so as to preserve 'sheltered' employment for long-serving staff.

Some of those interviewed in the scrutinies were perfectly content with the contractors as employers. Some enjoy working in a small-firm environment, some have better job prospects, some prefer to receive slightly higher pay and no pension. But for many it is a change for the worse: some complained of having to work long hours now to make up the same take-home pay with no overtime.

15. The amount of control exercised by a civil service manager is more limited than it seems. There is no power to 'hire and fire' and the instruments of reward and discipline are remote and imprecise. Managers are constrained by standard rates of pay and conditions and their freedom may be further restricted by longstanding agreements with the unions.

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16. It is not unknown for contractors to bid low in the belief that they will be able to get away with a lower standard of service than that specified. It is essential for Departments to satisfy themselves that the bid is realistic and soundly based, not simply to go for the lowest tender. The most important safeguard is the contractor's reputation and his concern to obtain repeat business and increased business in the public sector.

17. Particularly on superannuation, national insurance and the treatment of redundancy costs. There are difficult conceptual problems about whether one should measure actual or notional costs and over what period redundancy costs should be amortised. The line managers who are going to have to use this guidance need to have the policy on all aspects of costing spelled out in a very clear and simple way.

18. For example, the DTI, who were first in the field in employing private security guards, have acquired some experience by now and knowledge of the market which they are able to pass on to other Departments.

It would be too difficult to establish reliable cost yardsticks for many activities. But at least there should be a register of which Departments have placed contracts for which services and with which contractors, so that managers evaluating bids can contact others who have relevant recent experience. A good example of the sort of guidance which can be produced is the 1986 costing guidance for Departmental reprographic services.

19. This will fit in with work which the MPO and the CUP have in hand.

20. This accords with the recommendation of Sir Robin Ibbs's report on Value for Money Targets, May 1986 (Confidential), which has been endorsed by the Prime Minister.

EFFICIENCY UNIT

**USING PRIVATE ENTERPRISE
IN GOVERNMENT**

**Report of a multi-departmental review
of competitive tendering and contracting
for services in Government Departments**

ANNEXES

May 1986

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ANNEX A

TERMS OF REFERENCE AND CONDUCT OF THE REVIEW

The Review was commissioned in January 1986 jointly by the Chief Secretary to the Treasury, Mr John McGregor, and Sir Robin Ibbs with the objective of:

"extending the application of the Government's policy on the use of competition in the provision of Departmental services and improving the ways in which the policy is delivered in practice".

2. The Terms of Reference were:

"In the context of the Government's policy on competitive tendering and the contracting out of services to review and assess:

- (1) the ways in which departments identify services which might be contracted out;
- (2) how departments test and evaluate the possibilities; and
- (3) how departments control the delivery of services and ensure that value for money is obtained."

3. The Review was conducted by Examining Officers in six Departments, operating under Scrutiny Guidelines:

MAFF - Shirley Stagg
MOD - Victor Quaglieni and Stephen Carr
DEn - Susan Collins
HO - Stephen Handley
PSA - David Peel and Paul Henderson
DTI - Michael Winn

They started at different dates and the amount of case-work they were able to undertake by the deadline of end-April varied. The range of activities examined and locations visited is shown in the following table:

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CASE STUDIES

<u>Department</u>	<u>Activity</u>	<u>Location</u>
Ministry of Agriculture Fisheries and Food	Security Guarding	Tolworth, Newcastle
	Cleaning	London
	Fishery Protection	London based
	Tuberculin Production	Tolworth and Weybridge
	Typing, Reprographics	London
Ministry of Defence	Operational support	West Freugh, Stranraer
	"	Yeovilton
	Catering	Swinderby
	Supplying compressed gases	Cardington
	Cleaning	Northwood.
Department of Energy	Vehicle sales	Various locations
	Information Services	London
	Office Services	London (with references to Leicester, Glasgow and Aberdeen)
	Outdoor Messengers	London
	Energy Efficiency Scheme Administration etc	London
Home Office	Catering)	Police training centres - Warrington, Harrogate, Coventry, Kent Police Service College, Bramshill Prison Officer College - Wakefield Civil Defence College - York Fire Service College - Gloucestershire
	Security Guarding)	
	Cleaning)	
Property Services Agency	Estates Services	Reading
	Building Maintenance	Croydon, Shrewsbury
	Construction Design	Newcastle
Department of Trade and Industry	Security Guarding	London
	Business and Technical Advisory Service	National
	Reprographics	London
	General research support services inc. cleaning, catering, office services,	
	laboratory support etc.	Stevenage, Teddington

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4. The Departmental Examining Officers were supervised by a central team comprising:

Kit Chivers	Efficiency Unit
Stephen Mercer	HM Treasury (until 12 April)
Stephen Penfold	Cabinet Office (MPO)
John Stanton	Central Unit on Purchasing (on secondment from BP International)
Lyndsey Mountford	HM Treasury (Economic Adviser)
Robin Youle	HM Treasury (Accountancy Adviser)

They are responsible for this central report, which is issued by the Efficiency Unit. The individual Departmental scrutiny reports may be obtained from the Departments concerned.

5. The Central Team acknowledge the work done by Departmental Examining Officers, on which this Report is based. They also acknowledge the help and advice received from the following individuals, firms and organisations whom they consulted in the course of the Review:

Aims of Industry
Ms Kate Ascher
Association of British Laundry, Cleaning and Rental Services Ltd
BP International
British Stationery and Office Products Federation
Mr Peter Brokenshire (Audit Commission)
Bromley District Health Authority
Mr Leslie Chapman
CISCO
Contract Cleaning and Maintenance Association
Council of Civil Service Unions
Fisher Controls (Monsanto Group)
Gardner Merchant plc
Hounslow District Health Authority
IBM (UK) Ltd
ICI plc
Income Data Services
Institute of Industrial Security
Institute of Personnel Management
Institute of Purchasing and Supply
Joint Coordinating Committee for Government Industrials
Mr Gerry de Knop (Kent County Council)
LAMSAC
Marconi Underwater Systems Ltd
Pentagon Ltd
Rolls Royce Ltd
Science and Engineering Research Council
Securicor Ltd
Shell (UK)
Southend District Council
Spinneys Ltd
Wandsworth Borough Council
Mr Michael Whelan (Peat, Marwick, Mitchell)
Wimpey Engineering Ltd.

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Multi-departmental review of competitive tenderingEvidence submitted by the Council of Civil Service Unions and the Joint Co-ordinating Committee for Government IndustrialsIntroduction

1. The present submission has been prepared in response to an invitation to the Civil Service unions to provide the central review team with written evidence. The evidence is submitted on behalf of the unions representing both non-industrial and industrial civil servants.
2. The unions recognise the importance that the Government attach to the competitive tendering process. Contracting out of services has made an increasingly large contribution to achieving the Government's goal of cutting Civil Service manpower. Considerable pressure has also been put on local government and NHS management to contract out the services they provide.
3. The unions support measures designed to improve efficiency and effectiveness within the Civil Service. Contracting out does not however contribute to this aim. Its effect is to damage the pay and conditions of service of staff and reduce the quality of service.
4. The Government have said that it is their policy to transfer work out of departments whenever this is "commensurate with sound management and good value for money for the tax-payer" (Official Report, 13 May 1980, Cols 1052-53). In practice, little regard

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has been paid either to sound management or good value for money:

- * advice on cost comparison techniques has been biased in favour of contracting out;
- * 'Commercial-in-Confidence' arguments have prevented access to relevant information for cost comparisons;
- * quality of service has been allowed to decline;
- * contractors have employed staff on rates of pay and conditions of service which would not be acceptable if the Government were the direct employer;
- * the belief that competitive tendering leads to increased efficiency is based on a misunderstanding of the Civil Service's role as the provider of services to the public and the nation;
- * competitive tendering has stood in the way of the Civil Service negotiating machinery being used to improve efficiency and effectiveness;
- * manpower controls, which have been arbitrarily set, have been the main pressure on departmental management to contract out;
- * there has been no effective monitoring of services that have been contracted out;

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* contracts have rarely been terminated even when they have been below standard.

5. The unions believe that, if an objective assessment were made of the competitive tendering process, the short-comings listed above would be fully identified. We hope that the review team will be able to make such an assessment. We are concerned however that the central study plan states that the analysis will be carried out "bearing in mind... the Government's general aim to reduce the size of the public sector and foster private enterprise". Either contracting out work is "commensurate with sound management and good value for money for the tax-payer", or it is not. Government policy on reducing the size of the public sector and fostering private enterprise should play no part.

Cost comparisons

6. Departments are provided with advice on how to make cost comparisons in the Treasury's guidance on "Transferring work out of Government departments". The unions are however concerned about the way in which the guidelines suggest cost comparisons should be carried out. First, the advice given to departments is biased in favour of contracting out. Second, the use of 'Commercial-in-Confidence' tags prevents the unions having access to information with which they can effectively challenge the cost comparisons that have been made.
7. The Annex to this submission lists various ways in which the advice to departments on cost comparisons is framed so as to favour contracting out on cost comparison grounds. These include the advice

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on use of resource and Exchequer costs; the inconsistent treatment of VAT, income tax and national insurance contributions; the exclusion of continuing accommodation and equipment costs once a service is contracted out (except in instances where the contractors themselves take over use of the accommodation or equipment); the use of total costs by departments compared to the use of marginal costs by contractors; and the period over which costs/savings are assumed to accrue.

8. In practice, the information needed to carry out the cost comparisons advocated in the Treasury guidance is frequently denied to Civil Service management (let alone the unions) on the basis of 'Commercial-in-Confidence' arguments. The unions believe that all information relevant to a particular tender should be provided except where the provision of a particular piece of information would damage the contractors' legitimate commercial interests. Departments should be given guidance on the kind of information that can, in this respect, be considered 'Commercial-in-Confidence'. They should be told that information on rates of pay and conditions of service of staff, number of staff, level of service to be provided etc cannot be withheld on the basis of 'Commercial-in-Confidence' arguments.
9. 'Commercial-in-Confidence' arguments have provided a useful cloak for departments to avoid justifying decisions to contract out by reference to the Treasury guidance on cost comparisons. The guidance on consultation with unions, which is currently under discussion, may lead to the unions being better informed about proposals to put services out to competitive tender, but will not enable them to challenge effectively the basis on which decisions to contract

out are made.

Quality of service

10. Departments are told in the Treasury guidance on transferring out that "account should be taken of quality changes when comparing costs" (paragraph 8 of Annex A to the Treasury guidance). There is no guidance however on how the quality of service should be judged, and there is no evidence that quality of service has affected management decisions to contract out.
11. Reducing quality of service is one method by which contractors can cut the costs of providing a service. In the case of cleaners, this is built into the 'stints' that direct and contract cleaners are expected to do. Guidance for cleaners employed by the Civil Service provides that they should be expected to clean between 1300 square feet and 2000 square feet per hour, depending on the kind of accommodation. But in the same guidance, departments are told that contractors can generally be expected to do anything between 1800 and 2200 square feet, and frequently contractors successfully tender for contracts on the basis of 'stints' that exceed this level. By forcing 'stints' up to higher and higher levels, competitive tendering is producing a spiral of decline in the quality of cleaning services.
12. In other cases, departments consciously take the decision to reduce the service that the contractors are expected to provide below the level of service currently provided in-house. An example from the MOD involves a window-cleaning contract at HMS Collingwood. The direct labour schedule of work, on which the staff side based

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their costings prior to the contract being placed, required cleaning to be done to a maximum height of 12 feet and the cleaning of all internal glass. The contractor is only required to clean to a height of 5ft 9ins and cleans no internal glass. Service personnel have to assist the contractor in order to ensure that the previous standards of work are maintained.

13. Whether it is by cutting the inputs needed to provide a given output or by cutting the output itself, contractors are given a clear cost advantage, while services suffer. Moreover, the consumers of the service have no effective way of letting their dissatisfaction be known. If the consumers are civil servants, they can attempt to put pressure on management through their unions. Frequently the unions find that management are fully aware of the short-comings in the service that has been provided and are sympathetic to the union representations. Yet management themselves are constrained as a result of financial, manpower or political pressures. The limited room for manoeuvre this leaves line management conflicts with the alleged Government philosophy of decentralising management.

14. Where services are provided direct to the public, there is even less opportunity to let concerns about the quality be known, let alone get anything done about it. A parallel can be drawn with contractors in the NHS or local government who are subject to some form of democratic accountability through local health authorities, school governors, parent/teacher associations etc or through elected councils. This explains why the majority of contractors' failures which have received publicity have been in the NHS or local government. The corresponding mechanisms do not exist to bring contractors' failures in the Civil Service to the notice of the general public.

Pay and conditions of service

15. Another method by which contractors cut their costs is by low wages and poor conditions of service. Many of the civil servants who have been affected by contracting out are amongst the lowest paid workers in the Civil Service. Nevertheless, they are covered by the Civil Service Pay and Conditions of Service Code which guarantees them a reasonable conditions of service package - annual leave, sick leave, maternity provisions, pensions, redundancy provisions etc.

16. Under the Fair Wages Resolution, which was abolished in 1984, private contractors were limited in the extent to which they could undercut nationally agreed rates of pay in the Civil Service because of the obligation to pay at least the equivalent of local authority rates of pay. Since its abolition, they have been under no such obligation. Increased use of fixed price contracts is placing further pressure on the wages of contract staff. In order to win the contracts, contractors are avoiding making provision for wage increases during the contract, which normally lasts for three years. But it is not just on wages that private contractors can undercut Civil Service labour costs. Frequently private contractors keep other conditions of service to the minimum prescribed by law. Private contractors are also notorious for their avoidance of employers' national insurance contributions by paying part-time workers on low rates to keep their wages below the national insurance threshold. This not only adds to the contractors' competitive advantage; it also deprives their workers of the basic protection provided by the national insurance scheme - sick pay, maternity pay, unemployment benefit.

state pension etc.

17. An example of how private contractors use low wages and poor conditions of service to cut their costs was provided recently at DVLC Swansea. Following renegotiation of a contract for cleaning services between DVLC management and Exclusive Cleaners, who had the existing contract, the contractors proposed, amongst other things, to reduce the hourly rate from £1.80 to £1.50, to cut the number of hours from 3 to 2½ per day, and to deprive cleaners of paid leave. In that case, the existing workers had union representation and were able therefore to force some concessions. Hourly rates were instead reduced to £1.70, and two weeks paid leave were agreed. But for union intervention, the Government would have been content to leave it to the contractors to do what they wanted to the pay and conditions of service of their workers. There are other examples where unions have fought effective rearguard actions in difficult circumstances. In cases, however, where new, usually non-unionised, workers have been brought in, the opportunities for intervention have been virtually non-existent.

18. As with the quality of service, the Government are not accountable for the effect that contracting out has on the pay and conditions of service of workers providing Government services. If the Government, for example, attempted to cut costs by paying civil servants wages which removed their entitlement to national insurance benefits, they would rightly be condemned from all quarters. But if the Government use a contractor to achieve the same ends, they are able to claim that their hands are clean.

Efficiency and effectiveness

19. Reducing the quality of service and cutting wages and other conditions of service may, if not offset by the contractor's profit, cut the costs of providing a particular service. But these changes do not contribute to the overall efficiency and effectiveness of the Civil Service. Other factors have to be looked at to determine the impact on efficiency and effectiveness of the Civil Service of contracting out.

20. One argument that is put forward is that contracting out allows Civil Service management to concentrate on 'core' activities. In practice, however, this is not the case. Operational requirements and management considerations frequently mean that the 'core' cannot function properly if so-called 'peripheral' activities are contracted out. In-house services, for example, provide a flexibility which is simply not available from private contractors. Moreover, even when services are contracted out, management in the Civil Service retain responsibility for them. In the short term, management may not take this responsibility seriously, for example, by not monitoring the service provided properly. In the longer term, however, a lack of proper responsibility can only make management's task in sorting out problems of contracted out services which go undetected more difficult. Overreliance on agency typing until the mid-1970s is a classic example of the management problems that can be encountered when proper account is not taken of the consequences of contracting-out.

21. More importantly, however, the division of Civil Service activities into those that are 'core' and those that are 'peripheral' is based on a misunderstanding of the Civil Service's role. The Civil Service provides services to the public and to the nation. As such, its concerns are wider than those of a private company which is concerned

with its individual competitive position. This was recognised by the Defence Committee in its report on the proposed contracting out of dockyard services. The Committee pointed out that, whilst cost was a factor, the defence of the nation and interests of the fleet should be the primary concern. Similar concerns have been expressed about the threat to the security of Government information arising from the use of contract typing, messenger, reprographic, cleaning, transport, and security services throughout the Government service.

22. A second argument that is put forward in support of the view that contracting out improves efficiency is that it opens up services to the pressure of competition. This implies that the Civil Service is inefficient at providing its services. Recent studies by Malcolm Levitt of the National Institute of Economic and Social Research suggest that the Civil Service does not perform unfavourably when compared to the private sector. Sir Robert Armstrong, in evidence to the Treasury and Civil Service Committee, recently argued that the implication that the Civil Service is inefficient was one of the causes of low morale amongst civil servants.

23. The Civil Service unions have always been willing to discuss ways of improving efficiency through the Civil Service negotiating machinery. There are various control mechanisms, for example, staff inspection, whereby the number and grading of civil servants are related to the tasks that have to be carried out. But competitive tendering is frequently used as a way of short-circuiting the negotiating machinery. There are cases, for instance in the MOD and PSA, where unions were involved in discussions with management on ways to improve efficiency only to find that the service that was being

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discussed had been put out to competitive tender. This cavalier attitude to the negotiating machinery only serves to increase the damage to morale that is caused by the process of competitive tendering.

Manpower controls

24. The main pressure on departments to contract out has been the need to stay below the manpower targets set for them. For the past seven years, manpower targets have been set for departments without regard to their manpower needs. Departments have to make the choice about the least painful method by which the targets will be achieved.
25. The decision to contract out is therefore frequently taken, not on the basis of cost comparisons or quality of service or overall efficiency, but on the basis that other methods of achieving the cuts would cause more damage. When unions have made a case for a service not to be contracted out, or for a contracted out service to be brought back in-house, they have been told that equivalent cuts in manpower would have to be made in other areas of the department's work.
26. As long as departments are expected to conform to manpower targets, rational decisions on contracting out will not be taken.

Information and monitoring

27. In the section on cost comparisons, we referred to the way in which 'Commercial-in-Confidence' arguments prevented management

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and unions having access to the information required to make proper comparisons of costs. A much wider range of information is required however if rational decisions on contracting out are to be made. We outline below the information which is needed at the competitive tendering stage, in the course of the contract, and at the time of renewal.

28. At the tendering stage, information is required on the ability of Civil Service management to administer, monitor, and, in the event of contract failure, retrieve the contract. The background of potential contractors needs to be examined in order to find out their track record in the Civil Service and other public services, and whether they are financially viable. Track record should include conditions of employment, including compliance with race relations, sex discrimination and health and safety legislation and ACAS guidance on trade union recognition, in addition to quality of service. There currently exists an index of cleaning contractors, but the unions are denied access to it. We propose that a register of all contractors should be established to allow management and unions easy access to full information on potential contractors. The tender itself should include information on: number, skills, pay and conditions of service of staff; training that will be available to staff; health and safety standards; and the level of service. Departments should use the tender document to impose on contractors the duty to provide pay and conditions of service equivalent to those in the Civil Service and to comply with statutory requirements. The information in the tender document should be available to the unions.

29. There are guidelines for the monitoring of cleaning services, but these tend to be ignored. The unions propose that contracts should

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be monitored throughout to ensure that the contractor adheres to the contract requirements. In particular, a checklist of items should be agreed with the local or departmental trade union side against which the level of service can be judged. A system of random sampling would need to be established to monitor the checklist, with sampling taking place at agreed intervals. Civil Service-wide units should be established, along the lines of the former Cleaning Advisory Unit but with a wider remit, which would have overall responsibility for the monitoring of contracted-out services. Contractors should also be regularly vetted by the Inland Revenue, DHSS, and Customs and Excise, to ensure that tax, national insurance, and VAT payments are kept up-to-date.

30. Penalty clauses and provisions for the contract to be terminated should be enforced. Evidence of contract failure, if insufficient to trigger the penalty clauses or lead to termination of the contract, should be an important factor in deciding whether or not the contract should be renewed.

31. The unions are concerned that, unlike in local government or the NHS, there are very few examples in the Civil Service where a contract has been terminated. This is in part due to the pressures imposed on departments by manpower controls; and in part due to the absence of proper accountability. If contracts were effectively monitored, with the information publicly available, departments and Ministers would be forced to justify the reasons for allowing the contract to continue.

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Conclusion

32. This submission reflects the views of Civil Service unions on the problems associated with competitive tendering. Most of the issues we have covered here are also covered in the central study plan. We are concerned that the review team should take full account of the problems associated with competitive tendering and the damage that it can cause.

33. Our main concerns are that:

(i) the guidance to departments on cost comparisons should be revised to eradicate the bias that currently exists in favour of contracting out;

(ii) 'Commercial-in-Confidence' restrictions should apply only to information which, if disclosed, would damage the contractors' legitimate commercial interests;

(iii) contracting out should not involve reductions in the quality of service;

(iv) contractors should be required to employ staff on pay and conditions of service at least as good as those in the Civil Service, to conform to ACAS guidance on union recognition and organisation, and to comply with race relations, sex discrimination, and health and safety legislation;

(v) the argument that competitive tendering increases efficiency, because it allows management to concentrate on 'core' activities, does not take account of the operational requirements of the Civil Service, management costs associated with contracting out, the way in which the demands on the

Civil Service to provide a service to the public and the nation differ from the interests of a commercial organisation, and damage to the morale of staff;

- (vi) if management wish to improve efficiency, they should do so through discussion in the established negotiating machinery, rather than using competitive tendering as a way of short-circuiting the negotiating machinery;
- (vii) conforming to manpower targets should not be considered a valid justification for contracting out;
- (viii) full information should be available to management and unions at all times ie. when the contract is put out to tender, during the contract, and when the contract comes up for renewal;
- (ix) Ministers and departments should be accountable, and acknowledge responsibility, for the consequences of contracting out.

ANNEX

Comments on the cost comparisons in the Treasury guidance on 'transferring work out of Government departments'

Paragraph 9 of the Treasury guidance states that "the unions may wish to make a case for doing the work in house at less than current costs" and that "this should not be discouraged". Given the shortage of expertise and resources and the denial of access to information, the ability of the unions to make a case is extremely restricted. These difficulties are compounded by the way in which the guidance to departments on cost comparisons is biased toward transferring out work. The following points on how this bias operates are based on an examination of Annex A of the guidance on 'cost comparisons':

Resource v Exchequer costs

Paragraph 3 states that "the cost comparison should take account of both resource and Exchequer costs but should distinguish between them because only resource costs are costs to the economy as a whole and expand the public sector at the expense of the private sector. Generally it is the comparison of resource costs which indicate whether transferring out is sensible in economic terms". Yet the Treasury 'green book' on investment appraisal in the public sector (which is frequently referred to in the guidance) states that: "attention is often given in public sector decisions to their public expenditure implications (or 'Exchequer costs') as distinct from the costs and benefits accruing to the private sector. There are reasons why public and private costs might be given a different weight, but it is nearly always correct to include both" (paragraph 3.5).

The guidance is moreover inconsistent in its treatment of Exchequer costs. In paragraph 16(vi), it suggests that departments may wish to take account of Exchequer costs in comparing rival bids from private contractors on the grounds that: "Accepting the lowest bid will always produce the best answer in resource costs terms but it will not necessarily do so if total Exchequer costs are taken into account".

Treatment of taxes

Paragraph 11 says that VAT should be treated consistently and suggests that it should preferably be left out of the calculation because "the Government will be taking powers to refund VAT to departments contracting out the provision of services". Yet there is no suggestion that departments should be debited for lost income tax if the contractors employ less staff (as the example in the guidance suggests they will).

Moreover, many contractors, especially those providing cleaning services, avoid liability for National Insurance contributions by employing workers for only a few hours per week. Yet, in paragraph 16 (vii), departments are told not to quantify the advantage thereby gained by private contractors.

Continuing liabilities

Except in circumstances where accommodation and capital equipment are taken over by the contractor, it is assumed that no further costs are incurred by departments on these items once a service has been transferred out (paragraph 16). This would only be the case, however, if the accommodation were subsequently let and the capital equipment sold at its full capital value. Yet much Government accommodation is inappropriate

for letting - for example, the in-house service might have used accommodation on an MOD site or in a large Government building - and the second-hand price of the capital equipment would be unlikely to reflect its full capital value.

Total -v- marginal costs

The previous point ties in with a more general concern. Whereas departments are expected to take into account all the costs, including administrative support, that are attributable to the running of a particular service, whether or not they will be reduced as a result of contracting out, contractors will only be concerned with the marginal costs of providing the service.

Discounting period

The example used in the Treasury guidance assumes that savings from transferring work out accrue over a 50 year period. Yet the costs and benefits of transferring work out cannot realistically be foreseen over such a long period. A more realistic assumption would be a 10 year period. If this had been used in the example, the resource cost saving would have been less than half that calculated and the Exchequer cost saving less than one fifth that calculated. A similar distortion would be produced if departments adopted the 50 year period in carrying out their own cost comparison exercises.

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ANNEX C

DEVELOPMENT OF THE COMPETITIVE TENDERING POLICY:
THE CIVIL SERVICE IN CONTEXT

A - pre-1979

There has been contracting out of services in government departments for more than 25 years. In the 1960's it was mainly confined to specialised services, particularly in MOD, where the manpower required was scarce or difficult to recruit and retain. But in 1968 the Labour government contracted out the cleaning in many government offices saving at that time 35,000 jobs and £½ million a year.

In the 1960's there was also a moderate amount of contracting out in the NHS, but little if any in local government.

Action by NHS ancillaries and local government manual workers was prominent in both the '3-day week' of 1973 and the 'winter of discontent' 1978-79.

B - 1979-1983

The Conservative Government elected in 1979 moved on all three fronts:

- in the Civil Service, the Prime Minister stated in May 1980 that the policy should be to contract out services 'wherever it was commensurate with sound management and good value for money for the taxpayer'. An early Rayner scrutiny in MOD led to an upsurge of contracting out in that Department.

- in the Health Service, the Minister asked authorities to consider contracting out:

Building maintenance
Security
Catering
Computing
Transport
Laundry

- in local government, the Government legislated to expose Direct Labour Organisations to competition. Meanwhile a few authorities, led by Southend, took the initiative and started to contract out refuse collection, street cleansing and other services.

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C - 1983 to date

In February 1983 the Prime Minister said

"The Government's policy is to encourage further use of private sector contracts by public bodies where this will increase their economy, efficiency and effectiveness".

The Government also established mandatory lists for testing by competitive tendering in central government and the NHS:

Central government departments

"greatest potential" cleaning
 laundry
 catering
 security guarding
 maintenance work

"also worth considering" messengers
 libraries
 postal services
 press cuttings

National Health Service

Services to be tested by all authorities by end-1986:

cleaning
catering
laundry

Local government

The Government published early in 1985 a Green Paper proposing that from 1987 competitive tendering should be mandatory for:

refuse collection and street cleansing
internal cleaning of buildings
ground and vehicle maintenance
catering

Legislation is planned for the 1986-87 Session of Parliament.

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Annex D

FIVE REASONS FOR CONTRACTING OUT

From the Central Team's discussions with firms and local authorities the following seemed to be the principal reasons for considering contracting out services:

(1) Saving money

The prime objective in the private sector is normally to save money. In the civil service saving manpower has had primacy up till now, and saving money has been secondary. But if running cost control develops as envisaged in the 1986 Public Expenditure White Paper the civil service will move into line on this.

(2) Saving management time

In the private sector this is almost as important as (1), and more important in the smaller firms and establishments. Firms are acutely conscious of the opportunity cost of management time: they know that they can make more money by concentrating on manufacturing and marketing and paying someone else to worry about peripheral activities. They are also personally reluctant to spend time on them. As one manager said, "No one won his spurs by managing the catering efficiently".

Managers in the public sector are ambivalent about this. The sense of an opportunity cost is generally lacking. Some say that they are glad to be rid of day-to-day problems and that contracting out puts them in a clearer managerial role. But a minority would prefer to retain 'hands on' control of the service. Going out to tender for the first time requires a heavy investment of management time, which is bound to be unwelcome. Civil service managers are generally not motivated to make that extra effort.

(3) Obtaining expertise

This goes closely with (2). The amount of 'expertise' involved depends on the service in question: often, as with cleaning, it is relatively slight and the service could easily be managed in-house. Management has to ask in each case whether it is worth acquiring or maintaining particular skills, especially where they cannot be fully utilised (or offered a career progression) within the organisation. Sometimes in the public sector using contractors is a way of paying more for scarce skills than the regular pay-scales allow.

If an employer is not going to put his best people on to managing a service (because it is peripheral) it may well be better to find a contractor who will put his best people on to it than to make do with second-best.

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(4) Retaining flexibility

Firms are often concerned to remain small and flexible so as to be able to withstand economic shocks and react quickly to changes in their markets. This means avoiding taking on permanent staff wherever possible and also favouring rental of assets over capital expenditure. Employment Protection legislation as well as oil price and exchange rate shocks have forced firms to think seriously about this. In the civil service, there has been an increase in the use of casual and agency staff to meet peaks of demand. Contracts have been favoured as a way of handling schemes which are time-limited. And constraints on capital spending have caused health authorities, for example, to look at rental services.

(5) Re-establishing management control (from the unions)

This is a common reason in the public sector, including the industrial civil service. Indeed it is the origin of contracting out in local government. Contracting out is not a first-best solution in these circumstances: it is better to make the organisation efficient before deciding whether to contract out. The threat of competitive tendering is itself valuable as a way of putting pressure on the workforce to improve its efficiency. But sometimes management finds itself hopelessly boxed in by years of ill-advised agreements with the unions and contracting out can be a way of cutting the Gordian knot.

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Annex E

HOW CONTRACTING OUT SAVES MONEY

As a general rule, contracting out saves money among lower-paid staff and costs more among higher-paid staff.

2. The reason, which is common to large firms as well as public agencies, is that conditions of service are pitched to attract and retain the high quality personnel on whom the organisation depends. These conditions, sometimes described as 'being a good employer' are extended downwards throughout the organisation to levels where there may be no difficulty about recruitment and where staff turnover need not be a matter of particular concern.

3. So long as firms and public agencies think of their employees as a 'family' and are not prepared to discriminate among them as regards conditions of employment there is bound to be an incentive to keep the 'family' small by contracting out at the lower levels.

4. In some cases it may be important that all members of the workforce feel a sense of belonging. It would be wrong to be dismissive of this. The civil service has always been a 'good employer' and it is right that it should continue to be such. But it has to be recognised that the departure from market forces implied by that decision opens the way for viable contracting out. The case studies have shown that it is possible to let contracts which provide satisfactory service, yield a profit to the contractor, and still save money for the Department.

5. Service contracts have to be conducted on a basis of mutual trust, because although detailed specification and monitoring are necessary it is difficult to make contracts of this sort entirely comprehensive. It is important to be sure that the contractor is reasonably comfortable with his obligations. If his margins are too tight:

- (1) he will employ insufficient staff;
- (2) he will pay too little, and therefore employ unsuitable staff;
- (3) either way, the standard of service will decline;
- (4) he will not have the resources to respond to complaints;
- (5) he will skimp on liaison with the client, making it more difficult to get things put right; and
- (6) he may cut corners on health and safety, with potentially damaging repercussions for the client.

6. It is essential, therefore, to check that the contractor plans to recruit enough staff and to pay them enough; and has a reasonable profit margin to guarantee that the contract is executed in a spirit of goodwill.

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7. Most of the savings from contracting out arise because contractors offer poorer conditions of employment. Contractors usually offer similar basic rates of pay ranging from 10 per cent less to a few percent more in some cases, but they eliminate costly bonus schemes and overtime working, provide little if any sick pay, and avoid national insurance payments by means of more part-time working. The difference in total labour cost may typically be of the order of 25%. Pensions are the main single element in it.

8. It is interesting to note that contractors are by and large quite content to be required to pay Whitley rates. The larger firms regret the rescission of the Fair Wages Resolution, which they see as having opened the door to the cowboys. There is some regional variation, but at least in the South East it seems that there is little likelihood of being able to recruit staff of a satisfactory calibre below Whitley rates. There are obvious dangers (as we saw in the field) in employing contractors who pay rates which only attract illegal immigrants and other marginal workers.

9. Contractors claim that they possess special expertise and are equipped with the latest technology. The evidence that contractors in the ancillary services are technically ahead of managers in the public sector is patchy. Where the contractors have the edge is in the toughness of their management. One health authority told us, for example, that in the case of hospital cleaning the contractor had been able to achieve labour productivity 40% higher than the norm for the public sector and 100% higher than the previous average actual performance. This was done through better training, more and better supervision, better work practices and a generally tougher regime. This is their real expertise: better equipment has relatively little to do with it.

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ANNEX F

PUBLIC PROCUREMENT POLICY GUIDELINES

The Government's Public Procurement Policy Guidelines are written in terms of procurement of equipment. But much of what they say about intelligent purchasing reads across to contracting for services.

"The procurement practices needed to ensure that the government's policy has the maximum effects are as follows:

- (a) the adoption of a clarified value for money criterion;
- (b) the use of best purchasing practices in relations with suppliers;
- (c) clear instructions to public sector purchases to ensure that the policy is carried out."

The guidance on value for money, as it relates to equipment, is mainly about whole life costing:

"Value for money should not be judged solely on the basis of the lowest initial cost. Design, reliability and maintainability, for example, will affect the total cost over the life of a product.... Actions to promote the industrial viability and hence the trading competitiveness of suppliers can justify an additional initial cost... if the purchaser expects to gain improved value for money."

The counterpart to this in terms of services would be to take into account the possibility that when the contract came to be put out to tender again the contractor might then be in a monopoly position. Intelligent purchasing will involve keeping competition alive by sharing contracts among firms and encouraging new firms to enter the industry.

Under the heading of "enlightened procurement procedures" the Guidelines include:

- "(a) early dialogues about possible requirements with potential suppliers (including the manufacturers of major components).
- (b) encouraging both product and process innovation;
- (c) specifying requirements in performance terms rather than specifying detailed designs which take no account of other industrial applications;

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- (d) maintaining as far as practicable an even ordering pattern to allow efficient production planning;
- (e) debriefing suppliers on request (within the bounds of commercial confidentiality) when a major contract has been placed elsewhere, including the identification of specific deficiencies in bids."

All of these five points are equally relevant to contracting for services. Early dialogue is greatly welcomed by the contractors, as it saves them a lot of time; and it is too rarely done by public sector clients, who still prefer to stay at arms length. (b) and (c) go together: detailed specification of the requirement is essential, but how to deliver that requirement should be left to the contractor, so that he has every incentive to introduce new techniques.

(d) as it applies to the service industries means being in touch with the market and being aware of how much business has on at the moment, in relation to his capacity. (e) is very important, and indeed we would make it routine, not just on request. The client owes it to the unsuccessful contractor, as a matter of public accountability, and it is also in the client's interest, since it is a way of helping the contractor to improve his performance.

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ANNEX G

PREPARATION OF GUIDANCE WITHIN DEPARTMENTS

EXPLANATORY NOTE

With the exception of the Ministry of Defence, none of the 6 Departments examined in this Review have produced practical guidance for their managers on the process of competitive tendering and of contracting out. A number of managers becoming involved for the first time told us that they would find such guidance helpful. It should consolidate the body of existing knowledge and provide reference to departmental centres of expertise at appropriate stages and in the right order of the process.

The Annex is being prepared and will contain a model which Departments might use as a basis to fashion guidance for their individual situations. It contains what we believe to be the best practice within and without the public sector encountered during the review.

If our recommendations are accepted all activities will routinely be examined to see if they offer scope for contracting out and will be subjected to competition and contracted out where it is commensurate with good management and where it provides good value for money. The onus will be on line managers to prove the financial and/or managerial (operational) case for retaining functions in-house. This change of emphasis and approach to handling departmental business needs to be set out clearly as part of the departmental strategy and will be included in the guidance. The aim is to complete preparation of the guidance, drawing on assistance from CUP and HMT, during the next two months and publish it together with the main report.

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THE VIEWS OF CONTRACTORS

Annex A contains a list of the contractors and trade associations whom we consulted in the course of this review. We wanted to elicit their view of how the civil service might operate its policy of competition more effectively. The breadth of public sector experience of the firms consulted varied. But the following points emerged fairly consistently from the discussions:

(1) Objectives for the service

It was common for no clear, stated objectives and philosophy for the purpose and standard of the service to be established at the time contractors were asked to tender. For example, is catering provided to keep civil servants alive or as a means for the "organisation" to provide them with a service which recognises their value? Unless and until it is clear why we do things, it is impossible to specify how that service can most cost effectively be provided.

(2) Responsibility for the service

Several agencies mentioned the civil service syndrome of management by committee. A contractor project manager does not find an equivalent counterpart in the civil service with whom to deal. Instead he faces a line manager responsible for the service flanked by experts responsible for contracts, finance, personnel and, sometimes, subject-related knowledge. Who is responsible for what, and when, is not clear. A number of examples were quoted to us from the NHS environment. Most notable is the process of financial and technical evaluation of the contractor, which is undertaken first by DHSS and subsequently repeated at Regional and District levels.

(3) Motivation to work with the Contractor

Several contractors made the point that a relationship with the public sector could only work if the contractor was wanted, and not imposed. There are too many ways - legally and less clearly so - in which specifications for work, contract clauses, costing/pay arrangements or publicity can be manipulated to "rubbish" the contractor if contracting out is being imposed. The answer to this lies mainly in creating a value for money environment and culture in-house. Firms such as Gardner Merchant have made the offer to address civil service managers on what contractors can and cannot offer.

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(4) Relationships

Management within the public sector is something of a closed book to commercial operators. Gardner Merchant, for example, accept that they have spent much of the past two years in the NHS "finding their way" which is a far greater learning curve than they would expect in dealing with a major commercial company. From the contractor's perception much of the reason for this lies in the public sector's impenetrability: its tendency to deal with the private sector at arm's length. Their view is that public accountability and the need to demonstrate fairness of treatment for all might be the cause of this approach. And that is understandable. However, it does not help the process of 'getting to know each other' and restricts the potential value of the informal exchange of ideas, knowledge and expertise prior to the formal specification and contract phases.

A number of more technical points were raised repeatedly:

(1) Specifications

The public sector tends to overspecify thus restricting the contractors or suppliers' scope to innovate, use economy of scale or employ standard methods and materials. An output based specification leaves greater flexibility and should provide greater value for money for the public sector.

(2) Value for money

The contractors feeling (not usually quantified) was that public authorities were going for the cheapest option, not for the VFM option. Securicor, for example, observed this tendency in the NHS cleaning services which attracted the "cowboys" and resultant poor publicity.

(3) Costings

It was not clear to those we consulted, how the public sector costs its overheads involved in delivering a service. Their suspicion is that items such as capital expenditure/depreciation, personnel administration, training, insurance and management development is "written down" leading to the situation whereby increasingly in-house bids are winning tenders in the NHS and in local authorities. They asked that there should be an independent audit of these costings to ensure fair treatment.

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THE CONTRACT INDUSTRIES: THE STATE OF THE MARKETSecurity Guarding/Industrial Security

As described to us, industrial security is a growing business, particularly in the areas of static guarding, security patrols and prevention of theft from within companies. The industry comprises a range of sizes of firms, from the giants, such as Securicor and Reliant, with several different businesses within the company, to, literally, one man and a dog outfits. Standards within the industry are set by the Institute of Industrial Security and the International Professional Security Association. These bodies set examinations and provide specialist advice to members (whether individual or corporate). There is a problem in policing standards, however. The Association has 12 inspectors but cannot monitor the entire industry. There are virtually no barriers to entry to the business. As an estimate there are some 400 operators in London alone who are not members of the IIS/IPSA. And even membership is no guarantee of the quality of the service .

2. The industry clearly attracts "cowboys". There is evidence of firms paying basic rates as low as £1.10 per hour. Reasonable take home pay is made up by operating extensive shifts and overtime. IIS/IPSA make the point that efficiency in the sense of alertness is likely to reduce after about 8/9 hours per 24 hours or 40/45 hours per week. Extreme cheapness of contract will probably therefore be a false economy. A lowly paid workforce is likely to have a high turnover, low morale and little expertise. In putting work to contract the IIS/IPSA advise that attention should be paid to the contractors' proposed input in terms of rates of pay for employees: evidence of personnel record (eg. turnover of staff, management and supervisor training etc): and the contractor's vetting procedures when recruiting staff.

3. The DEO in PSA has raised a query about the role and cost of the PSA's London Custody Service and this is being discussed both within PSA and with MPO who have responsibility for specifying standards for physical security. The question of the circumstances in which commercial contractors can guard or convey classified material will need to be pursued and central (ie. MPO) guidance clarified.

Cleaning

4. The contract cleaning and maintenance business has been at the forefront of the contracting out scene in the sense of adverse publicity in some NHS cases. Industrial action has ensued in places from awards of cleaning contracts amid accusations from COHSE, NUPE and others that contractors have squeezed the pay and conditions of already relatively lowly staff in order to provide a profit. By contrast the contracting out of cleaning in the civil service has gone relatively smoothly. The vast majority of cleaning in the civil service has now been put outside. The reasons for the different reactions are numerous but hinge around the relative complexity of cleaning within hospitals (eg. the need for the domestic to work as one of the ward team: special restrictions on certain

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cleaning agents in particular areas: standards of cleanliness). This has led to complex and bulky specifications (one contractor had commented on Leicester RHA's 3 inch specification compared to MOD's one inch!). It leads also to misunderstandings and difficulties in producing costings which could be compared objectively with in-house bids.

5. The Contract Cleaning and Maintenance Association (which represents 150 companies) argues that there is a danger of increasing disenchantment by its members competing within the NHS. Even local authorities politically opposed to the concept of contracting out its services agreed with the principle of testing the market. The feeling increasingly is that the NHS are "loading the dice" against contractors.

6. Like industrial security, the cleaning industry attracts "cowboys". It requires little capital injection to start up and there are no statutory standards/qualifications to be attained before forming a company. The association accordingly commends some attention being paid to input when specifications are drawn up to provide the civil service (as a "good" employer) some assurance of the contractors' personnel policies, management and supervisory structure and skills and employee rates of pay and conditions of service.

Catering

7. Contract catering in the public sector has been dominated in the main by large organisations such as Gardner Merchant, Sutcliffe's and Compass. Smaller organisations such as Spinney's (UK) have latterly been attempting to win contracts in the NHS.

8. A point made by both external contractors and CISCO is that catering should not be lumped in with "ancillary services". It is more complex than most support service areas in terms of its purpose (objective), delivery (methods and standards) and cost (relative to output). It requires specialist expertise both in its provision and in monitoring the standard provided.

9. The experience of Gardner Merchant and Spinneys in the NHS has not been a happy one. The contractors ascribe this to the following, among other things:

(a) lack of clarity about the purpose of providing food to

(1) patients and

(2) staff.

(b) diffusion of organisational responsibility for providing the service (though the Griffiths management structure is now helping in this area).

(c) the lack of motivation to bring contractors into the organisation.

(d) the inequality in costs between contractors and in-house organisations (with insufficient weighting being given to certain in-house "overheads").

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10. The cost effectiveness of staying in the NHS market is becoming an issue. Catering tenders can cost up to £2,000 to put together. With a current "success" rate of about 1 in 15 bids, some £30,000 must be "carried" on each contract. And that is not commercially feasible, particularly under a management fee arrangement.

11. The experience of catering contractors within the civil service appears to be happier, though this is not universally the case. For example, the contract held by Pennine Caterers at RAF Swinderby (reviewed as one of MOD's case studies) is operating to the satisfaction of the military management, the recipients of the service and the contractor. Gardner Merchant emphasised the relative professionalism of the MOD in letting catering contracts. Gardner's hold the catering contract at RAF Turnhouse and a "total support" contract for the construction force building Mount Pleasant on the Falkland Islands. Catering contractors ARA and Compass are operating satisfactorily in a range of the Home Office's residential training establishments.

12. CISCO's view is that competition with contract caterers will not lead to greater efficiency in the civil service because the situation will be reached of

"a plethora of catering contractors operating throughout the Civil Service, most of them in one way or another seeking to achieve a profitable outcome to their contracts, monitored in most cases by administrative civil servants who at best will be inexperienced and at worst totally ignorant of how such contracts should be managed".

They say that CISCO's influence as a professional adviser will diminish as the organisation shrinks because of business lost to contractors. CISCO also faces difficulty in handling the speed of possible contraction with the current rules on mobility and redundancy.

13. We have sympathy with CISCO's view and position though not to the extent of abandoning the pursuit of competition for catering services. CISCO, as a civil service organisation, does not have the flexibility enjoyed by private sector contract caterers. In that respect competition is "unfair". In the view of contractors CISCO has a role as a professional adviser/arbiter to departments and it might best concentrate its focus on training in-house resources to monitor professionally the service provided by contractors.

14. We are not able to judge the absolute merits of these conflicting views. Certainly there is scope for the Treasury, as both CISCO's sponsor and the executor of the policy for competition, to get interested parties together to discuss the issues and to set a strategy. From our discussions with contractors, they are only too willing to clarify how and where they might contribute in the Civil Service.

Laundry and Linen Rental

15. The industry rationalised considerably in the early 1980s and now tends to be dominated by larger conglomerates. The major areas of business include workwear, washrooms, residential (sheets, linen etc) and dust control. In comparison to the cleaning and security businesses, laundering

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is capital intensive. As yet the public sector comprises a small proportion of the industry which comprises in total some 400 or so firms. The industry is looking both to expand its existing business (particularly in the NHS) and to diversify.

16. The contractors consulted suggested two principal ways in which they out-performed in-house operations. First, by rationalising the range of laundry to permit greater mechanisation in its washing and handling. Second, by reducing the amount of damage to linen etc during the cleaning process (the industry quoted some 20% between the average in-house services stated output and the output the industry believed could actually be charged for after allowances for damage etc.)

17. There have been some moves towards a more innovative form of service whereby the contractor owns the stock of linen, textiles etc. and provides it to the quality and quantity dictated by the customer via the specification. The industry argue that this service would provide yet greater value for money because of the contractor's concern for quality control and improved stock management systems. In two hospitals, "Sunlight" and "Initial" respectively have had contracted to them management of the stock but not ownership. The industry would like to see pilot testing of the fully contracted out service as a means of assessing cost effectiveness. (A similar type of arrangement was proposed also by the British Stationery and Office Products Federation. The trade would 'own' the stationery and office requisites in its fully automated warehouse, issuing to the customer on a 'call off' contract. In essence the risk of estimating requirements and the expertise needed in controlling supply and stock (and eliminating waste and loss) is taken on by the contractor).

18. As in other industries the Launderers Association mistrust the competitive tendering process (based mainly on their experiences with the NHS). The trade believes that costings are biased in favour of in-house operations and that specifications are over detailed and not always accurate.

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10 DOWNING STREET

From the Principal Private Secretary

4 August, 1986.

John Redwood, formerly Head of the Policy Unit here, recently sent the Prime Minister the note attached about the privatisation programme. The Prime Minister understands that John Redwood is a bit out of date on the state of play on some of the issues, but she nevertheless thinks it worth while drawing this note to the Financial Secretary's attention. I have told John Redwood that the Prime Minister has asked that this should be done.

(N.L. Wicks)

Ms. Vivien Life,
Office of the Financial Secretary,
HM Treasury.

SL



10 DOWNING STREET

From the Principal Private Secretary

4 August, 1986.

Thank you for your letter of 30 July enclosing a note for the Prime Minister on the privatisation programme.

I have shown her this note, which she found interesting. She has asked for a copy to be sent to the Financial Secretary, and after checking with Oliver, I have done this.

(N.L. Wicks)

John Redwood, Esq.

A handwritten signature in blue ink, appearing to be 'J.R.', located in the bottom right corner of the page.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

31 July 1986

Dear David,

Prime Minister²

DLG
31/7

PICKETING AT DHSS HUYTON LOCAL OFFICE

You copied to me your letter of 28 July to Tony Laurance about this dispute, in which you recorded that the Prime Minister had asked for details of the powers for dealing with mass picketing which the police are to be given under the Public Order Bill.

The main provision is Clause 14 of the Bill. This provides the police with new powers to impose conditions on assemblies of 20 or more persons in public places wholly or partly open to the air if the chief officer of police (or the senior officer present) reasonably believes that serious public disorder, serious damage to property or serious disruption to the life of the community may result from the assembly or that its organisers' purpose is the intimidation and coercion of others. The police may impose such conditions as to the location, duration or maximum number of persons who may attend the assembly that they believe are necessary to prevent such disorder, damage, disruption or intimidation. But there is no power in the Bill to ban an assembly from taking place. There are criminal sanctions available to deal with those contravening a condition and there is a power of arrest.

In addition to these powers, Clause 5 of the Bill creates a new offence of using threatening, abusive or insulting words or behaviour, or disorderly behaviour, within the sight or hearing of someone likely to be alarmed, harassed or distressed by such conduct. The maximum penalty is a fine not exceeding level 3 (now £400). This provision may have some relevance in dealing with certain kinds of picketing, but that is not the mischief it has been designed to deal with; nor has it been presented in that light.

Intimidatory picketing has never been lawful and is in itself a criminal offence. The present statutory provision against intimidation is section 7 of the Conspiracy and Protection of Property Act 1875. This section makes certain acts criminal if they are done with a view to compelling any person to do or abstain from doing any act which that person has a legal right to do (such as going to work). But the effectiveness of section 7 is hampered by the fact that these are not arrestable offences. The Bill corrects this and increases the maximum penalty to six months' imprisonment or a fine of £2,000.

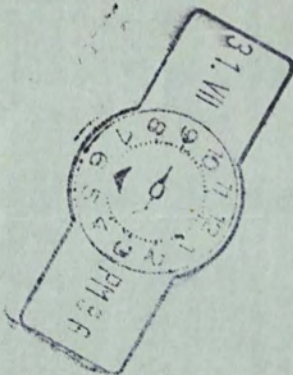
I am copying this letter to Tony Laurance (DHSS), Rachel Lomax (Treasury), Robin Young (DE), Michael Saunders (Law Officers' Department), John Turner (DoE) and Susan Chappell (Paymaster General's Office).

Laurance
Septh

S W BOYS SMITH

ECON POL Pnvalsaman PT14

8 8



Acorns, West Drive, Sonning, Berkshire, RG5 4RD

30/7/86

Dear Nigel,

I have been giving some thought
to the UK privatisation programme & wondered if
the enclosed might stimulate some ideas.

Best wishes for the summer

John Redwood

Prime Minister

4

John Rafter is a bit out of date on the state of play on some issues. But I think it worth drawing this note to the Financial

Prime Minister,

THE PRIVATISATION PROGRAMME

Secretary's attention
(if John agrees). N.C.U.

The announcements concerning Leyland Bus, Unipart and the 31.7

Royal Ordnance Factories, to be followed by the sale of British Gas in the Autumn, has succeeded in putting the programme back on track. It should answer the critics who were saying at the time of the cancellation of ROF and Water that privatisation was dead.

ms

The programme is one of the major successes in this government. The difficulty that the Labour party has in responding to it makes that very clear. There are four strong popular themes in privatisation:

1. Employee participation - it is now obligatory for all the political parties to express enthusiasm for employee shareholdings.
2. Wider wealth ownership.
3. Improved company performance - more profits and investment, expansion into new areas of business, turning round unsuccessful businesses.

4. Introducing competitive forces to monopolies - leading to better prices and better service quality.

The future shape of the programme needs to build on these strengths and to be vigorous. Beneath are some suggestions:

A. British Coal

It is important to introduce competitive forces and new investment in a way which does not bolster the position of Arthur Scargill and his extremist friends. There are three immediate options:

- i. Speed up open cast mining under existing licenses and with new licenses. Private companies could tender for the privilege of mining the coal. They could be given some equity participation as an added inducement to speed the investment. It would also serve to spread the ownership and reduce state risk.
- ii. Offer the mines under threat of closure to the private sector. The mines should be available along with money up to the realistic cost of closure, which would otherwise be incurred by the

Coal Board. Companies like Ryan, open cast construction groups, Burnett and Hallamshire indicate that some redundant mines could be given a new lease of life at no cost to the government.

- iii. New private investment where a major new coalfield is being developed e.g. the Vale of Belvoir or the Oxfordshire coalfield. The investment could be put in by private companies or through project finance techniques where the risk was taken by the private sector.

There are political problems in persuading the National Coal Board's management, who could always foment NUM opposition. However, structural reform in the industry is essential for long-term industrial peace in this country and the NUM is unlikely to seek another strike before the General Election on issues like these.

B. Rover Group

There are now precedents internationally for bold measures in tackling loss-making national car companies. Seat has been sold to Volkswagen by the Spanish government with

little political cost. In Italy Professor Prodi, head of the IRI, is trying to sell Alfa-Romeo to an American buyer. This has naturally caused some consternation with some Italian politicians and not least with Fiat who are now trying to prevent the sale. Prodi probably anticipates forcing Fiat into making a bid of its own and he is well aware of the complex lobby politics. He may succeed in shedding Alfa in the end.

The next stage in finding a solution in the United Kingdom must be to re-open negotiations with any interested party concerning Leyland Trucks. The political point has never gone home that the recent large Bedford job losses were the direct result of the action of those MPs who decided to stop the General Motors takeover of Leyland. There are two possible variants in view of the sensitivities:

either

1. a sale to a U.K. company or a U.K. led consortium of Truck and 4-Wheel Drive together;

or

2. a sale to any interested party including American, perhaps for negative consideration, of the Truck business itself.

In the event of the second option resulting from the competition, 4-Wheel Drive could then be turned into a free-standing U.K. company, and sold preferably with a large employee and management participation. Unless this happens fairly quickly it is quite likely that our remaining grip on the 4-Wheel Drive business will be lost to the substantial competition building up from Japan and Germany.

It is difficult to make any assessment of the options for the Cars group until we can see how the new Rover Saloon is fairing.

C. The British Steel Corporation

The existing management of British Steel believe in the importance of the "integrated business". They wish to retain interests in the down-stream value added processes because the results of the main steel business are still poor (although much much better than they were a few years ago).

This is not a rational strategy from the government's point of view. Adding value to steel is best carried out in the competitive private marketplace and the risk is best shed by the public sector. Allied Steel & Wire, Darlington Simpson and the engineering sectors should be sold quickly given the current state of the market.

D. Property Services Agency

The speed and purpose in rationalising, redeveloping and refurbishing the government's estate is still that of a drunken tortoise.

Now that the PSA has moved to purge itself of the damaging accusations of bribery and corruption, it is time to be more purposeful in tackling the policy and management issues of how to run a large property estate. Beneath are a few ideas:

- i. Redouble efforts to reduce the void percentage in the total. It should be below 2% for such a large estate.

- ii. Examine the plans for rationalising and consolidating office use in the Westminster area. See if it is possible to use monies released from the consolidation to upgrade furnishings and decorations and, at the same time, to make better use of available space. The DHSS experiment where staff agreed to work in an open-plan area - with suitable screens and baffle-boards - with less space per person and with no insistence on graded levels of furnishing, in return for a complete refurbishment and for the purchasing of civilised furnishings is well worth applying elsewhere.

- iii. During the review of office accommodation, see if there is a suitable site or sites in current government ownership where a major redevelopment would be possible which might bring in substantial receipts.

D. Electricity

Doubtless now an item for the manifesto. It is important that electricity is not sold as a monopoly. It is quite possible to produce competing companies or groupings of power stations, the main cost area within the industry.

E. British Airways

The target date of February should be adhered to. There will doubtless be more difficulties e.g. Bermuda 2, the law suits and engine procurement for the new aircraft. Any one of these could be allowed to escalate to the point where it prevented privatisation. It would be better to be open about these issues at an early stage and to allow the market to settle a suitable valuation based on the position reached at the time of sale. Anything can be sold whatever the hazards or liabilities, the only question at issue is that of price. It has already been costly waiting to "get a better price" by

settling all the law suits: in the meantime market conditions for air travel have deteriorated and the profits outlook looks less good than it did two years ago, meaning lower not higher proceeds.

F. British Airports Authority

I assume this is still on target as Norman Payne is an enthusiast for his own particular brand of privatisation.

G. Water

This was always the least plausible of the potential candidates in view of its local authority origins and the strong monopoly position of the industry. If the political climate remains difficult it might be better to consider a series of initiatives involving contracting out and competitive tendering for a range of commercial services that could be provided using water facilities. This would include more imaginative uses of reservoirs for leisure purposes, further competitive tendering for disposal and private ventures for new water facilities.

H. British Waterways Board

This is a suitable case for treatment. The canals and waterways are greatly under-used. Although BWB have a monopoly over waterway use, it is not a central control over a vital resource. In the freight market they have to compete against rail and road and in leisure against natural lakes and rivers. They could, therefore, be sold to the private sector as the quickest way of expanding their investment programme and their commercial thrust.

Conclusion

Privatisation has been a singular success. The themes need reiterating and more candidates prepared.

Alan Redwood



31. 10 11 12 1 2 3 4 5 6 7 8 9 10 11 12

DESCRIPTION

DESCRIPTION

DATE RECEIVED



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Social Security

David Norgrove Esq
Private Secretary
10 Downing Street

30 July 1986

Dear ~~David~~,

INDUSTRIAL DISPUTE INVOLVING HUYTON LOCAL OFFICE

I attach a copy of a letter to the Prime Minister from the cleaning contractors involved in this dispute and a draft reply from my Minister. As I said when we spoke this evening, I should be grateful if you would confirm that you are content with the draft reply which Mr Major proposes to send tomorrow.

Yours ever
Norman

Norman Cockett
Private Secretary

Note

Spoke to Cockett to pass on the amendments marked, I also said the draft should be cleared with Department of Employment.

(pa)

DRS
31/7.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Parliamentary Under Secretary of State for Social Security

I Jones Esq
Donway Building Maintenance
95a Gainsborough Road
Liverpool 15

The Prime Minister has asked me to thank you for your letter of 22 April 1986 in which you set out the events in the dispute between your firm and the Transport and General Workers Union (TGWU) over the cleaning contract at the Government Offices at Huyton. Your solicitors also wrote on your behalf on 28 April 1986.

I am sorry that you have not had an earlier reply. This is ^{you encountered} not due to any lack of ^{concern about} interest in the problem. ^{Indeed,} the Prime Minister has ^{certainly} taken a close interest in the dispute, especially since she received your letter. She had it brought immediately to the attention of the departments involved, and as well as the Government's general concern about the character of the dispute the interests of Donway were in mind throughout.]

May I say at once that the Government deplores and condemns the abuse, intimidation and other pressures brought to bear upon your firm by the local TGWU. The Government regards behaviour of this kind as a quite unacceptable stain on the conduct of industrial relations in this country, and has been at some pains to provide the legislative means to eliminate it. As your solicitors recognised, it was open to your firm to seek an injunction restraining the TGWU from unlawful picketing. ~~We were sorry that you did not feel able to pursue such a course,~~ although I believe we understand why you reached the conclusions you did.

~~We ourselves gave careful consideration to seeking an injunction restraining the unlawful picketing.~~ ^{However} But while this work was going forward the nature of the picketing changed and raised hopes that the dispute might end peacefully. When ACAS entered the scene the decision was suspended pending the outcome of the talks. Your firm's withdrawal from the talks inevitably altered the situation. ^{The Govt also considered the options available to help you to continue the contract.}

E. 1

I am sure you will understand that this is in no way to criticise Donway's action. On the contrary, those who were closely involved are full of praise for the steadfast way in which the company and its staff persisted in their attempts to honour the contract in the face of the intimidation.

There is no doubt that this was a most unfortunate incident. I do assure you that the Government have taken careful note of the lessons to be learnt from these events. I should like to take this opportunity to wish your company every success in the future.

JOHN MAJOR

R 2314

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MAINTENANCE

SUBSIDIARY OF R.J.R. CHEMICALS LTD.

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164406768

VAT Reg. No. ~~168324822~~

Reg. No. 1259630

TELEPHONE 051-733 3842

L. G. Jones.
I. Jones.

Our Ref:- I.J./J.H.

22.4.86.

The Prime Minister,
10 Downing Street,
London.

Dear Prime Minister,

As a small privately owned company operating from Liverpool in the field of contract cleaning, we suddenly find ourselves caught up in the middle of a dispute with the T.G.W.U., which really has nothing to do with us.

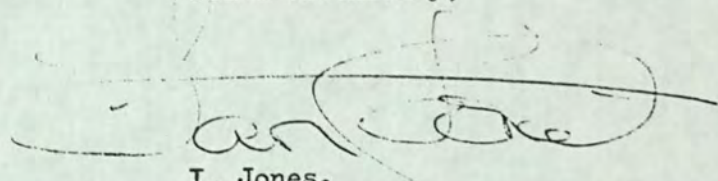
This dispute has escalated to such a scale now that I find myself in a position where to fulfill an independantly negotiated contract with the D.H.S.S., at their office at Lathom Road, Huyton, Merseyside. I am having to transport my staff over the growing picket lines in the back of a transit van. The abuse and intimidation we are having to suffer is, I am disgusted to have to say, causing me to loose staff.

It is this unfortunate situation that has left me no alternative but to appeal to yourself for assistance.

I have enclosed with this letter a charter of events from the first approach by the D.H.S.S., up to the present time.

Hoping Prime Minister your intervention may lead to this matter being resolved before I am forced to submit to pressure from the T.G.W.U., to surrender the contract.

Yours faithfully,



I. Jones.

Donway Building Maintenance

DONWAY BUILDING MAINTENANCE

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95a GAINSBOROUGH ROAD, LIVERPOOL 15

VAT Reg. No. 166 5749 25

Reg. No. 1259630

TELEPHONE 051-733 3842

1. Early March, we are invited by the D.H.S.S., to tender for the contract cleaning at Edendale House, Lathom Road, Huyton, Merseyside. A week or so later we are informed that our tender was successful and are required to commence cleaning on Monday 7th April, 1986.
2. We receive a telephone call from a Mr. John Farrell, District Officer, T.G.W.U., Birkenhead, Wirral, informing us again that we have been awarded the cleaning contract at Edendale House and demanding that we employ his members, who were previously employed at Edendale House by Provincial Contract Cleaning Company. I informed Mr. Farrell that I would not just automatically employ his members but that the vacant positions would be openly advertised at the local job centre and that his members would be more than welcome to apply for the positions, Mr. Farrell did not agree and we ended our conversation.
3. Nearing the end of March, I informed the Huyton job centre of the vacant positions and arrange to interview there on Tuesday 1st April, 1986. I also informed the manageress that if any of Provincial's ex cleaning staff were to apply to look upon their applications favourably.
4. I also asked the premises officer of Edendale House to inform the present cleaning staff of my intentions, this he did as did the management union representative.
5. I arrived at Huyton job centre to find that a picket line had been mounted outside by the present cleaning staff at Edendale House. My first appointment a Mrs. M. Jockins does not appear for her interview. (I later find out that she is the shop steward for the T.G.W.U., members employed by Provincial at Edendale House). I complete my interviews and find that in fact not one of the present cleaning staff actually apply for any of the vacancies.
6. I choose my staff and arrange for us to commence cleaning Edendale House on Monday 7th April, 1986.
7. Friday 4th April, I receive another telephone call from Mr. Farrell threatening that if I did not employ all of his members then we would not be cleaning Edendale House on the Monday, and that also he would find out where else we were working and attempt a disruption there. I informed Mr. Farrell that I had followed the correct procedures and that since his members did not apply for any of the positions, then I assumed that they were not interested. Again Mr. Farrell re-iterated his threats and our conversation ended.
8. Monday 7th April, I arrived at Edendale House to commence the cleaning to be met by a picket of some 40 or so people, mainly men. (I later found out that these people were being brought in mainly by mini bus from the Kirkby Unemployed Centre). I eventually made my way through the line to the entrance door of Edendale House. This I now find is blocked by Mr. Farrell and his followers, "You're not getting in this building" I was informed by Mr. Farrell. "The only people that are going to clean this building are my members". Eventually with police protection I and my staff are able to enter the building and commence the cleaning

DONWAY
BUILDING
MAINTENANCE

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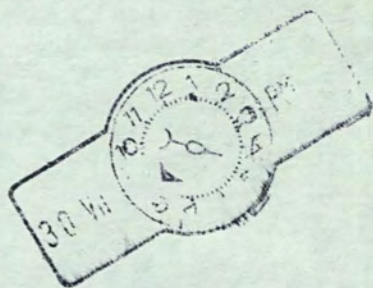
95a GAINSBOROUGH ROAD, LIVERPOOL 15

VAT Reg. No. 166 5749 25

Reg. No. 1259630

TELEPHONE 051-733 3842

9. We return the following day, Tuesday 8th April, to be met with the same sight, fortunatly the good work of the police enable us to pass through the picket line with only the verbal abuse to put up with.
10. Every evening up until this very day of this letter, we arrive to be greeted with the same abuse, sometimes the numbers vary, on one occasion upto 100 pickets were outside. Messages have been sent to the T.G.W.U., from ourselves through their shop steward, Mrs. M. Jockins that we would be more than pleased to discuss this matter with a representative from their union, as long as it is not Mr. Farrell. The reason being that after two conversations with the said gentleman I feel it would be a complete waste of time to attempt further discussions with him, as he is just not prepared to listen to what I have to say. These messages it appears are not getting back to the T.G.W.U. though.



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CONFIDENTIAL



SMZASR
bc BG.

SM.

10 DOWNING STREET

From the Private Secretary

28 July 1986

INDUSTRIAL DISPUTE INVOLVING HUYTON LOCAL OFFICE

The Prime Minister was grateful for the report about this dispute attached to your letter to me of 16 July. She has asked however for further information.

The note concludes that the ability of the Government to respond has been considerably enhanced by the work done on the Huyton dispute. The Prime Minister is yet to be convinced about this, and she has asked for a further note which would describe exactly what the Government would do if a similar dispute were to occur. She is not convinced that the Government is yet in a position to act quickly and effectively to prevent another case like this.

The Prime Minister has also asked for details of the more effective powers against mass picketing which the police are to be given under the Public Order Bill.

I am copying this letter to Rachel Lomax (HM Treasury), Stephen Boys Smith (Home Office), Robin Young (Department of the Environment), Michael Saunders (Law Officers' Department), John Turner (Department of Employment) and Susan Chappell (Paymaster General's Office).

(DAVID NORRGROVE)

Tony Laurance, Esq.,
Department of Health and Social Security

CONFIDENTIAL

vc

PRIME MINISTER
PICKETING AT HUYTON LOCAL OFFICE

You will remember this appalling case.

Earlier this year Donway, a contract cleaning company, took over the contract for cleaning Huyton DHSS local office, paying rates below those expected by the TGWU. Large scale picketing followed, together with intimidation. DHSS Ministers considered with colleagues whether to seek an injunction against the TGWU which might well have led to a major confrontation. In the event, Donway pulled out of their cleaning contract before the Government applied for an injunction. The contract was then awarded to the other firm which had tendered in the original competition, a firm which does pay TGWU rates.

In effect, the TGWU won. You asked for a report, which is below.

This concludes:

- (i) the dispute has revealed no formal gaps in the protections for employers and their employees;
- (ii) the Home Office say that when the Public Order Bill is enacted the police will have more effective powers against mass picketing;
- (iii) if the TGWU repeat this kind of action elsewhere the Government will be much better prepared to respond.

has revealed "decision by intimidation" - this would do not

How?

How?

I am in no position to judge whether these conclusions are right, though the report itself looks a reasonably well considered work. The main lesson seems to me to be that in cases of this kind a wider group of colleagues should be brought in at a very early stage.

Agree? Are there any other comments you would wish to add?

DN

DN

25 July 1986

I think this report is too casual. It reads to me as if there are gaps. I want to know exactly what we do if this happens again. not

JALAZD

within the Government and my Department, who has never ceased to press the importance of the matter upon me.

Royal Ordnance plc

5 pm

The Secretary of State for Defence (Mr. George Younger): With permission, Mr. Speaker, I wish to make a statement about Royal Ordnance plc.

On 17 June, I announced the Government's decision not to proceed with the planned flotation of Royal Ordnance plc. I also made it clear in answer to questions on 18 June that we would review all the various options to decide how best to achieve our aim of privatisation. That review is now completed and I can tell the House that, with the exception of one factory, it remains our firm preference to sell the company as a whole. We would hope to do so by a private sale if that proves practicable. Over the coming weeks, we shall be inviting bids on the basis of a selling memorandum and I shall report further to the House when we have made some concrete progress.

The exception is the tank-building business at Leeds. Following discussions between the Ministry of Defence and Vickers, an offer has been made by Vickers plc to purchase Royal Ordnance Leeds, which the Government and the board of Royal Ordnance have accepted, subject to detailed discussions now taking place between Royal Ordnance and Vickers to finalise the agreement. The price will be related to an audited net asset value but we expect it to be about £11 million. As part of the agreement, Vickers will build a major new facility at the Leeds site, similar to its factory at Newcastle. That reflects its faith in the business and its determination to win the export orders that are critical to the continuing future of the factory.

I can also tell the House that in the light of the agreement, the way is now clear for a decision to order a seventh regiment of Challenger tanks, subject to detailed contract terms. Vickers has agreed that the tanks will be manufactured at Leeds and we have negotiated with Vickers prices that represent an improvement on the terms offered by Royal Ordnance. I am satisfied that the competitive pressures that have operated on both companies during our various negotiations have ensured that the Ministry of Defence will receive good value for money for this important order.

Mr. Denzil Davies (Llanelli): The most significant and perhaps the most disturbing announcement in the statement, which was leaked heavily in this morning's newspapers, is the sale of the tank factory at Leeds to its main and only competitor, Vickers. We believe that that sale is another step in what will turn out to be the dismemberment of the Royal Ordnance factories. The Secretary of State's "firm preference" and fine words mean nothing at all after the way in which the Government and his Department have treated both the management and employees of the Royal Ordnance factories.

It is extraordinary that a policy of privatisation that was supposed to encourage competition within the British defence industry is eliminating that competition and creating a monopoly supplier in the British economy for main battle tanks. Is the Secretary of State aware that his predecessor wrote a personal letter to all the employees of all the Royal Ordnance factories assuring them that their factories would not be sold off to a competitor, which could, by the very nature of being a competitor, close

[Mr. Denzil Davies]

down those factories? That assurance has now been cynically and brutally abrogated by the right hon. Gentleman.

If two private sector companies were to merge the important sectors of their business in that way, a Government of the day, rightly, would refer the matter to the Monopolies and Mergers Commission. The Government are doing exactly the same thing; they are promoting a merger between two competitors and thereby creating a monopoly. Why should not that be considered by the Monopolies and Mergers Commission, in the national interest?

Is the right hon. Gentleman still persisting, as we think he is, in his policy of competitive tendering for defence contracts? If so, the only competition in future for the building of tanks will come from foreign competitors. In view of the amount of support that is given by foreign countries to their defence industries, there is a real danger in future that the next generation of the main battle tank for the British Army will be built not in Britain, but in France, Germany or the United States. The right hon. Gentleman's policy on the ordnance factories is in a mess, and he knows it. What he should do now is keep them in the public sector, where they have been profitable, efficient and competitive.

Mr. Younger: I am suprised that the right hon. Gentleman did not give a welcome to this encouraging announcement. I think that he will find that not only he but others will regret the fact that they have made that move at this time without looking more carefully at it. If one looks at the deal from the point of view of those whose livelihood is in building tanks, one sees it as a most important and positive step in giving those people a more secure future.

The undertaking that my right hon. Friend the Member for Henley (Mr. Heseltine), my predecessor, gave to the employees in the letter that he wrote is maintained by the decision that I have made today. It is exactly the case that the undertaking that he gave still applies. We do not envisage, as he did not, parts of Royal Ordnance being sold to someone who would wish to close them down to eliminate competition. That is most certainly not the case in this instance. The deal improves Leeds' future prospects and involves the commitment by the owners to build a major new factory in Leeds, to build those tanks. Therefore, no one can say that that commitment is not being fully carried out.

Of course, we wish to encourage competition in every way we can. One should bear in mind—I hope that the right hon. Gentleman will—that if there are two different tank manufacturers and nothing like enough business for both of them, one does not get meaningful competition except for a very short time. It follows that the new company, with the two factory sites together, should be able to be a much more powerful competitor against foreign competitors or, indeed, a more powerful component in collaborative ventures for the future.

With regard to the Monopolies and Mergers Commission, under the Fair Trading Act it is the duty of the Director General of Fair Trading to consider and refer to my right hon. Friend the Secretary of State for Trade and Industry anything that he considers should be referred to him. Any further decision thereafter will be for my right

hon. Friend to make. I have no reason to think that there is any difficulty about that. No doubt that will be raised if it is thought appropriate.

Whichever way one looks at the statement, it is an important and positive announcement for the future of those who make tanks. I think that the right hon. Member for Llanelli (Mr. Davies) will greatly regret having been so sour about it.

Dr. Keith Hampson (Leeds, North-West): My right hon. Friend knows that many of us have felt that Royal Ordnance has been unsatisfactorily handled, but what he said about the commitment of Vickers to further investment is welcome in part. As the details have not been finalised, will my right hon. Friend try to ensure that Vickers has a long-term commitment and that the investment is not simply to quicken up the Challenger tank order, after which the factory might have little to do? Surely an investment in the longer-term to diversify the product range is the answer. As many of us want to keep Royal Ordnance as an integrated company, was there no chance of a private sale that involved the whole of Royal Ordnance, including Leeds?

Mr. Younger: I am grateful to my hon. Friend. His extremely close interest in the factory and everything to do with it is well known. I agree that the longer-term the commitment can be the better, but the length of any commitment for tank manufacture in Britain is bound to be affected by the likely ordering pattern for tanks. In the long term, I do not see any substantial increase in the number of tanks that are likely to be ordered by my Department. It follows that the long-term future for all those who make tanks is crucially dependent on having a highly competitive way of operating and therefore a better chance of getting foreign business. The combined arrangement will be much better placed to achieve that.

Mr. Denis Healey (Leeds, East): Let me, as the constituency Member of Parliament, cheer up the Secretary of State a little. I welcome the Government's belated recognition that Barnbow is the best heavy tank factory in Britain, and the recognition by Vickers that the Barnbow work force is the best tank force in Britain. I deeply regret that the Government's 12-month delay in placing this order has made redundancies inevitable at Barnbow this autumn. However, if Barnbow is, as the Government admit, the best tank factory with the best work force, why on earth have the Government decided to sell it off to a firm with an inferior capacity, thus creating a private monopoly in which the British taxpayer is the only customer? How on earth can the Secretary of State reconcile that with his predecessor's statement that he wished to see competition—a statement that followed the passage that the right hon. Gentleman read out from his predecessor's statement?

On price, would not Vickers be able to recover the £11 million that the right hon. Gentleman says that it will pay for the factory out of the profits from the Challenger order alone? Will the right hon. Gentleman assure the House that if an auditor finds that the factory's assets are worth more than £11 million—this morning *The Times* suggested that they are worth £16 million—Vickers will have to pay the higher price?

Why should the House, or the work force at Barnbow, have any more confidence in the undertakings from Vickers that the right hon. Gentleman has just relayed than

they had in the right hon. Gentleman's undertaking to sell off the Royal Ordnance as a whole and not to sell it off in bits?

Mr. Younger: I am most grateful to the right hon. Gentleman for his welcome of at least parts of the statement. He is very much more realistic than his right hon. Friend the Member for Llanelli (Mr. Davies).

The right hon. Member for Leeds, East (Mr. Healey) made the point that, as the only domestic customer for the purchase of tanks, the Ministry of Defence is in a unique position. It is my concern over the long-term future of tank manufacture in this country that leads me to the inevitable conclusion that this is by far the best solution. The right hon. Gentleman points to it being a monopoly. He might like to reflect carefully upon what the position would be if we allowed just the two—indeed, the only two—tank manufacturers in the country to battle it out for orders that are not nearly sufficient to keep the two going. There are barely enough orders to keep one of them going. The result would be that one of them would go to the wall. Therefore, it is much better for the long-term future of tank manufacture that this deal should be done.

I am grateful to the right hon. Gentleman for his welcome for the seventh regiment of Challenger tanks. I very much hope that Vickers will be able to recover the money that it has invested. I have no idea whether it thinks that it will be able to do it on one order alone, but I very much hope that it will recover the money. The quicker it recovers it, the more prosperous the company, which all depend upon, will be.

I should have thought that the right hon. Gentleman would be able to have pretty good confidence in a company that is prepared not only to pay about £11 million for the assets of this factory but also to invest probably a larger sum in the building of an entirely new factory in its place on the same site and to employ most of the same work force. I should have thought that he would be very pleased indeed about that.

Mr. Jim Lester (Broxtowe): I welcome the end to the uncertainty by the announcement of the Challenger order, but is my right hon. Friend aware that there will be widespread concern in Nottingham, and in the Nottingham ROF, about the fact that the natural partnership in tank production between Leeds and Nottingham will be broken. What assurance is he able to give the House that co-operation over future tank production will be maintained? One of the major points that was made at the time of privatisation by those hon. Members with Nottingham constituencies who dealt with the Bill was that the philosophy or privatisation is wider share ownership among employees. How can my right hon. Friend guarantee wider share ownership among the employees, either in Leeds or in the rest of the ROFs, on the basis of a single sale, on whatever criteria?

Mr. Younger: I appreciate the points that my hon. Friend has made, and I am grateful to him for welcoming the end of the uncertainty, which will undoubtedly be a great relief to many. However, my hon. Friend will know very well—indeed, better than most—that Nottingham is to be involved in the order announced today—the seventh regiment of Challenger tanks. In future, it will no doubt be very well placed competitively to obtain further orders, or to take part in further orders, either as sub-contractors of Vickers, if that is the most appropriate way,

or in some other way with foreign firms. My hon. Friend knows better than most that a very large part of Nottingham's output is export orders. In no way will that be altered by this statement, because it remains part of Royal Ordnance.

As for wider share ownership, I should very much have liked to see a flotation, if that had been possible, in July and an opportunity for all concerned to own shares. However, I hope that the Leeds employees will find that Vickers is a good employer, and I hope that it will discuss with the unions and all concerned at Leeds how matters are to be taken forward.

Mr. Merlyn Rees (Morley and Leeds, South): The Secretary of State will be aware from what he has been told by his Minister of State, who met a number of hon. Members at a meeting to which we took shop stewards from Barnbow, that there has been much discussion about Barnbow's future in recent months, let alone recent years. One of the overall questions that all of us will have to face up to is that, whether the factories are owned by Vickers or by anybody else, the future is bleak for Barnbow and that alternative types of production there ought to be considered, because it will not be able to support the size of work force that it has supported in the past.

Fortunately, I received a letter this morning from one of the men who works at Barnbow. I did not know that the statement was to be made today. He asked me to write to the Secretary of State with some very prescient questions. He said:

"The Government decided to privatise the Royal Ordnance Factories to make them more competitive with outside industry, but now we find RO Leeds offered to our main competitor, the reason given 'there is not room for two tank factories in the country.'"

His question is this:

"If there isn't room for two tank factories in the country how on earth can there be room for two in the same company?"

It is a real question. Are the redundancies to be in Leeds or are they to be in Newcastle? There will have to be redundancies somewhere. He then went on to say that he had listened to a chap from Vickers on Radio Leeds the other night who said:

"Vickers were all for expansion not closures."

My correspondent said that his follow-up question would have been that Leeds knows all about Vickers: look what it did to Crabtrees, Manns Dawson, Payne and Elliot, Campbell and Hunters. He said that it was no use telling the people of Leeds that Vickers was going to expand; the books are clear. The factory is to be cut back even more than it would have been had it remained in the ROF.

Mr. Younger: I am grateful to the right hon. Gentleman for some of his remarks but, with great respect to him, I do not think that to disparage what is an extremely good company is likely to be helpful either to the right hon. Gentleman or to his constituents. Vickers is now proposing to move into his area and spend a large amount of its money, not Government money, upon building a brand new factory. There are 630 constituencies in this country. They would all be very glad to have a brand new factory. The right hon. Gentleman has got that wrong. He is absolutely right, of course, about the need for diversification. To rely upon tanks alone in the long-term would be difficult, but on reflection might he not think that this is at least one step in the right direction of diversification? The products that are made by Vickers at

[Mr. Younger]

Newcastle are not the same as those which are made at Leeds. At least it will broaden the product base a little, and I certainly look to Vickers to take that further.

Mr. Spencer Batiste (Elmet): Will my right hon. Friend accept that those of us who represent Barnbow employees in Leeds are concerned to secure both the short-term future of that company and its long-term prospects? His announcement today that the order for the seventh regiment is to be placed at Leeds and that it is guaranteed to be completed at Leeds is very welcome, as it secures the first of these objectives. I am sure that all hon. Members with Leeds constituencies will greatly thank him for that.

My right hon. Friend's announcement of major investment by Vickers in Leeds is a completely new factor, which transforms the position. Asset-stripping by Vickers would be completely unacceptable to both sides of the House. However, any further major long-term investment by a successful company like Vickers, on top of the already major investment that it has made only a couple of miles down the road at the Howson Algraphy plant in my constituency, would be very welcome. Is my right hon. Friend sure that he has secured adequate guarantees of that investment during his negotiations, and is he sure that the contract, when it is finally signed, will have that clearly embodied in it?

Mr. Younger: I am very grateful to my hon. Friend. He is completely right when he says that there are both short-term and long-term interests in this factory and its employees which are important to us all. I am glad that at least the short-term problem has been greatly helped by today's announcement. As my hon. Friend has pointed out, asset-stripping would, indeed, be unacceptable to us all. However, this is the very reverse of asset-stripping. It is, I suppose, asset-building, in that the company is coming into the area and building an entirely new factory.

As for guarantees, as part of the agreement, Vickers has given an undertaking to move ahead in the way that I have described. I am quite certain that as an honourable company of very good standing that has every intention of making this business flourish, it will carry out what it has said it has undertaken to do.

Mr. Michael Meadowcroft (Leeds, West): In the interests of consistency with earlier questions that I asked the Secretary of State, may I welcome very much the order for the Challenger tanks at Barnbow? That is by far the most important immediate question for the employees at Leeds. But the key question is the duration of the order and the time span that there will be before considering further orders. Surely, with Vickers' record in the City, as the right hon. Member for Morley and Leeds, South (Mr. Rees) said, the employees at Barnbow will not have much confidence for the future unless there is some sign of what will follow the order. Will the Secretary of State tell us how long the contract will last, because otherwise the belief that Vickers has bought the competition will not give the employees much faith for the long-term future?

Mr. Younger: I appreciate what the hon. Gentleman says and I thank him for his welcome for the order for the seventh regiment. Of course, he is right to say that we must consider the longer term. No decision has been taken on

any further regiments' orders for Challenger tanks. I have formulated no plans to place any such further orders. It would be wrong of me to give a guarantee that that can be done, because no such decision has been taken. Naturally, that will be considered for the future. When we consider the future of the Royal Ordnance factories we must not rely solely on future orders of tanks by the British Ministry of Defence, because they are not likely to be forthcoming in large enough quantities. This order should keep the factories going until about the end of the decade. From then on it will be a question of how well the new company manages to obtain new orders in different areas.

Mr. Richard Ottaway (Nottingham, North): Will my right hon. Friend say why, when many of us thought that a flotation was in the best interests of the ordnance factory, a private sale is now the preferred option?

Mr. Younger: Yes. I had hoped that it would be possible to have a flotation, as planned, in July. As I said to the House when I announced the decision, we could not do it in July because, in our view and that of our advisers, it was clear that the company was not in the right condition for flotation. It would have been irresponsible to float the company when it was not ready to be a robust performer in the open market. My intention remains to privatise Royal Ordnance. I hope to privatise it as a whole and I shall, of course, keep the House informed.

Mr. Derek Fatchett (Leeds, Central): Where will the British Army go for tanks in the future if it is not satisfied with price and quality from Vickers? What guarantees has Vickers given for the new factory? I noticed that, when responding to questions, the Secretary of State moved from saying "facility" to saying "factory". It may be useful to define whether we mean a facility or new factory.

Mr. Younger: I am not sure what the difference is. It depends whether one is speaking English or American. I mean a factory. The Americans refer to it as a facility. In future, when the British Army seeks bids for tank orders, I hope that it obtains competitive bids from tank producers abroad—

Mr. William O'Brien (Normanton): Such as Germany?

Mr. Younger: Yes, and I hope that there will be a much better possibility of collaborative projects for the next order of main battle tanks. I hope that Vickers, in its new form, can take part in that.

Mrs. Anna McCurley (Renfrew, West and Inverclyde): My right hon. Friend's statement will bring some relief to my constituents at ROF Bishopton. Will the Secretary of State move swiftly to enact his expressed preference to end uncertainty? Will he respond to the rumour published in the newspapers today that the sale will not be open, but that Royal Ordnance Factories plc will be sold off to Trafalgar House?

Mr. Younger: I am pleased if my statement has helped to end difficulty and uncertainty, or at least to reduce it, at Bishopton, in which my hon. Friend the Member for Renfrew, West and Inverclyde (Mrs. McCurley) takes such an interest. I repeated today that my intention is still, if I can do so, to privatise Royal Ordnance as a whole, if that proves to be practical. I hope that this can be done as quickly as possible to eliminate uncertainty. I assure my hon. Friend, in response to her other question, that we are

open to several bids to buy Royal Ordnance as a whole. I do not envisage it being a sale to one bidder; I hope to get several bids, which will be properly evaluated, and I shall keep the House informed.

Mrs. Gwyneth Dunwoody (Crewe and Nantwich): It is clear that the Secretary of State's policy is in total shreds because, having given undertakings that he would put the whole of Royal Ordnance into a flotation or on to the market as one unit, he is now selling off one little bit. Will he please tell me, since morale in the ROFs is about as low as it can go, why any employee should believe that the right hon. Gentleman's undertaking today is any more use than the undertaking given by his predecessor, which he has now totally abrogated?

Mr. Younger: The hon. Member for Crewe and Nantwich (Mrs. Dunwoody) is wrong. Although it is my hope successfully to privatise Royal Ordnance in one unit, I cannot give a guarantee that that will be so. Nor have I, or my predecessors, ever given such a guarantee. I hope that the hon. Lady will understand that. On morale, I readily agree that the uncertainty for all the employees of Royal Ordnance has been unsettling during this period. I wish to end that uncertainty as quickly as I can. I can say today at least that any low morale among the tank manufacturers is ended. They now have a clear and firm future as a result of my announcement today.

Mr. Den Dover (Chorley): Is my right hon. Friend aware that my constituents at ROF Euxton will feel massively betrayed if they have no opportunity to buy shares when he floats the rest of the Royal Ordnance organisation without the tank manufacturers? The employees went along with the privatisation provided that they had that opportunity.

Mr. Younger: I note what my hon. Friend says. If it proves possible to come to an arrangement which involves employees' share ownership, no one would be more pleased than I. My hon. Friend will probably agree that his constituents and most employees of Royal Ordnance factories will be primarily concerned that the business should be given a firm future. I must balance that fact when I consider the possible ways of privatising the factories, which I hope will be as a whole.

Mr. Geoffrey Lofthouse (Pontefract and Castleford): Will the Secretary of State return to the questions put to him by my hon. Friend the Member for Leeds, Central (Mr. Fatchett) and the hon. Member for Elmet (Mr. Batiste)? Is the investment on the new factory legally binding in the agreement or is it just a promise or an understanding as outlined by the Secretary of State? If it is not legally binding, is it not possible that Vickers could rat on the deal?

Mr. Younger: I understand that, on hearing this for the first time, the hon. Gentleman wishes to have some assurance. That is part of the agreement that has been openly entered into.

Mr. Lofthouse: Is it legally binding?

Mr. Younger: Yes. It is part of the agreement that has been openly entered into by Vickers with the Ministry of Defence. If it is of any reassurance to the hon. Gentleman, Vickers intends to start work very quickly. Vickers told me that it expects to start work at the beginning of August. There can be no doubt that Vickers has every intention of going ahead as fast as it can.

Mr. David Clelland (Tyne Bridge): I shall resist the temptation to take issue with my right hon. Friend the Member for Leeds, East (Mr. Healey) about the relative merits of the work forces in Leeds and Newcastle. I assure him that, although my constituents work for a private company, they are nevertheless a highly skilled work force — [HON. MEMBERS: "Hear, hear."] I can do without the embarrassment of being supported by Conservative Members. The Secretary of State is aware that the northern region has the highest unemployment in Britain, and Tyne Bridge, where the Vickers factory is located, has one of the highest unemployment levels in the region. Therefore, it must have been in the Secretary of State's mind, when taking the decision, that it may have implications for the Newcastle factory. Will he assure the House that he has discussed the matter with the company and that there are no detrimental employment effects on the Newcastle factory?

Mr. Younger: I am grateful to the hon. Gentleman, although I am not sure that his language was the most felicitous. He said that his constituents, although working for private enterprise, were highly skilled. I should have thought that they were highly skilled because they worked for private enterprise. It is a matter of the expression that one uses. The hon. Gentleman knows that Vickers is a good company and is extremely proud of its relatively new factory at Newcastle. It is not likely that Vickers would do anything adversely to affect that factory.

Mr. O'Brien: What was the recommendation of the board of directors of the Leeds ROF when it met on 15 July, considered a valuation of £25 million of its plant and rejected the £11 million offer of Vickers because it was less than half of the plant's value? Will the right hon. Gentleman confirm that the profit from the tank order will exceed £10 million and that orders on the order book are also worth more than £10 million, so Vickers has a great deal of money? Will he also confirm that the 1,400 people who are employed at Leeds will be retained by Vickers, or will there be substantial job reductions? What were the management board's recommendations concerning the Vickers offer and what will the profits from tank sales and orders on the book be? Will they not be substantially more than is required to buy the factory and build a new one?

Mr. Younger: I appreciate the points on which the hon. Gentleman wants answers, and I shall do my best to supply them. The board of Royal Ordnance plc, which is in control, has agreed to this arrangement. That is the essential factor. The price that is paid will be related to an audited asset value for the plant. We must bear in mind that it is all very well to draw up the asset value of a plant, but its actual value is what somebody is prepared to pay for it. If the hon. Gentleman would like to take a little longer to consider the market and the situation of the factory, I think that he will agree with every adviser who has been asked to give an opinion that this is a remarkably good deal. Such a sum, and an undertaking to build a new factory on the same site is a remarkable deal. I hope, although as a customer I am anxious to get the lowest possible price, that the company and the work force are so efficient that profits will be considerable. I hope that there will be enough to pay the company back so that it can be profitable and prosperous.

Mr. Peter Pike (Burnley): Is the Secretary of State aware that there are grave fears among employees in ROFs

[Mr. Peter Pike]

throughout the country except Leeds, where they will be worried about whether there will be redundancies there or at Newcastle? Does he agree that the fears that were expressed in Committee about two years ago have proved to be well founded time and again and that the Government have done tremendous harm during the past two years to the viability of ROFs? Would it not be best to drop the scheme altogether? Does he agree that the preferred option of selling the ROFs as a unit is not on?

Mr. Younger: I appreciate and understand that there have been considerable uncertainties and fears for those who work in ROFs. That is inseparable from the difficult business of trying to move it into the private sector. I do not agree with the hon. Gentleman's assessment of what has happened to the efficiency of Royal Ordnance. It is very much more efficient, even now, than a few years ago. That offers a much better prospect for the future because it means that there are much better prospects of getting orders from overseas. I hope that, on reflection, the hon. Gentleman will agree that my intention to get Royal Ordnance into the private sector, if possible as a whole, is very much in the interests of his constituents.

Mr. Jack Straw (Blackburn): Is the Secretary of State aware of the appalling damage to the morale of all of the work force of ROFs that has been done by him and his predecessors during the past six years, in which orders have been lost and thousands of employees have lost their jobs? That should be compared with the record of the Labour Government. As parliamentary answers show, employment in ROFs rose under Labour.

Would Vickers have agreed the deal if the undertaking to build the additional plant at Leeds had been legally binding? What is the future for the Blackburn factory? If the right hon. Gentleman intends to sell off the rest of the ROFs as a single entity why, so many months after the event, has he still not published the opening balance sheet for ROF plc, dated 2 January 1985, or the trading results for 1985, when both would have been available if a prospectus had been issued?

Mr. Younger: I know of the hon. Gentleman's great interest, especially in the Blackburn factory, which is in his constituency. What he said about morale is quite right. The only way in which to put it right is to get the company

settled in its new organisation. If it is possible, I want it to be put into the private sector as a whole as it stands. I hope that that will be possible, but I cannot guarantee it.

We have had several expressions of interest from firms and organisations which would like to place a bid for Royal Ordnance as a whole. They will be evaluated. I assure the hon. Gentleman that that will be done as quickly as possible. All of the necessary information, including balance sheets, for example, will have to be produced.

Mr. Paddy Ashdown (Yeovil): Will the right hon. Gentleman now answer the question asked by the hon. Member for Normanton (Mr. O'Brien), which he carefully failed to answer? Is it not the case that the board recommended against the sale and, despite some discreet but heavy arm-twisting, is still generally against it? Will he remember that many of us in the Select Committee predicted that this would happen, so diminishing rather than increasing competition? Is it not a part of the deal that the ROF as agreed not to set up any alternative tank building facility anywhere in Britain?

Mr. Younger: That has not been put to the Royal Ordnance board, but I can confirm that it has agreed to the deal.

Mr. Ashdown: Did it recommend the deal?

Mr. Younger: It has agreed to the deal.

Mr. Ashdown: Did it recommend it?

Mr. Younger: I do not know what the difference is. I have made it perfectly clear that this was a negotiation between the Ministry of Defence and Vickers. The board has been kept informed throughout and has agreed that it can accept the deal.

Mr. Ashdown: What did the board recommend?

Mr. Younger: I am trying to answer the question. There have been several suggestions, deals or proposals, but they have been turned down by the Ministry of Defence or the Royal Ordnance board; but they are not relevant to this case. This recommendation has been put to the Royal Ordnance board as a result of negotiation between the Ministry of Defence and Vickers. The board has accepted it. That is the important point.



MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1A 2HB
Telephone 01-218 6312 (Direct Dialling)
01-218 9000 (Switchboard)

PQ 5605

24th July 1986

~~Dear Tim,~~

per

I enclose a copy of a Statement to be made in the House this afternoon by Mr George Younger, the Secretary of State for Defence.

Yours,

(MIRANDA KINGDON-BUTCHER) (MISS)
Parliamentary Clerk

T Flesher Esq
10 Downing Street

STATEMENT BY THE SECRETARY OF STATE - 24TH JULY 1986

ROYAL ORDNANCE

ON 17TH JUNE, I ANNOUNCED THE GOVERNMENT'S DECISION NOT TO PROCEED WITH THE PLANNED FLOTATION OF ROYAL ORDNANCE PLC. I ALSO MADE CLEAR IN ANSWER TO QUESTIONS ON 18TH JUNE THAT WE WOULD REVIEW ALL THE VARIOUS OPTIONS TO DECIDE HOW BEST TO ACHIEVE OUR AIM OF PRIVATISATION. THAT REVIEW IS NOW COMPLETED AND I CAN TELL THE HOUSE THAT, WITH THE EXCEPTION OF ONE FACTORY, IT REMAINS OUR FIRM PREFERENCE TO SELL THE COMPANY AS A WHOLE. WE WOULD HOPE TO DO SO BY A PRIVATE SALE IF THIS PROVES PRACTICABLE. OVER THE COMING WEEKS, WE WILL BE INVITING BIDS ON THE BASIS OF A SELLING MEMORANDUM AND I WILL REPORT FURTHER TO THE HOUSE WHEN WE HAVE MADE SOME CONCRETE PROGRESS.

THE EXCEPTION IS THE TANK BUILDING BUSINESS AT LEEDS. FOLLOWING DISCUSSIONS BETWEEN THE MINISTRY OF DEFENCE AND VICKERS AN OFFER HAS BEEN MADE BY VICKERS PLC TO PURCHASE RO LEEDS, WHICH THE GOVERNMENT AND THE BOARD OF ROYAL ORDNANCE HAVE ACCEPTED, SUBJECT TO DETAILED DISCUSSIONS NOW TAKING PLACE BETWEEN ROYAL ORDNANCE AND VICKERS TO FINALISE THE AGREEMENT. THE PRICE WILL BE BASED ON AN AUDITED NET ASSET VALUE BUT WE EXPECT IT TO BE OF THE ORDER OF £11M. AS PART OF THE AGREEMENT, VICKERS WILL BUILD A NEW FACILITY AT THE LEEDS SITE, SIMILAR TO THEIR FACTORY AT NEWCASTLE. THIS REFLECTS THEIR FAITH IN THE BUSINESS AND THEIR DETERMINATION TO WIN THE EXPORT ORDERS WHICH ARE CRITICAL TO THE CONTINUING FUTURE OF THE FACTORY.

I CAN ALSO TELL THE HOUSE THAT IN THE LIGHT OF THIS AGREEMENT THE WAY IS NOW CLEAR FOR A DECISION TO ORDER A 7TH REGIMENT OF CHALLENGER TANKS, SUBJECT TO DETAILED CONTRACT TERMS. VICKERS HAVE AGREED THAT THE TANKS WILL BE MANUFACTURED AT LEEDS AND WE HAVE NEGOTIATED WITH VICKERS PRICES WHICH REPRESENT AN IMPROVEMENT ON THE TERMS OFFERED BY ROYAL ORDNANCE. I AM SATISFIED THAT THE COMPETITIVE PRESSURES WHICH HAVE OPERATED ON BOTH COMPANIES DURING OUR VARIOUS NEGOTIATIONS HAVE ENSURED THAT THE MINISTRY OF DEFENCE WILL RECEIVE GOOD VALUE FOR MONEY FOR THIS IMPORTANT ORDER.

cg/89



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
 Secretary of State for Education and Science
 Department of Education and Science
 Elizabeth House
 York Road
 LONDON
 SE1 7PH

226/7
 23 July 1986

Dear Secretary of State

NBP 7

PRIVATISATION OF NATIONAL SEED DEVELOPMENT ORGANISATION AND PLANT BREEDING INSTITUTE

Thank you for copying me your minute ^{at nap} to the Prime Minister of 17 July. You ask for agreement to your and Michael Jopling's proposal to offer NSDO and part of PBI for sale later this year.

I welcome your decision and hope you will indeed be able to make an announcement before the recess (I gather your officials are clearing the draft with mine). As Lazard's comments indicate, an early announcement is important to ensure that progress is made towards completing the privatisation as quickly as possible.

On the detail, I agree with your proposals on non-restriction of activities after sale and on assurances on breeding in the UK and protecting UK agriculture although I would have been reluctant to agree to tighter limitations.

I should be grateful if your officials could consult mine on the arrangements for appointing advisers and for organising the tender process to which you refer.

I believe John MacGregor has now given you the assurance you were seeking about meeting the costs associated with the privatisation. As he also pointed out in his letter, the proceeds of privatisation by convention go to the Exchequer.

I am copying this to the recipients of your minute.

Yours sincerely
 Vivien Life
 (private secretary)

pp NORMAN LAMONT

COMMERCIAL IN CONFIDENCE

(Approved by the
 Financial Secretary
 and signed in his absence)

ECON POL Privatisation PTL



CCBT

MO 10/4V

NBN

PRIME MINISTERROYAL ORDNANCE: LEEDS AND VICKERS

At the meeting of E(A) on 22nd July, I was invited to confirm that the planned sale of Leeds to Vickers would not contradict the undertaking given to the employees by my predecessor in his letter of January 1984.

2. The relevant passage of the letter was:

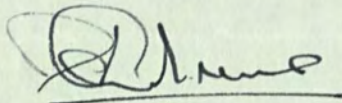
"One thing must be clear from my point of view. I do not envisage a situation where these subsidiary companies could be sold to someone who would wish to close them down to eliminate competition with the existing business."

3. Vickers will certainly be seen by the Leeds workforce as a competitor but I am clear that there is no intention on Vickers' part to close down the factory. They have agreed that the 7th regiment of Challenger tanks will be built there which guarantees work until the end of 1989. This is precisely the same position as the factory faces in Royal Ordnance ownership. Thereafter, there can be no guarantees that Vickers will not be obliged to close the factory but they have made clear their determination to find export orders and their plan to build a new factory on the site, which is part of the present agreement, is a clear signal of their determination to keep Leeds open.



4. I shall use this argument in the House this afternoon in response to any hostile questions and I am confident that the Government's position is a sound one.

5. I am sending copies of this to other members of E(A) and to Sir Robert Armstrong.


(Approved by the Secretary of State
and signed in his absence.)

Ministry of Defence

24th July 1986

24. VII 1936 PM 86





cc BG
Any PV comments?
or HMT comments?

MO 10/2V

Prime Minister 2

PRIME MINISTER

Decisions may be needed this month both on whether a transfer to commercial management should go ahead and on the future scale of the dockyards: large redundancies are in prospect.

COMMERCIAL MANAGEMENT OF THE ROYAL DOCKYARDS

DF
2/9.

Before the Summer Recess begins, I thought it might be helpful to circulate to members of E(A) a report on the progress made towards the introduction of commercial management into the Royal Dockyards at Devonport and Rosyth. This I attach.

2. No decisions are called for immediately but, depending on the adequacy of the bids we receive, I may need to consult colleagues as early as September on the way ahead.

mb

3. I am copying this to members of E(A) and to Sir Robert Armstrong.

A.Y.

Ministry of Defence

22nd July 1986



COMMERCIAL MANAGEMENT OF THE ROYAL DOCKYARDS

INTRODUCTION

1. The scheme announced in July last year by Michael Heseltine called for the selection of commercial managers for the two Dockyards at Devonport and Rosyth by competition for a contract to operate each yard for a fixed duration. The Government would retain ownership of the assets and responsibility for future capital investment (ie Government owned/Contractor operated or "GOCO") and offer a licence and a substantial core programme of Naval work to the bidders.

2. The workforce would be transferred to the successful bidder as the employees of a plc set up by Vesting Day and would thus cease to be civil servants. They would, however, transfer with their existing terms and conditions of employment and an equivalent to the Principal Civil Service Pensions Scheme would be set up to provide an index-linked pension.

DOCKYARD SERVICES BILL

3. To enable me to set up the two plcs which will be needed, and to eliminate any notional entitlement to redundancy pay at the moment of transfer, the Dockyard Services Bill was introduced into the Commons at the end of November. Although the Bill has encountered some difficulties during its passage



through the Lords in particular there is now a good prospect of obtaining Royal Assent before the Recess.

given in fact.

4. The original plan was to have Royal Assent before Easter. The delay has enabled the Trades Unions to refuse co-operation with local management in enabling contractors and consultants to gather information in the Dockyards; this will mean that bids will be less well prepared and contractors will be less confident in assuming risk.

REACTIONS TO THE SCHEME

5. The scheme has run into a good deal of opposition: from the Trades Unions; from the local authorities in Plymouth and Rosyth; and from the official Opposition. The Public Accounts Committee and House of Commons Defence Committee have reported critically on the scheme, although up to now they have concentrated on peripheral aspects. The primary consequence of this opposition has been to make it much more difficult to persuade the workforce that the scheme has merits. It is clear that the unions will not talk seriously until after Royal Assent. There is, however, fairly widespread recognition that major change in the Dockyards is needed and that transfer out of the Civil Service must be an element of this.



COMMERCIAL INTEREST

6. The initial commercial enthusiasm for the scheme has diminished. For Rosyth, we now have three well established bid teams:

Babcock International/Thorn EMI
Balfour Beatty/Weir Group
Press Offshore

Each of these is approaching the bid in a different way and we have all the makings of a real competition. In addition, we have allowed the local management to hold discussions with each of the groups without prejudice to determine whether, and on what basis, a partnership could be established between the successful bidder and the local management and workforce to run the Dockyard after Vesting day.

7. For Devonport the picture has been less satisfactory. Trafalgar House, with Plessey and A & P Appledore, were early front runners but subsequently withdrew. The local management received approval to set up Devonport Dockyard Ltd as a vehicle for bidding; they have, however, had difficulties with retaining financial support and have only recently started work on preparing a bid. Foster Wheeler, a US firm, have formed a bid group with Vickers SEL and A & P Appledore, sharing their



holdings (in conformity with the "foreign control" provisions in the draft contract) 30%, 60% and 10% respectively - with Foster Wheeler very much the leading partner at this stage. They started late and are working on their bid without making many demands on the Dockyard for information; we shall not know how competent they are until their bid is in. Finally, we have a very late entrant: Brown and Root, a totally owned subsidiary of the American Halliburton Corporation; they have been given an extra month for bid preparation - as have the other two Devonport bidders - and have yet to secure adequate British participation in their management proposals.

GOVERNMENT OWNED PLC

8. My Department has been developing models of a Government-owned plc operation at each dockyard, both to provide a base-line for assessing commercial bids and as a fallback alternative which can be implemented if commercial bids are unacceptable, either as an interim solution during a transition to full commercial management in the longer term, or as a more permanent solution. Should it become clear in the Autumn that we need to go down the Government-owned plc route, rapid decisions will be necessary. It will not be easy to recruit outsiders for the management task. It will be essential to give the management maximum freedom from central control.



9. The employment consequences revealed by the GO plc business plan will cause us considerable problems, as they are almost certain to be mirrored in the commercial bids. On the latest estimate of Naval production load, Coopers and Lybrand have made broad estimates of job reductions of 3700-4100 at Devonport and 1500 at Rosyth. These imply a requirement for redundancies of between 2000 and 2500 at Devonport and 500 to 1000 at Rosyth in the early years of the contract; these figures allow for the Dockyards attracting a proportion of the non-core programme open to competition between them and the private shiprepair sector and a limited amount of additional non-naval commercial work. The job reductions are not only the consequence of the introduction of a commercial management style; they reflect the falling Naval load, the effect of newer ships needing less refitting, the achievement of considerable gains in efficiency, even with a GO plc, and economy in refit cycles consequent on the current revision of the Defence costings. We shall need to consider early after the Summer Recess how we handle this, as there is already significant Press speculation on the likely scale of job losses.

THE BID PROCESS

10. The bidding documents were issued to companies in April. Contractors have been given details of the programme of work.



The closure date for bids for Rosyth is 1st August and for Devonport 29th August. By mid-September it should be clear whether or not we have the basis for a successful contract for each yard. If we have, final recommendations will reach me by mid-November, and contracts will be signed by the end of that month. There will then be a period of "double running" until Vesting Day on 6th April.

11. I will therefore need to seek colleagues' agreement to the way ahead either as early as September, if the bids are inadequate, or in mid-November.

THE IMPLICATIONS OF REDUCED DOCKYARD LOADING

12. Reductions I am having to make in the naval programme mean that the Dockyards will now have to carry overheads out of proportion to loading. This will be a particular problem at Devonport where the underload is substantial and where the geography of the site makes reorganisation difficult. The effect will be, on present preliminary estimates, that the contractorised Dockyards will initially cost the Exchequer £34M a year and the Ministry of Defence £67M. But contractorisation is likely nevertheless to be the cheapest of the options, much cheaper than leaving the Dockyards as they are.



CONCLUSION

13. Despite the delay to the Parliamentary process, we are still on target for the introduction of commercial management into the Royal Dockyards by April 1987. Success is now dependent on the receipt of adequate bids and their subsequent negotiation into acceptable contracts; I cannot guarantee this stage and may need to consult colleagues on the way ahead either in mid-September or mid-November, when in any event I hope to be able to approve any satisfactory contracts.





ABG

10 DOWNING STREET

From the Private Secretary

22 July 1986

Dear Mr,

NATIONAL SEED DEVELOPMENT ORGANISATION AND PLANT BREEDING
INSTITUTE

The Prime Minister has seen your Secretary of State's minute of 17 July about privatisation of the National Seed Development Organisation and part of the Plant Breeding Institute. The Prime Minister is content, subject to the views of colleagues, that an announcement of the Government's intention to privatise these bodies should be made before the recess.

I am copying this letter to Rachel Lomax (HM Treasury), Geoff Dart (Department of Energy), Colin Williams (Welsh Office), Tony Laurance (Department of Health and Social Security), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Jim Daniell (Northern Ireland Office), Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), John Turner (Department of Employment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), John Mogg (Department of Trade and Industry), Vivien Life (Financial Secretary's Office), Crispin Hain-Cole (Mr Lamont's Office, MOD), Simon Routh (Lord Trefgarne's Office, MOD), Paul Madden (Mr Howard's Office, DTI).

Yours,

David,

David Norgrove

Rob Smith Esq
Department of Education and Science.

CONFIDENTIAL

CCB/UP

PRIME MINISTER

21 July 1986

ROYAL ORDNANCE

Vickers offer is £11m for £15m of assets (subject to adjustments) together with agreement to match RO's price for the 5th and 6th Challenger regiments and slightly improve it for the 7th. Rothschilds believe this is a fair deal for HMG, and the hope is that the RO Board will also accept it.

Vickers plan to keep both Leeds and their existing Newcastle factories going, indeed they intend to consolidate the existing Leeds operation into a new building which they will erect. Although not part of their plans, long term industrial logic must point to ultimate closure of the Newcastle factory.

If the Vickers bid is rejected then the problem of a non-competitive order for the 7th Regiment re-emerges. If the rejection is seen to be fair then there should not be too much trouble over the tanks, but if it looks unfair then Vickers will look to have lost out twice: first on the tanks and then by having to go through a mock purchase negotiation. On the plus side, however, Vickers have told MOD that they believe the RO's prices for the 7th Regiment are some £200,000 less per tank than Vickers own costings. If this is a true like-for-like comparison then it is a powerful argument against proceeding with a nugatory competitive tendering round. (It does, however, raise questions about RO's pricing).

For the rest of RO, flotation looks impractical and the choice is between a trade sale to, say, Trafalgar House; a break-up of the business and sale in parts; or just possibly a private placement to a consortium of institutions. Of these options, the sale to a trade buyer looks likely to be

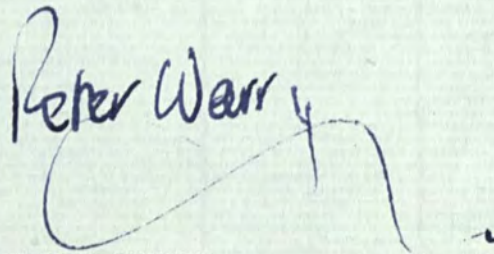
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quickest and the easiest politically. Break-up might ultimately offer higher proceeds, but it would be contentious, take a long time, and would leave the Government rather than the private sector with the responsibility for closing down the unviable rump.

We agree with MOD that the Vickers bid should be accepted if at all possible; and that the preferred option for the rest of the business is a trade sale. However, if a trade sale has not been secured within, say, 3 months, then we believe the question of break-up and sale in parts ought to be reopened.

A handwritten signature in blue ink that reads "Peter Warry". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

PETER WARRY

CONFIDENTIAL

CCBG
BUP

P 02189

PRIME MINISTER

Privatisation of Royal Ordnance plc

FLAG A — E(A)(86) 40

1. You will wish the Sub-Committee to reach conclusions on:
 - a. whether to seek to sell Royal Ordnance plc (RO) as a whole (apart from Leeds) to a single purchaser by private treaty before the next general election, or to plan a flotation in October 1987 or later;
 - b. whether to endorse the agreement negotiated with Vickers covering their purchase of Leeds and the tanks order for the 7th Challenger Regiment;
 - c. the terms of any announcement by the Secretary of State for Defence before the recess.

BACKGROUND

2. On 17 June you chaired a small meeting of Ministers which concluded that the privatisation of RO could not proceed in July, although the possibility of a later sale of the company as a whole should not be excluded in public statements. It was agreed that a full paper on options for the future of RO should be prepared for discussion at E(A), in consultation with the Treasury and the Department of Trade and Industry (DTI). E(A)(86) 40 is the result.

MAIN ISSUES

3. The main issues are:
 - a. how best to take RO into the private sector;

- b. the discussions with Vickers covering the Leeds factory and the tanks order for the 7th Challenger Regiment.

Privatisation

4. RO's Divisions are described in tabular form at the Annex to E(A)(86) 40. Leaving aside Leeds, Mr Younger favours keeping RO as a single operation rather than piecemeal privatisation of the various units. He considers that the only realistic option for early privatisation is through a trade sale to a single purchaser. The arguments for keeping RO together as a single operation are:

a. "vertical integration" works to the general benefit of RO's Divisions. Orders won by one Division can help other Divisions win associated orders.

b. Splitting up RO would adversely affect the morale of the management and workforce.

c. Privatisation of the saleable parts of RO would leave an uneconomic rump in the public sector. Although some purchasers are interested in the Weapons and Fighting Vehicles plants and in the Blackburn, Chorley and Glascoed operations (of Ammunition Division), no interest has been expressed in the rest of Ammunition Division, nor in any of the parts of the Explosives and Small Arms Division.

5. Flotation is in principle possible in the autumn of 1987 - the next available Stock Market "slot" - provided that the Leeds plant is disposed of in the meanwhile (see below). The problem is that this may be too close to the next general election. Unless, therefore, Ministers are ready to postpone privatisation until after the election, the only way of achieving early privatisation of RO as a whole is a trade sale. Trafalgar House has expressed a firm interest, and a consortium led by British Aerospace is considering its position. Mr Younger intends continuing the search for a suitable buyer.

6. I understand that DTI endorse Mr Younger's proposals on industrial grounds. The eventual decision whether to go ahead with privatisation through a trade sale will, however, depend on the terms available to the Government as vendor. Meanwhile the Sub-Committee will wish to consider the political aspects of this course: do the advantages of early privatisation outweigh the costs of having to abandon what was the Government's preferred option, ie flotation as an independent company? How would the wider public regard the sale of RO to a conglomerate or to a company whose main focus is on work for the Ministry of Defence?

The Vickers Discussions and the Order for the 7th Challenger Regiment

7. Since E(A)(86) 40 was prepared, the Ministry of Defence have agreed to sell the Leeds factory to Vickers, with the contract for the seventh regiment of Challenger tanks having previously been placed with Leeds (Mr Younger will be reporting this to you later today). This in effect acquiesces in Vickers acquiring a monopoly of the supply of tanks to the UK armed forces; but it also carries advantages:

a. it removes the problem that the lack of a long-term order book at Leeds would prevent flotation of RO as a whole after this summer, and opens the way to the removal of excess capacity in the fighting vehicle industry. If Leeds has to be shut after completion of the Challenger order, Vickers will bear the redundancy costs.

b. It maintains the price for the seventh regiment of tanks previously agreed with RO, and minimises the costs of the fifth and sixth regiments. Insisting on a competition now between RO and Vickers for the seventh regiment would impose a delay of several months which would add to the costs of the two previous regiments (ie by increasing the overhead costs borne by the Ministry of Defence), whoever won

the competition. These extra costs would more than outweigh any savings from a keener price for the current order.

c. It overcomes the problem created by the Ministry of Defence's placing of an order for armoured repair and recovery vehicles with Vickers without having previously arranged for the necessary intellectual property rights (currently with RO) to be transferred to them.

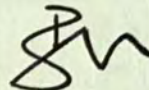
8. Vickers intend to invest £13 million in the Leeds operation, which should help its long-term viability (which would be dependent on orders from customers other than the UK armed forces). Ministers will wish to satisfy themselves that the price is sufficient: Vickers have offered £7 million plus two-thirds of any margin by which an independent valuation of the current assets exceeds £9 million, up to £15 million, and half of asset value thereafter. On this basis the Ministry of Defence expect to receive £11 million as against an asset valuation of £15 million. This is somewhat more than had earlier seemed likely (Vickers' opening bid was £3 million).

9. The Ministry of Defence might reasonably be asked what the remainder of RO might fetch. The expectation of flotation proceeds had been revised down to about £100 million before the decision was taken not to go ahead; now that the Leeds problem has been solved, can the Sub-Committee be assured that the remainder of RO will realise at least £90 million?

HANDLING

10. You will wish to invite the Secretary of State for Defence to present his paper. The Secretary of State for Trade and Industry will wish to respond. The Chancellor of the Exchequer and the Financial Secretary will have views on the implications for privatisation and for competition. The Chancellor of the Duchy of Lancaster and the Chief Whip may wish to comment on political aspects.

21 July 1986
Cabinet Office



J B UNWIN

CC BG
BLP

MO 10/4

PRIME MINISTERROYAL ORDNANCE: LEEDS AND VICKERS

In the Memorandum I circulated to E(A) colleagues last week (E(A)(86)40), I undertook to report further on the negotiations with Vickers over the possible sale of the Leeds factory. We are due to discuss the Memorandum tomorrow.

2. As I emphasised in my earlier paper, there are sound commercial reasons for keeping Royal Ordnance (RO) as a single entity but Leeds is a special case. Unless we take action now, given the order book and current prospects, the most likely outcome is that Leeds will have to close by 1990 with the loss of some 1400 jobs. It was this prospect which caused our professional advisers, Rothschilds, concern during the planning of flotation and it will equally prove a problem in any attempt to sell RO to a private buyer. The Vickers interest is, therefore, particularly welcome, the more so for the reasons set out in my paper.

3. While I am keen to make the sale to Vickers, it must be at an acceptable price which we can defend in Parliament. To this



end, we have been negotiating with Vickers over the past 10 days.

4. It is not easy to judge the value of Leeds. Rothschilds have approached the task by identifying first the present value of the cash expected to flow in and out of Leeds, making the assumption that the factory closes in 1990 after manufacturing the 7th Challenger Regiment. This can be seen as the minimum which RO could expect to receive from a sale. RO's aim would be to achieve a higher figure in recognition of the possibility of future profits if Vickers are successful in the export market and of the intangible benefits to them of becoming the sole UK manufacturer of main battle tanks. But there must be a limit to the multiple of current profits which Vickers will be prepared to pay. We have to bear in mind that we expected a multiple of the order of 6 for the whole business on flotation. We must also bear in mind the book value of the assets although, as with flotation, we cannot necessarily expect to achieve this value in a sale, given the prospects of the business.

5. Against this background, Vickers have offered a formula, based on asset value. They have offered a flat £7M plus two-thirds of the value of the assets in excess of £9M and up to £15M and half of asset value beyond £15M. This formula has arisen because Rothschild's continuing work on RO's figures has disclosed additional provisions which would have the effect of



increasing the asset value. Vickers have recognised the value to them of such increases and are prepared to settle a final price on the basis of audited figures. Rothschild's best current assessment is that the asset value will be around £15M, leading to a price of £11M. Vickers have moved a considerable way from an opening bid of £3M, and I am confident that we have pressed them as far as they are likely to be prepared to go.

6. Rothschilds' advice to us would allow us to accept the formula. That advice reflects their knowledge that we are willing sellers. But I am satisfied that the wider benefits of the sale make it a more than attractive price. First, officials have separately negotiated with Vickers prices for the 5/6 and 7 Regiment of Challengers which are competitive with the offers we have had from RO. An agreement to sell the factory would allow us to place an order for the 7th regiment, subject only to detailed contract terms. Second, a crucial element of Vickers proposal is that they will build a new factory on the Leeds site in which to manufacture the 7th regiment. This will be of particular value to us in helping to demonstrate publicly and to the workforce that the sale to Vickers represents an improvement in job prospects, stemming from a privatisation.

7. The proposal will have to be accepted by the RO Board. The Chairman, Bryan Basset, will recommend it to them at a meeting tomorrow and, if colleagues approve the proposal in my paper and



the sale to Vickers on the terms outlined above, I propose to write to him making clear the shareholder's view that the Board should accept the Vickers bid. The way would then be clear for an announcement this week of:

- a. our policy on privatisation of RO;
- b. the sale of Leeds to Vickers;
- c. the order for a 7th Challenger Regiment.

8. I am sending copies of this minute to other members of E(A) and to Sir Robert Armstrong.

A.Y.

Ministry of Defence

21st July 1986

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MO 10/4V

MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1
 Telephone 01~~XXXX~~ 218 2111/3

17 July 1986

Dear Tony.

VICKERS AND RO PLCThank you for your letter of 27 June. *will request required*

Mr Younger's intention is to circulate a paper on the privatisation options for Royal Ordnance and the order for the 7th CHALLENGER Regiment to E(A) later this week. I can confirm that until Ministers have considered the issues no decisions will be taken or options foreclosed.

On the specific points raised in your letter, Mr Younger's views are as follows:

- a. There are strong value for money arguments in favour of placing the order for the 7th CHALLENGER Regiment with Leeds whatever the outcome of discussions with Vickers and he will hope to persuade colleagues of this. Lord Trefgarne's letter to Sir David Plastow was intended to put maximum pressure on Vickers to put in a realistic bid for the acquisition of Leeds.
- b. Mr Younger made clear to Sir David Plastow that Vickers might not be the only bidder. But he thinks that in practice it is unrealistic to suppose that there will be other bidders for Leeds and in any event there is insufficient business to support two tank manufacturers.
- c. Mr Younger recognises the difficulty of determining the acceptability of a bid from Vickers and the importance of being able to justify the terms negotiated. He therefore intends to obtain the independent advice of Rothschilds, who have acted for us for some years in relation to Royal Ordnance and thus have detailed knowledge of the business, as well of course as the views of the Royal Ordnance Board. He doubts the utility of seeking further independent advice as suggested by the Chancellor.

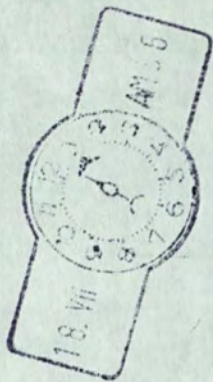
I am copying this letter to David Norgrove (No 10), John Mogg (DTI), Joan MacNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy's Office) and to Brian Unwin (Cabinet Office).

Yours sincerely,

(J F HOWE)

John Howe

A W Kuczys Esq
 HM Treasury



Prime Minister
Convent, subject to
colleagues, that privatisation of these
two organisations should be announced?

Commercial in Confidence

BF ||

cc B G
Any PV comments?

DR

DN

21/7

PRIME MINISTER

NATIONAL SEED DEVELOPMENT ORGANISATION AND PLANT BREEDING
INSTITUTE

Keith announced on 18 February that he and Michael Jopling had decided that a transfer of the National Seed Development Organisation (NSDO) and part of the Plant Breeding Institute (PBI) to the private sector would be desirable, providing it could be achieved on satisfactory terms. We have now received City advice on the proposal and it is our view that NSDO/PBI should be offered for sale later this year. I am writing to seek your agreement.

2. NSDO, based at Newton near Cambridge, is responsible for producing basic seed of state bred varieties. It was set up by Agriculture Ministers in 1967. NSDO passes to the Exchequer 50% of the royalties it receives and any dividend. In 1984/85 the Exchequer received £2.9m in royalties and £1.75m in dividend from NSDO. A number of state financed institutes breed new plant varieties but 80% of NSDO's revenues derive from varieties bred at the PBI. PBI is an institute of the Agricultural and Food Research Council (AFRC). Its programme consists of strategic plant science funded from the Science Budget and applied plant breeding commissioned by MAFF. The PBI carries out most of the state-funded production of finished varieties of cereals and rape seed and makes a major contribution in potatoes and field beans. The total annual costs of PBI are around £5m.

3. Michael Jopling and I have received advice from Lazard Brothers & Company Ltd on the options for transferring this work to the private sector. They concluded that NSDO/PBI could become a successful private business. The sale package should include all of NSDO and applied plant breeding at PBI. PBI's strategic plant science would remain in the public sector. The sale might raise about £40m, although consequential costs of perhaps £10m must be set against this. The transfer is most likely to succeed if the purchaser has the financial, technical and management resources to develop and support the asset. The world seed market is changing and it seems likely that multinational companies will become the principal players.

4. Criticism of the proposed sale is likely to come from agricultural interests, the seed trade and the scientific community. PBI has been very successful in breeding cereals, especially wheat, suited to the needs of UK farmers. Also NSDO has hitherto been prohibited from competing with private seed companies in several key areas. The scientific community is keen to maintain PBI intact because it has a world-wide reputation as a successful research foundation.

5. Michael and I nevertheless consider that a sale of NSDO/PBI will benefit the UK economy. We expect that a wide body of opinion will realise this, thus keeping any criticism within bounds. We favour a two stage tender process which would allow any company,

consortium or management buy-out team to bid. During this process we would seek assurances from potential purchasers about their commitment to plant breeding in the UK. We do not propose to restrict the activities of the new company after sale. However, the purchaser should be required to return to the Government varieties it does not wish to retain. Also, the scope for a time limited undertaking not to sell the assets and ways of securing work relevant to UK conditions should be explored in the two stage tender process.

6. A possible complication is that the transfer will affect the rights of the Agricultural Genetics Company, which was set up in 1983 to exploit biotechnology in the agricultural field. However, legal advice is that AFRC is in a strong position to renegotiate its agreement with this company.

7. The announcement that we intend to proceed with transferring NSDO/PBI to the private sector should state inter alia that the Government will seek to protect the interests of UK agriculture. The decision to retain strategic plant science in the AFRC should reduce criticism from the scientific community. The AFRC favour the transfer provided they retain control of this science, which supports plant breeding in both the public and private sectors.

8. If you agree, and subject to assurances which I am seeking in parallel from John MacGregor about meeting the costs, we propose to offer NSDO/PBI for sale later this year. Morale at NSDO and PBI has suffered because of the uncertainty about the future and the staff are the main asset of these bodies. I should, therefore, like to make an announcement before the recess.

9. Time is now short if we are to meet this timetable. I should be glad to know that you are content by Tuesday 22 July.

10. I am copying this letter to Michael Jopling, Malcolm Rifkind, Nicholas Edwards, Tom King and John MacGregor and, in view of E(DL) and E(CP) interests to Nigel Lawson, Peter Walker, Norman Fowler, Norman Tebbit, David Young, Paul Channon, John Moore, Norman Lamont, David Trefgarne and Michael Howard.

K.S.

Department of Education and Science 17 July 1986

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

*From the Secretary of State for Social Services*David Norgrove Esq
10 Downing Street
LONDON
SW1

16 July 1986

*Dear David,***PICKETING AT HUYTON LOCAL OFFICE**

You wrote to me on 11 June ^{PEIB act} about the Prime Minister's concern over developments at Huyton, asking for a report on events there and lessons to be learnt from the incident. The enclosed report has been prepared in consultation with the Department of Employment, and has been approved by my Secretary of State and the Paymaster General.

The report shows that events at Huyton took Government into uncharted waters. But as a result of the work done in various Departments we are now in a position to respond quickly and effectively should a union seek to repeat the TGWU's action against contractors in Government offices. So some useful lessons have been learnt.

I am copying this letter to Rachel Lomax (HM Treasury), Stephen Boys Smith (Home Office), Robin Young (Department of the Environment), Michael Saunders (Law Officers' Department) and John Turner and Susan Chappell (Department of Employment).

*Yours ever**A Laurance*A LAURANCE
Private Secretary

ECON POL: Privatisation: P14



THE SECRETARY OF STATE FOR
THE DEPARTMENT OF TRADE AND
INDUSTRY
1, WHITEHALL, LONDON SW1A 2JH

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INDUSTRIAL DISPUTE INVOLVING HUYTON LOCAL OFFICE

The Prime Minister has asked for a report on the above dispute dealing with its events, the lessons that might be drawn from it to prevent a recurrence elsewhere or to deal with a future dispute of the same nature; and has also asked that the report should consider whether changes in the law would help. A full statement of the events is attached. This note deals with the issues it raises.

The Use of an Injunction

2. When Donway Building Maintenance took over the contract for cleaning Huyton local office on 7 April the local TGWU mounted industrial action which included, on 16 April, a picket over 100 strong. Huyton local office was not the workplace of most of these people and local office staff were abused and intimidated. This picketing was outside the protection of Section 15 of the Trade Union and Labour Relations Act, 1974, as substituted by Section 16 of the Employment Act, 1980, and constituted nuisance and trespass. All the preliminary steps necessary to secure an ex parte injunction - the remedy providing relief in an emergency - against the TGWU were taken. The application was not heard in the High Court in Liverpool on 18 April only because the judge was unwilling to be interrupted in the middle of trying a murder case. Ministers decided over the weekend of 19-20 April that there ought to be more reflection over a step which, in the new week, no longer had the justification of "hot pursuit".



3. In the consideration which followed the strongest argument for action was always to seek to end the unlawful and unacceptable picketing organised by the local TGWU organiser, Mr John Farrell. On the other hand there was no precedent for an injunction being sought by the Government in a dispute in which it was not a direct party or against picketing which was unlawful. Legal action might have lead the TGWU, its officers, or others to defy the court. If this had happened, contempt proceedings would have been necessary and these might have had to be directed against individuals as well as the union. In the local circumstances there could have been ready martyrs. There was no guarantee that an end to the picketing could in fact have been secured. The possible eventual sequestration of the unions' funds could also have paved the way for a major confrontation.

So what?

There was already a major confrontation

4. Paying the rate sought by the TGWU through revising the contract would have cost a trifling sum. Additionally, after 16 April the picketing eased with only 6 or 7 on the line, removing the justification for any immediate application for an ex parte injunction. A second mass picket on 23 April was also peaceful and though the next day's was not, 24 April marked the virtual end of mass picketing. In these circumstances of a grumbling dispute, DHSS Ministers plainly needed to consult their colleagues before taking action. The Secretary of State accordingly did so on 18 May.

Collective Ministerial Consideration

5. In his letter of 18 May the Secretary of State for Social Services proposed to seek an injunction on notice against the TGWU in the case of any resumption of mass picketing, and also suggested that the proceedings for the injunction should be preceded by warning the TGWU of what was intended. The Prime Minister, the Attorney General, and the Paymaster General all supported the need for action, but Donway had by then agreed to talks with the TGWU under the auspices of ACAS. These had been arranged for 23 May. The Paymaster General suggested that their outcome should be awaited and not prejudiced by legal intervention on the part of the



Government. The talks, however, broke down and on that same day Donway asked to be excused from the contract and were allowed to do so without penalty. There was no further picketing and an injunctive remedy was no longer possible.

Action by Donway

6. Donway undoubtedly had good grounds of action, and available to them were the remedies that were open to the DHSS. They could have sought an ex parte injunction, probably successfully. In practice, however, Donway feared for their other contracts and were not unnaturally reluctant to take on the TGWU.

7. The changes introduced by the Acts of 1980, 1982 and 1984 have greatly extended the protection available to employers against illegitimate industrial action. Injunctions can provide a swift and relatively inexpensive remedy, and the record shows that they are used and are effective. The case for seeking an injunction, and more particularly for direct Government involvement, has to be weighed, before action is taken, against the costs, including any wider effects on industrial relations or other contracts.

Possible Damages

8. It is still open to Donway and the DHSS to sue the TGWU for damages, whether in relation to nuisance and trespass or for disruption to commercial contracts, the latter having regard to the Employment Act 1980. The provision removes immunity in respect of acts in furtherance of an industrial dispute in order to protect commercial contracts where there is unlawful secondary picketing.

9. There is no indication that Donway contemplates suing. The measurable financial loss to the DHSS does not add up to much - about £1,500 - apart from a highly problematical claim based on overtime paid and the deployment of Regional Staff reserves to catch up on arrears of work occasioned by the dispute. Action now by the DHSS would not help Donway except that it might to an extent



facilitate a similar action by them. But Donway would have to convince the Court independently that they acted reasonably in withdrawing from the contract. And, bearing in mind their other contracts and the cost of legal action, it is unlikely that Donway would want to sue any more than they were willing to seek an injunction.

10. An action for damages would not necessarily deter the TGWU from repeating their activities at Huyton or elsewhere. The action was local in origin and self-perpetuating, with pickets being attracted from a local unemployment centre. But in the event of the Merseyside TGWU trying to repeat their Huyton action at another contract-cleaned Government office the injunction weapon seems likely to offer the most direct and effective deterrent.

Adequacy of Legal Powers

a. Trades Union legislation

11. Civil legal remedies were readily available both to Donway and the DHSS. The dispute has revealed no formal gaps in the protections for employers and their employees which have been established since 1980. But the decision on whether to use the available civil remedies can only be taken by the affected parties in the light of their particular circumstances at the time.

b. Public Order legislation

12. There was substantial police interest and presence at Huyton. The police have the discretion to limit the number of pickets if public order is threatened and, of course, to deal with any criminal offences, including obstruction. The Home Office say that when the Public Order Bill is enacted the police will have more effective powers against mass picketing of the sort there was at Huyton.

*What
powers*



Lessons from the dispute

13. Any future dispute will be bound to differ in some respects from that at Huyton, but subject to that, Ministers would be in a position to respond with a great deal more assurance to any further challenge from the TGWU. Much of the staff work would not have to be repeated in any similar circumstances, because of the work done in this dispute by DHSS lawyers, the Treasury Solicitor, officials of the Law Officers' Department, and independent Counsel. Ministers have had to consider collectively the implications of applying legal remedies to this limited local dispute with the TGWU. Certainly if that union were to seek to repeat its action at other Government Offices in the Liverpool area the challenge would be overt and the need for a swift response that much more pressing. The ability of the Government to respond has been considerably enhanced by the work done on the Huyton dispute.

DHSS

July 1986



LIVERPOOL (HUYTON) ILO - INDUSTRIAL DISPUTE OVER CLEANING

STATEMENT OF EVENTS

1. The Huyton local social security office has 159 staff and is housed in Edendale House, a 7-storey building, the ground floor of which is occupied by the Department of Employment.
2. DHSS, as major occupier, is responsible for the cleaning, which has been carried out by private contract since 1972. A three year contract was awarded to Provincial Cleaning Service in April 1985. In January 1986 the firm asked to be released from the contract which they said they had been operating at a loss because of trade union influence on numbers of staff and rates of pay. They said they would like an opportunity to restructure and asked to be allowed to retender. In the event they did not.
3. Having obtained release from the contract Provincial wrote to their cleaners at Huyton on 28 January 1986 and told them that their employment would be terminated on 4 April. They added that if they were successful in obtaining the new contract they would be willing to interview the cleaners for further employment.
4. DHSS management mounted a new tendering exercise and on 7 March 1986 awarded a 3 year contract from 7 April 1986 to a local contractor, Donway Building Maintenance. Donway were to employ 7 cleaning staff at an initial hourly rate of £1.90. They intended to give sympathetic consideration to any of the Provincial cleaners who wished to apply for a job at Huyton.
5. On 21 March 1986 the cleaners working for Provincial ceased work, claiming they had been dismissed and from 24 March, with TGWU backing, they picketed the office. Provincial wrote to the cleaners on 26 March telling them that work was available for them at Huyton until 4 April. During the last two weeks of the Provincial contract



pickets were few in number and peaceful. On 1 April 1986 Mr Jones, a director of Donway interviewed applicants for jobs at Huyton at the local Job Centre, which was picketed by the Provincial cleaners. None of them applied for employment by Donway, who paid an hourly rate of £1.90, compared with the £1.96 which the TGWU expected.

6. It was suspected that the start of the new contract would lead to an increase in picketing. Accordingly, DHSS management held discussions with local senior police officers with whom, from then on, close liaison was maintained throughout the dispute. (Contacts were also subsequently made with the Assistant Chief Constable by DHSS Regional management and, at a later stage, between DHSS Headquarters and the Home Office.)

7. On 7 April, the first day of Donway's contract, DHSS Unions told their members not to cross the picket lines but this advice was ignored. During the day a mail courier service driver refused to cross a small picket line. By 4.30pm, when Donway's cleaners arrived, there were about 50 pickets and some jostling took place. The police removed the pickets from the office entrance but did not move them out of the official car park because of road safety considerations. Later that week Local Authority workers withdrew their refuse collection service from the Huyton office and GPO staff refused to collect outgoing mail. DHSS management made alternative arrangements in both cases. On 15 April, Donway cleaners were unable to get past pickets to enter the building until police arrived to move them away.

8. The dispute escalated on 16 April 1986 when TGWU mounted a heavy picket. Around 110-120 pickets took part and buses, including one from Kirkby Unemployment Resource Centre, were used to bring people in. Pickets were 5-6 deep around the staff entrance and car park. There was a great deal of abuse, foul language and pushing and cars were interfered with. The police were present but could do no more than contain the situation. Regional management thought that there was a danger that staff might be approaching the end of their tether. The pickets were rough and tough and staff caught up in the affair were frightened and upset.



9. In consequence of the events of 16 April officials decided to prepare to obtain an ex-parte injunction against the TGWU to restrain the unlawful picketing. The legal preparations were completed very quickly and although officials were unable to consult Ministers, agreement to go ahead was given by DHSS Private Office after consultation with the Second Permanent Secretary's Office. The application was made on 18 April, but the High Court Judge in Liverpool was conducting a murder trial and would not deal with the application.

10. Ministers called a meeting to consider the dispute on 21 April. Ministers decided that no Court action should be commenced until they had had the opportunity to consider the matter more carefully. They asked the Department's lawyers whether they would be breaking new ground by taking civil action in respect of unlawful picketing. Officials were asked to make an impartial assessment of the arguments for and against taking legal action against TGWU. Ministers were conscious that such action could lead, in the ultimate, to sequestration of Union funds.

11. The Department's lawyers confirmed with Treasury Solicitor that no action had previously been taken in respect of unlawful picketing and to this extent the Department would be breaking new ground. They also advised that the Civil Service Compendium on industrial action suggested that wider Ministerial consultation might be necessary before a decision to use the legislation was taken. Consultations also continued between officials and colleagues in Treasury and Department of Employment.

12. Picketing at Huyton was being maintained at a level of only 7 or 8 people, removing the justification for an application for an ex-parte injunction, which can only be granted to afford relief in an emergency.

13. On 22 April 1986 Mr I Jones, a Donway director, wrote to the Prime Minister describing events in the dispute and seeking her intervention. Donway solicitors also wrote to the Prime Minister on 28 April 1986. They explained the firm's difficulties in financing



litigation and emphasised the effect of the TGWU's actions on the firm and its employees. The solicitors urged the Prime Minister to arrange for the Department of Employment to seek an injunction to restrain the TGWU.

14. TGWU organised a further mass picket of about 75 persons on 23 April 1986. In contrast to the previous week the picket was generally peaceful. There was another mass picket, 80-100 strong, the following day and on this occasion there was a great deal of intimidation and abuse. There were scuffles between police and pickets and the windscreen of the contractor's van was smashed. The security firm hired to collect the mail were prevented from getting to the office but staff dispatched the mail by passing it over the rear wall of the office.

15. In the early part of May the extent of the picketing continued to ebb and flow, but nothing like the events of 24 April were repeated. The numbers of the pickets and the degree of abuse and intimidation varied from day to day. Local management at Huyton sent staff home early on days when heavier picketing was expected. Arrears of work began to build up requiring the office to be given the assistance of reserve staff.

16. Ministers remained concerned that the consequences of invoking legal powers to restrict the picketing should be properly assessed, with particular emphasis on the road down which such action could eventually lead. At a meeting on 6 May 1986 Secretary of State asked for the situation to be reconsidered.

17. The TGWU now sought to widen the dispute by threatening a contractor who handled rubbish collection in the Wirral with industrial action if he continued to collect refuse from three DHSS offices in that area. As a result the contractor withdrew his services from the Department and management were forced to make alternative arrangements.



18. On 12 May 1986, after a further meeting with Ministers, Secretary of State decided to consult colleagues holding out the possibility of an injunction on Notice, but suggesting that the Government should first make it clear to the TGWU its refusal to accept the kind of pressure being applied at Huyton. On 18 May 1986 Secretary of State wrote in these terms to colleagues. He set out the steps he proposed and pointed out that there was the eventual danger of the Government's finding itself in confrontation with the TGWU. He acknowledged that no-one would wish to contemplate such a situation but he saw no alternative to the measured response he had proposed if the TGWU continued its campaign against DHSS offices.

19. At this time ACAS became involved in the dispute and sought to bring Donway and the TGWU together. The Department informed ACAS, in confidence, that it had no intention of exerting pressure on Donway to negotiate but, if the outcome of any negotiations indicated it would be helpful, it would consider payment to Donway of a reasonable extra sum.

20. The Prime Minister's Office and the Attorney General both responded to Secretary of State on 22 May 1986 agreeing that the proposed action against TGWU should be taken. The Paymaster General replied to Secretary of State's letter on 23 May 1986. After discussing the legal considerations he said he did not in principle oppose the approach outlined by Secretary of State but encouraged him to examine the further choices which legal action might present. He concluded by referring to the ACAS talks and urged that no legal move should be made while they were in progress.

21. The talks arranged by ACAS between Donway and TGWU took place on 23 May 1986 but no agreement was forthcoming. Following the breakdown Donway announced their intention to withdraw immediately from the contract.

22. Donway's action left the Huyton office without cleaning services. Staff agreed to continue working and to clean the office on a self help basis, though the office's public reception area had to be closed. The situation in the office was not helped when,



during the night of 3/4 June, the roof tank overflowed, short circuiting the electrical system and causing a small fire. Staff had to be sent home the following day while repairs were carried out but returned to work voluntarily the following day.

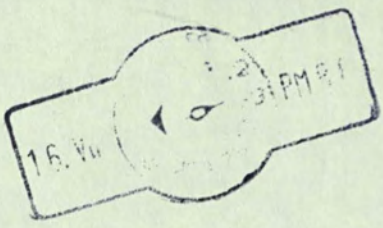
23. It was now imperative to restore cleaning services to the office. Legal opinion was that the Department were free to approach a contractor who had been unsuccessful in the previous tendering exercise. Only one of the cleaning firms who originally tendered, ICC, were prepared to take the job on. They intended to employ the redundant Provincial cleaners (including those who had picketed the office) and pay the Union rate. There was the possibility of another small firm who were looking for business but they were not one of the original tenderers. Ministers decided that the larger, established firm should be appointed. They directed that arrangements be put in hand so that, if, contrary to expectations, TGWU again proved troublesome, the Department could take immediate steps to prevent further interference with DHSS operations on Merseyside by authorising a "letter before action" to be sent prior to commencement of proceedings if these become necessary.

24. The Minister of State (Social Security) wrote again to colleagues on 10 June setting out the changed situation and describing the action he had decided to take. In response to a point raised by the Paymaster General, he explained that the smaller cleaning firm had not been seriously considered because they were not one of the original tenderers. "Union labour only" and union recognition requirements had not figured in the decision to let the contract to ICC.

25. Following Minister's decision ICC were engaged, on a temporary basis, and cleaning started on 16 June. The office re-opened to the public on 17 June. There has been no picketing of the office since 13 June.

26. Some fears were expressed over underlying staff resentment to the cleaners who were active on the picket line but no untoward incidents have so far been reported.

ECON. POL: Privatisation: Ptl4



CONFIDENTIAL

ccBG



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 July 1986

Ms C Pelham
Private Secretary to the Home Secretary
Home Office
Queen Anne's Gate
LONDON SW1H 9AT

WBP

Dear Clare

PRIVATISATION OF THE TOTE

Thank you for your letter of 7 July.

The Chancellor notes the Home Secretary's view that there is no case for including the commercial subsidiaries of the Levy Board in the same review as the Tote, and is content that consideration of the scope for disposing of these assets be taken forward separately and, as the Home Secretary suggests, on a longer timescale.

Our officials are in touch about the handling of the review of the prospects for privatising the Tote and the issue of who should benefit from any proceeds. It is obviously important to get agreed legal advice on this at the outset. The Chancellor also thinks that there would be advantage in involving financial advisers in this review. Once the Home Secretary has completed any necessary preliminary discussions with Sir Woodrow Wyatt, the next step would be for officials to agree terms of reference for advisers and an announcement in the usual way.

I am copying this letter to David Norgrove (No 10), Mike Gilbertson (DTI) and Michael Stark (Cabinet Office).

Yours ever,

Tomy
A W KUCZYS





Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

David Norgrove Esq
Private Secretary to the
Prime Minister
No 10 Downing Street
London
SW1

15 July 1986

pa

SS

To rep!

DN

Norgrove.
intensity!!

And = find reply from
Norgrove

Dear David

PRIVATISATION

DN
15/7

attached

F 16/7

Thank you for your letter of 11 July. EK of Basingstoke has written
... in identical terms to the Chancellor: I enclose a copy of his letter
and the Chancellor's reply.

Yours ever,

Tomy

A W KUCZYS

15.

I don't think
changes that
any further reply
needs to be provided
I'm



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

14 July 1986

Sir Emmanuel Kaye CBE
 Chairman
 Lansing Bagnall Limited
 Kingsclere Road
 Basingstoke
 Hampshire
 RG21 2XJ

A handwritten signature in dark ink, appearing to read 'Sir Emmanuel Kaye'.

Thank you for your letter of 7 July. I doubt if we will want to confine ourselves to a single election slogan, but your idea of 'Everyone an Owner' certainly encapsulates what will undoubtedly be one of our main themes.

As to your suggestion about free distribution of British Telecom (or any other) shares, I have rather more reservations. All experience points to the fact that something 'given' to electors without any payment being made is valued less than something which has been paid for. The buyer of British Telecom shares or of a council house has, in paying for them, made an important commitment, which is wholly lacking with a free gift. Some years ago the then Government of British Columbia made a free share issue of the kind you are suggesting and it fell foul of this paradox, as the recipient felt no identification with capitalism or the company and merely treated the issue as more spending money. Your time restriction would limit this latter point but would not overcome the former.

You may, incidentally, like to know that there were two District Council by-elections in my own (Midlands) constituency this month, and we did very well in both, winning one of them from the Liberals. So it looks as if our fortunes may have recovered somewhat since the May council elections. Nevertheless there is clearly much ground to be regained and your ideas are always welcome.

I would welcome an opportunity to see you some time in the autumn and suggest your secretary gives my diary secretary a call.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

LANSING • BAGNALL • LTD



Kingsclere Road
Basingstoke
Hampshire
RG21 2XJ
Telephone Basingstoke (0256) 173131
Telex: 858120 LBBAG
Facsimile Basingstoke (0256) 59622

Sir Emmanuel Hoyle, B.A.
Chairman & Governing Director

7th July, 1986

The Rt. Hon. Nigel Lawson M.P.
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG.

DRAFT REPLY BY 15.7.86 PLEASE

CH/EXCHEQUER	
REC.	08 JUL 1986
ACTION:	MR ROSS-GOODBEY
REF:	CST, FST, EST, MST
TO:	SIR P MIDDLETON
	MR MONLU
	MR MOORE MR GRIMSTONE
	MR CROPPER
	MR TYRLE

My dear Chancellor, OK
p. 20/21
M.

ELECTION SLOGANS

I have exchanged some correspondence with Norman Tebbit (copies attached) and pointed out that the Labour Party has appropriated as one of its slogans "Putting People First" - from consultants to British Airways! - and has adopted "Freedom and Fairness"; and asking him about an equally attractive Conservative slogan. He replied that it is not an easy task to find the right words to express a short encapsulation of the Conservative Party and Government policies and asked for my suggestions.

I have written to him saying that I do have a proposal, which has to be an entirely different approach and, of course, in line with Conservative philosophy and policy.

My suggestion is "Everyone and Owner" or "Everyone a Shareholder".

I think it would not be sufficient to have such a slogan without the possibility of making literally everyone, i.e. every elector from the age of 18 upwards, an owner or shareholder. This could be done by issuing every elector with (say) 100 shares in British Telecom for a payment of £1 - £10. There are almost 3 billion British Telecom shares left in Government hands, which would provide 100 shares for nearly 30 million people: If it is estimated that the number of applicants would be more than 30 million then the shares offered could be reduced to 90 or 80, or even to 50. The shares at present stand at around £2.30 each and the yield is 4.6%, so the purchasers would receive an annual dividend of about £10 less tax on 100 shares or £5 less tax on 50 shares.

There should be strings on the shares to the extent that they could not be sold for 3-5 years; and the dates they could be freed for sale could be staggered alphabetically. The shares could be collected

/over....



● from the Post Office against payment and on production of an electoral poll card, which would be stamped accordingly.

Such a scheme would be entirely new and different to anything which has been put before the electorate in the past, and it would, I believe, put a lustre on the chances of a Conservative win at the next General Election. The date for encashment of the shares could be arranged to fall just before the succeeding Election (say) in four years' time!! An alternative to British Telecom shares could, for instance, be shares in the Electricity Industry.

Britain was one of the first countries to have universal suffrage and, under this scheme, it would be the first to have universal shareholding. The scheme would be good for the young and good for the elderly in that it would, in return for a modest payment, give them a stake in one of the country's basic industries.

The Party is not, unfortunately, getting enough votes from the young, e.g. the Central Ward in the Oxford West and Abingdon constituency, where it is estimated that 95% of the voters are Undergraduates or Post-graduates. During the District Council elections held in Oxford this year, the Conservatives received only 14% despite an excellent campaign run largely by the Oxford University Conservative Association whose President, this term, is the hard-working Andrew Hordern, son of Peter Hordern.

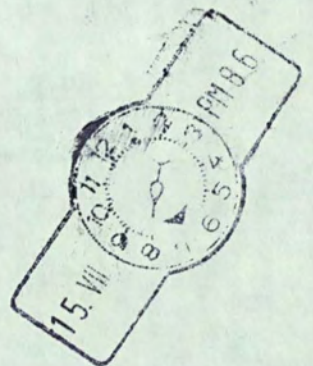
The calculation is that there would be some 4.4 million new voters since the 1983 General Election if the next one is held in April, 1988. Not only they but many others would have a very limited, if any, recollection of life under a Labour Government: Hence, it is vitally important to have a scheme which will appeal to the imagination of the young and be relevant to them.

I should be interested to have your reaction.

Would it be possible for us to have lunch or a drink together at my London home - 25 St. James's Place, S.W.1. - in the autumn? If you feel it would be feasible, may I suggest that our respective secretaries liaise to find a mutually convenient date.

With all good wishes,
 Jes Lavef
 J. Lavef







DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London SW1

1. ~~TF~~ to see.
2. cc ~~Russell~~ ~~Raeburn~~
~~Alison Smith.~~
3. NBPN.

DN
 16/7

15 July 1986

Dear David,

**NATIONAL SEED DEVELOPMENT ORGANISATION AND PLANT BREEDING
 INSTITUTE**

I am writing to give you advance notice that my Secretary of State wishes to make an announcement about a privatisation proposal before the recess. He is planning to consult the Prime Minister later this week but is delaying writing until after Wednesday, when we expect to receive legal advice on the extent of a possible obstacle.

2. After agreement with Mr Jopling, Sir Keith Joseph announced on 18 February that the Government would be seeking financial advice about privatising the National Seed Development Organisation, NSDO, and part of the Plant Breeding Institute, PBI. NSDO is responsible for producing basic seed of state bred varieties. PBI is an institute of the Agricultural and Food Research Council, AFRC. It carries out most of the state-funded production of finished varieties of cereals and rape seed and makes a major contribution in potatoes and field beans.

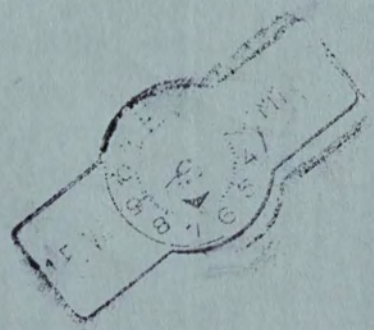
3. My Secretary of State and Agriculture Ministers have received advice from Lazard Brothers & Company Ltd on the privatisation options. Lazard's concluded that NSDO/PBI could become a successful private business. Mr Baker and Mr Jopling have decided that NSDO/PBI should be offered for sale later this year.

4. Criticism of the proposed sale is likely to come from agricultural interests, the seed trade and, to a lesser extent, the scientific community. There has been a fair amount of Parliamentary interest. This, and the need to maintain morale and staff in PBI and NSDO makes an announcement before the recess desirable. Mr Baker will be seeking the Prime Minister's agreement shortly.

5. Copies go to Sir Robert Armstrong, John Fairclough, and the private secretaries to the Minister of Agriculture, Fisheries and Food and the Secretaries of State for Scotland, Wales and Northern Ireland. A copy also goes to Jill Rutter; the Secretary of State has written for clearance to the Chief Secretary.

yours sincerely
Rob Smith

R L SMITH
Private Secretary





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 July 1986

PRIVATISATION

BF // I attach an extract from a letter to
the Prime Minister, and would be grateful
for your comments.

(David Norgrove)

Tony Kuczys, Esq.,
H.M. Treasury.

h

"We need to make everyone i.e. every elector from the age of 18 upwards, an owner or shareholder. This could be done by issuing every elector with (say) 100 shares in British Telecom for a payment of £1 - £10. There are almost 3 billion British Telecom shares left in Government hands which would provide 100 shares for nearly 30 million people, if it is estimated that the number of applicants would be more than 30 million then the shares offered could be reduced to 90 or 80 or even to 50. The shares at present stand at around £2.30 each and the yield is 4.6%, so the purchasers would receive an annual dividend of about £10 less tax on 100 shares, or £5 less tax on 50 shares.

There should be strings on the shares to the extent that they could not be sold for 3 - 5 years; and the dates they could be freed for sale could be staggered alphabetically. The shares could be collected against payment from the Post Office on production of an electoral poll card, which would be stamped accordingly.

An alternative to British Telecom shares could be, for instance, shares in the Electricity Industry."

PRIME MINISTER

10 July 1986

4,
DGS
10/7

CCB/CP

BRITISH BUSINESS AFTER 7 YEARS OF THATCHERISM
(POPULAR CAPITALISM AT WORK IN THE NFC)

I have set out to explore behind the familiar aggregate statistics and gauge the health and vitality of British industry and business after 7 years of Thatcherism. I am prompted to do this by the marked contrast between the gloomy top-down view of macro economists and the heartening impressions formed by visiting businesses - large and small, private and public sector.

Most economic gurus analysing the aggregate statistics, seem to conclude that 7 years of Thatcherism has done little to arrest the steady relative decline of our business sector. The Government is given some of the credit for the increased profitability of the business sector and the consequent upturn of investment to re-equip and improve productivity. The Government's contribution to the improved industrial relations climate is acknowledged, but the potential benefits are rarely reflected in economic forecasts; nor those from institutional changes such as the privatisation programme. As a body, our businessmen and industrialists are portrayed as dispirited and second-rate.

That is not at all how one senses the mood in the office, on the shop floor or on the work site. I am convinced that there has been a remarkable change in the attitude and spirit

of the people - managements and workforces - since the late 1970s. Moreover, I suspect that, as yet, the latent potential from this change has barely shown up in the aggregate performance of the business sector. This new spirit is the "x factor" which can transform our economic outlook, particularly when coupled with:

- the restructuring and capital re-equipment which have taken place over recent years;
- the institutional changes prompted by the Government;
- the greater professionalism and market orientation of the new generation of managers.

Businessmen sense this (witness, for example, recent Institute of Directors surveys) but not, as yet, the macro economists.

I have begun a more thorough search to test this hypothesis by reviewing the progress of the National Freight Consortium plc (NFC) since its privatisation by employee buy-out in 1982. Is NFC's successful performance since then sustainable - or has it merely been a predictable upswing from the recession of the early 1980s? The management and most of NFC's 26,000 workforce are the same people as those who were failing in the public sector. What has transformed their attitudes and performance? Are the same favourable factors at work elsewhere?

Sir Peter Thompson, the Chairman of NFC, is in no doubt that the transformation is profound and permanent. Profit is no longer a dirty word. It is recognised as the measure of and reward for success by the 70% of NFC's workforce who own more than 80% of NFC's shares. Apart from receiving dividends as shareholders, the majority of the workforce are on bonus schemes related to the profitability of their parts of the Consortium. 15% of pre-tax profits are set aside for such bonus schemes.

In the 1970s, Thompson and his fellow managers found themselves constantly responding to disputes, often over mindless restrictive practices jealously guarded by the unions. As a nationalised industry, the ethos of the NFC was to provide a service and protect jobs, irrespective of the quality of the service and its relevance to the competitive markets in which NFC was operating. Management protestations that the business could not afford the demands of the unions were countered by the retort that the Government always could.

No doubt the switch to employee participation in a private sector business played an important part in changing these sterile attitudes, which by 1981 had dragged the business so low that privatisation hardly looked possible. However, the channels of communication opened up with the entire workforce in the course of the employee buy-out were, I suspect, at least as important. The buy-out was adamantly opposed by the T&GWU, the principal union. To succeed, the

Several new NFC businesses have been built on the expertise of existing companies. Our biggest diversification during 1984/85 was this Britannia Gas terminal at Immingham for the import and storage of LPG (liquefied petroleum gas), which grew out of Tankfreight's experience.



A new temperature-controlled distribution centre at Gillingham, Kent, one of three opened by Tempco Union during the year. Its features include a large loading bay with its own refrigeration, and mobile racking in one of the two 600,000 cubic foot chambers, which can store at temperatures down to minus 30 degrees Celsius. It has Lloyds certification and is Customs bonded.



Fashionflow has opened two new distribution centres for Marks & Spencer's merchandise, both with advanced automated package handling using laser bar-code readers.



management had to bypass the normal union-dominated channels and communicate directly with the workforce.

The experience was a revelation to both sides. Thompson says that today he and his managers plan and direct the business in much the same way as they did before 1982. The difference is that now they spend a high proportion of their time, not in confrontation with the unions, but in motivating the staff through direct communication. Management have not abdicated their decision-making responsibility - far from it. But now the decisions are influenced by ideas and market intelligence from the staff. Now, the rationale for the decisions are communicated to the staff.

The benefits are evident. The workforce bubbles with ideas for improving "their" company and winning new business. Many of them have direct contact with the market. Frequently, they feed back intelligence about competitors and new business opportunities. Given the new focus on NFC's markets and freed from public sector constraints on the scope of the business, NFC has generally moved upmarket from heavy contract haulage to sophisticated warehousing and distribution on behalf of major retailers like Marks & Spencer, and Harris Queensway.

Capital expenditure, regularly capped at £25 million a year in the public sector, has increased fourfold. Staff numbers, down from 62,000 in 1972 to 23,000 in 1981, are back to 26,000 and climbing. Previously confined to Europe, the privatised NFC is successfully expanding in the US, Australia,

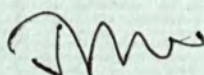
New Zealand and the Far East. Trading profits have grown from £4 million in 1981/2 to £36 million in 1984/5, and the result for the first half of 1985/6 has been a further 30% increase.

At the bottom line, a £1 shareholding interest in NFC in February 1982 is now valued at £27. NFC's employees are popular capitalists par excellence.

Conclusion

NFC's remarkable transformation is no flash in the pan. Nor is it due to a unique combination of special factors - mainly the switch from management/union confrontation hedged around by restrictive practices to management/workforce teamwork based on shared objectives and good communication. Privatisation in the form of an employee buy-out has been a stimulus to the transformation of attitudes.

I am looking forward to compiling extensive evidence to support the hypothesis that the latent potential of British business is greater than economists would allow from analyses of the aggregate statistics.



JOHN WYBREW

MR. NORRGROVE

You might like to get advice from the relevant Department on the ideas put forward by Emmanuel Kaye in the final paragraph of page 1 and the first paragraph of page 2 - I would not like the whole of this letter sent to Departments where it would be circulated.

You will see that the Prime Minister has already acknowledged the letter.

Sh

STEPHEN SHERBOURNE

9.7.86

Kaye



10 DOWNING STREET

THE PRIME MINISTER

Personal

3rd July, 1986

Dear Emmanuel.

Thank you for your letter of 26th June. I was most interested in your ideas. We have both been thinking along similar lines. I have for some time been setting out in my speeches the aspiration of "every earner an owner". You have backed up the slogan with some original thinking which I would like to consider carefully.

I also agree with you about the importance of winning the support of the young. One difficulty here is, of course, that they cannot remember how bad things became under Labour. What matters therefore is that our policies, which spring from our past achievements, are seen by the young as charting the way to a better future for them.

Denis and I are very much looking forward to seeing Elizabeth and yourself at Glyndebourne. It will be a real treat.

Yours

Royals

Sir Emmanuel Kaye, CBE

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Sir Emmanuel Kaye, C.B.E.
Chairman & Governing Director

278/6

26th June, 1986

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
Prime Minister
10 Downing Street
LONDON S.W.1.

STRICTLY PERSONAL

My dear Prime Minister,

ELECTION SLOGANS

I have exchanged some correspondence with Norman Tebbit (copies attached), pointing out that the Labour Party has appropriated as one of its slogans - "Putting People First" - from consultants to British Airways; and has adopted "Freedom and Fairness" and asking him about an equally attractive Conservative slogan. He replied that it is not an easy task to find the right words to express a short encapsulation of the Conservative Party and Government's policies and asked for my suggestions.

I have written to him saying that I do have a proposal which has to be an entirely different approach and, of course, in line with Conservative philosophy and policy.

My suggestion is "Everyone an Owner" or "Everyone a Shareholder".

I think it would not be sufficient to have such a slogan without the possibility of making literally everyone, i.e. every elector from the age of 18 upwards, an owner or shareholder. This could be done by issuing every elector with (say) 100 shares in British Telecom for a payment of £1 - £10. There are almost 3 billion British Telecom shares left in Government hands which would provide 100 shares for nearly 30 million people, if it is estimated that the number of applicants would be more than 30 million then the shares offered could be reduced to 90 or 80 or even to 50. The shares at present stand at around £2.30 each and the yield is 4.6%, so the purchasers would receive an annual dividend of about £10 less tax on 100 shares, or £5 less tax on 50 shares.

/over....



There should be strings on the shares to the extent that they could not be sold for 3 - 5 years; and the dates they could be freed for sale could be staggered alphabetically. The shares could be collected against payment from the Post Office on production of an electoral poll card, which would be stamped accordingly. / B

Such a scheme would be entirely new and different to anything which has been put before the electorate in the past and it would, I believe, put a lustre on the chances of a Conservative win at the next General Election. The date for encashment of the shares could be arranged to fall just before the succeeding Election, say, in four years' time!!

C/ An alternative to British Telecom shares could be, for instance, shares in the Electricity Industry. / D


Britain was one of the first countries to have universal suffrage, and under this scheme it would be the first to have universal shareholding. The scheme would be good for the young and good for the elderly, in that it would, in return for a modest payment, give them a stake in one of the country's basic industries.

The Party is unfortunately not getting enough votes from the young, e.g. the Central Ward in the Oxford West and Abingdon constituency, where it is estimated that 95% of the voters are under-graduates or post-graduates, during the District Council elections held in Oxford this year, the Conservatives received only 14% despite an excellent campaign run largely by the Oxford University Conservative Association, whose president this term is the hard-working Andrew Hordern, son of Peter Hordern.

The calculation is that there would be some 4.4 million new voters since the 1983 general election if the next one is held in April, 1988. Not only they, but many others, would have only a very limited, if any, recollection of life under a Labour Government, hence it is vitally important to have a scheme which will appeal to the imagination of the young and be relevant to them.

I was delighted to read that on your visit to Israel Shimon Peres greeted you with a quotation from the Proverbs: "Many daughters have done valiantly, but thou excelleth them all". How appropriate!

If you can spare the time, I should naturally be interested to know your views on the proposed slogans and scheme.

Elizabeth, I am greatly looking forward to the pleasure of seeing you & Denis at Ryndebourne on the 26 July. Yours very sincerely,
Emanuel 



JU792

Secretary of State for Trade and Industry

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9 July 1986

John Howe Esq
Private Secretary to the
Secretary of State for Defence
Room 6165
Main Building
Ministry of Defence
Whitehall SW1A 2HB

CDP

Dear John,

David Norgrove sent us a copy of his meeting note on privatisation of Royal Ordnance plc (June 17). There is one point arising from this note which we would like to draw to your attention.

David Norgrove records a brief discussion on future options for Nimrod during which it was noted that "a suitable Rolls-Royce engine was not now available for Boeing 707s". Whilst we accept this accurately reflects the situation today, MOD will no doubt be bearing in mind that the V2500 engine, which is due for certification in 1988, could be available for installation on military applications of the B707 airframe. Indeed, it has already been suggested that the V2500 should be put forward for certification on the KC135 tanker as a second source to the CFM56-2, which has also been selected to power "AWACS" aircraft for both the French and the Royal Saudi Air Forces. The V2500 which is in the same thrust range as the CFM56 (around 25,000 lbs) is being developed by the five-nation IAE consortium in which Rolls-Royce has a 30% share.

I am copying this letter to David Norgrove at No 10.

Yours sincerely,

Bradley

CATHERINE BRADLEY
Private Secretary

17
19
86
BOARD OF TRADE
BICENTENARY

ECON POL
PRIVATISATION
PT 14





10 DOWNING STREET

Prime Minister ⁴

The table in ~~page~~ ^{IN ATTACHED FOLDER} 19

has some impressive figures.

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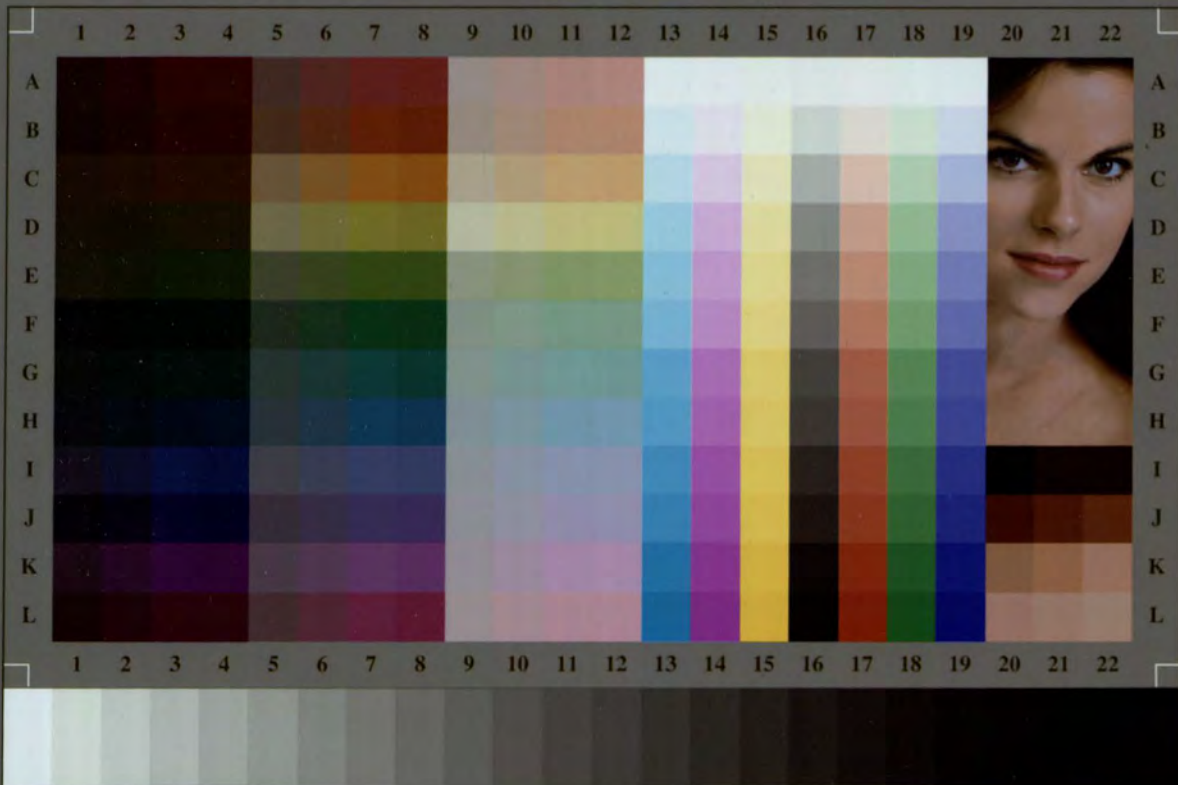
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