

PREM 19/2713

NEW FILE COVER

CONFIDENTIAL FILING

REQUEST FOR PART OF PROPERTY SERVICES AGENCY, PSA SUPPLIES TO TRADE UNDER THE NAME THE CROWN SUPPLIERS THE FUTURE OF THE CROWN SUPPLIERS.

GOVERNMENT
MACHINERY

SEPTEMBER 1983

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PREM 19/2713



THE DEPARTMENT OF TRANSPORT



cc/ps

FROM THE SECRETARY OF STATE



2 MARSHAM STREET LONDON SW1P 3EB
TELEPHONE 01-276 3000

COMMERCIAL-IN-CONFIDENCE

My Ref: C/PSO/14483/89

Christopher Chope Esq MP
Parliamentary Under Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Your Ref:

NBPM
REC6
29/11/88 NOV 1988

Dear Christopher,

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 26 October about the plans for privatisation of The Crown Suppliers. *Will request if required*

Officials in my Department are in touch with yours about the terms of a possible contract for IDS services. Provided the terms on offer are satisfactory and represent value for money DTP will want to use the privatised service.

I am copying this letter to all Ministers in charge of Departments and to Sir Robin Butler.

Yours
Cecil
Parkinson

CECIL PARKINSON



COMMERCIAL IN CONFIDENCE

HOUSE OF LORDS,

SW1A 0PW

November 1989

nblm

*Rec'd
14/11*

Dear Christopher,

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 26 October 1989 about the
privatisation of The Crown Suppliers. *WILL REQUEST IF REQUIRED*

My Department proposes to continue to use the Interdepartmental
Despatch Service after privatisation, provided an acceptable
contract can be agreed with the successful purchaser. I hope
that officials can agree a satisfactory basis for this contract
within the required timetable.

I am copying this letter to all Ministers in charge of
Departments and to Sir Robin Butler.

*Jan. ex,
Jan.*

Christopher Chope Esq MP
Parliamentary Under Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB



DEPARTMENT OF SOCIAL SECURITY
 Richmond House, 79 Whitehall, London SW1A 2NS
 Telephone 01 210 3000

From the Secretary of State for Social Security



NBP
Page 8/11

COMMERCIAL IN CONFIDENCE

The Rt Hon Chris Patten MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 London
 SW1

7 November 1989

L. Chris

PRIVATISATION OF CROWN SUPPLIERS

Thank you for your letter of 26 October about the plans for
 privatising The Crown Suppliers.

will request if required

The Interdepartmental Despatch Service national network provides a collection and delivery service to both the Departments of Social Security and Health by way of a single pick up point in central London. We propose to continue to make use of that service after privatisation, provided the terms of the contract with the new operator are satisfactory. My officials are in touch with yours about the proposed contract which will need to demonstrate that we shall be getting a value for money service from the IDS in a market which, as you will know, is highly competitive.

I am copying this letter to all Ministers in charge of Departments and to Sir Robin Butler.

lvc.
Copy

TONY NEWTON

dti

the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
London SW1A 2AT

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

1. *AD - to see* ^{BT 27/6}

2. *NBPM*
at this stage

file 6

27/6

Direct line 215 5422
Our ref PB5BIV
Your ref
Date 26 June 1989

See Lord President

LEGISLATIVE PROGRAMME 1989/90: CROWN SUPPLIERS BILL

I am following up the recent correspondence concerning the Crown Suppliers Bill and its possible extension to cover the privatisation of the National Engineering Laboratory (NEL).

The key outstanding policy issues on NEL have now all been resolved and the policy announced. There are no significant unresolved policy issues remaining with the Treasury, and the only matters to be discussed are points of detail, primarily how expenditures in pursuit of privatisation under the agreed policy are to be phased and the appropriate provision that needs to be made for redundancy costs associated with reduced staffing levels.

The Government's policy on the future of NEL has been announced in Parliament on 17 May. This includes transferring the business and staff of NEL out of the Civil Service to a Government-owned company, to be privatised once restructuring and a more commercial approach has been achieved. Urgent consideration is being given to what type of company would be most appropriate. The NEL site will be developed as a science and technology park under control of the new company. We hope to begin developing the site and restructuring NEL's business on commercial lines as soon as possible.

Subject only to minor adaptation, Parliamentary Counsel's first draft of The Crown Suppliers (TCS) Bill is almost exactly what is needed to deal with NEL, in particular clauses 1 and 2. We may in addition require an additional short provision to cover the financing of the Government-owned

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the department for Enterprise

company prior to its sale, but we understand that the Department of the Environment may, depending on its current discussions with Treasury, also need an addition to the Bill on these lines. I attach a more detailed note on NEL's legislative requirements.

I now seek your agreement and that of Nicholas Ridley to the inclusion of NEL in the TCS Bill as implementing the announced plans for NEL will be severely hampered if legislation is not secured in the near future. If possible, I would very much hope a decision could be reached through correspondence, but you may wish to have a meeting.

I am sending a copy of this letter to the Prime Minister, Nigel Lawson, Nicholas Ridley, John Major, the Chief Whip and the First Parliamentary Counsel.

Yours sincerely

Ken Hawcutt

Approved by the Secretary of State
and signed in his absence

VT1MON07.SEP

PRIVATISATION OF THE NATIONAL ENGINEERING LABORATORY (NEL) - PAPER
BY SECRETARY OF STATE FOR TRADE AND INDUSTRY

The Issue

Legislative requirements for NEL privatisation.

Recommendation

- 2 Privatisation requires primary legislation in order to:
 - (a) provide for the setting up of a Government owned company to which the staff and business of the laboratory can be transferred out of the Civil Service under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE); and
 - (b) ensure that no redundancy payments under the Principal Civil Service Pension Scheme (PCSSPS) are made to the staff who transfer to the new company.

It is proposed that the provisions of the Crown Suppliers Bill should be extended to cover NEL.

Background

3 On 17 May following receipt of the Touche Ross report on the way forward to achieve successful privatisation of NEL and collective consideration by Ministers, the Secretary of State for Trade and Industry announced that he proposed to follow the

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consultants recommendation and to transfer the laboratory out of the Civil Service into the ownership of a limited company, the National Technology Centre Limited, whose shares would be held initially by Government, but which could later be sold when the business of the laboratory had been transformed. Moreover the NEL site was to be developed as a science and technology park under the control of the company. The Secretary of State promised to bring forward the necessary legislation as soon as possible.

Need for Legislation

4 Legislation to set up a company which would absorb an existing part of a Government Department is needed in view of a long-standing Treasury commitment to the Public Accounts Committee, given in 1968, that legislation would normally be introduced whenever it is proposed to hive off a Crown body to a Government-owned company (Third Report from the PAC, Session 1967-69, paragraphs 76-83).

5 It is also clear that the position of NEL staff as regards redundancy compensation cannot be satisfactorily resolved without legislation for the following reasons:

- (i) the Government is bound by the EC Acquired Rights Directive, whose effect is that where an undertaking is transferred from one owner to another, the staff employed in it on the transfer date should

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automatically become employed by the new owner upon the same terms and conditions (including terms as to the payment of redundancy compensation);

- (ii) the Directive is implemented in the United Kingdom by TUPE;
- (iii) TUPE does not apply to the provisions of occupational pensions schemes, such as the PCSPS. The PCSPS provisions include the terms for the payment of compensation to staff who are made redundant by the Civil Service (the statutory redundancy scheme does not apply to them);
- (iv) As a result, irrespective of the terms of employment offered by the new company taking over NEL, staff employed at NEL on the transfer date would not only become employees of the new company, but would also be treated as having made redundant under the PCSPS and would be entitled to compensation under its provisions. The payment of compensation in those circumstances would be unacceptable, not only because of the sum involved in relation to NEL (we estimate that if 400 employees were transferred to the new company the sum involved would be £15m) but also because of the precedent it would set for other privatisations.

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6 In the case of other transfers out of the Civil Service (notably the dockyards and ordnance factories, and more recently the Skills Training Agency) these problems have been dealt with by the introduction of legislation which overrode the provisions in the PCSPS for the payment of redundancy compensation, it being ensured instead that employees' rights to redundancy compensation would be taken over by the new owner.

Timing

7 The Secretary of State wishes to minimize the uncertainty of NEL staff and management over their future, and to enable the proposed company to be set up as soon as possible and to continue the work of necessary restructuring of the laboratory to produce an entity which can be privatised and to develop a science and technology park. Therefore it is desirable that legislation should be passed by the end of the 1989/90 Session. The proposed Crown Suppliers Bill which it has been agreed should be introduced in the next Session contains provisions which are almost exactly what is needed to deal with NEL, in particular its Clauses 1 and 2. There will probably need to be an additional clause covering the financing of the Government-owned company prior to its sale, but it is understood that such a clause may in any event be required to deal with the position of the Crown Suppliers, depending on current discussions between the Department of the Environment and the Treasury, with the result that it should be possible to adapt the Bill for the purposes of NEL privatisation without significantly adding to its length.

Department of Trade and Industry

June 1989

GOST NACH: Crown Supphan, Sept 3..



CONFIDENTIAL

cap



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

24 May 1989

nbpm

Dear Nick

CROWN SUPPLIERS BILL

- will request of reqd.

Thank you for your letter of 19 April seeking permission to make a commitment to potential purchasers that the sale of Crown Suppliers would be completed in 1990, thereby enabling the sale competition to be launched early. You also wrote to me on 4 May about your proposal that provision should be included in the Bill to pave the way for privatisation of the service business of the Property Services Agency (PSA) and David Young's request that similar provisions on the National Engineering Laboratory (NEL) should be included.

Norman Lamont has suggested that the sale competition would be better launched early in the Autumn and this question of timing needs to be settled before we can consider whether there is any way of making some form of commitment which does not unduly cut across the convention that undertakings are not given about the contents of future legislative programmes in advance of the Queen's Speech.

On the question of additions to the Bill, I agree that it would not be sensible to take decisions about legislating on either PSA or NEL until the further work on the proposals for these privatisations requested by the Chief Secretary and, in the case of PSA, by the Prime Minister, has been completed.

I am copying this letter to the Prime Minister, John Major, David Young and Sir Robin Butler.

John Wakeham
John

JOHN WAKEHAM

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

ccfu



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

The Rt Hon Norman Lamont
Financial Secretary
HM Treasury
Parliament Street
LONDON
SW1

pm
1. Mr Beaufort - to see 4 November 1988
2. NBPM
REC
2/4

Dear Norman

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 20 October ^{at Hop} agreeing in principle to my proposal that The Crown Suppliers should be allowed to commence trading with the private sector.

I am advised that the Government Trading Funds Act 1973 does not preclude The Crown Suppliers from serving the private sector. I attach two extracts from advice dated 18 January 1984 from DOE's Solicitor; I am told that advice still holds good.

I too attach importance to the four constraints in paragraph 3 of the Business Plan which you quote in your letter. I propose to ensure that these constraints are met and to provide for the monitoring of the Business Plan in that respect. I think setting a target of an average gross margin of 25%, 5% above average margins on public sector sales, should serve to protect us from any charges of unfair competition, but it will be for The Crown Suppliers to ensure that they do not offend against this. I propose to adopt David Young's suggestion, in his letter of 28 October, about the statement to include in the Written Answer.

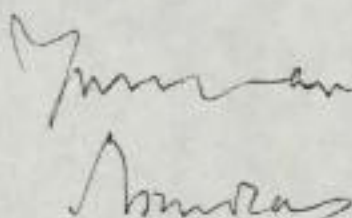
The collaborative agreement with Ernest Gill is important to the Crown Suppliers and I really cannot see it doing any harm with potential purchasers. The arrangements would be for 12 months in the first place, thereafter subject to three months notice of termination by either party: this form is common in The Crown Suppliers' contracts. Gill's plans for their first showroom are now well advanced, and if they are unable to sell Crown Suppliers' products they will sell their own range, in direct competition. Finally, I believe it would be unwise to hesitate about the agreement with Gill on the grounds that privatisation might take place quite soon. Although officials are looking at ways of



achieving this, it looks increasingly likely that we shall have to wait for legislation. There does not appear to be any way round the technical redundancy problem, short of legislation.

While the arrangement with Gill is a business opportunity which I really think we should allow The Crown Suppliers to take, I see no need to single this out in the Written Answer. I enclose a draft which, subject to any final comments, I propose to make within the next week.

I am copying this letter to the Prime Minister, David Young, Norman Fowler and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY



THE CROWN
SUPPLIERS

DRAFT WRITTEN ANSWER

QUESTION: To ask the Secretary of State for the Environment what further progress has been made towards the privatisation of The Crown Suppliers.

ANSWER: As a step towards privatisation I have authorised The Crown Suppliers to commence selling to the private sector. This activity will be controlled in accordance with a Business Plan which will provide for sales and costs to be monitored by Ministers to ensure that there is no undue cross-subsidisation of the sales to the private sector. The arrangement will enable The Crown Suppliers to test their ability to trade with the private sector, which will be a feature of privatisation.

Has the 1973 Act affected the powers of PSA? The Act is primarily concerned with accountability, not powers : but it has been suggested that since it describes the PSA supplies division as concerned with the supply of goods and services to government departments and other agencies in the public domain, that PSA will be inhibited for supplying BT once it is privatised.

I do not think there is much in this argument. The relevant words describes the functions of Supplies Division. I do not regard them as intended to limit those functions (or the extent to which they can be financed by a trading fund under the Act). I say this because Section 1(3)(f) clearly contemplates that other services which trade with the public at large may be the subject of trading fund orders: and certain of the other bodies mentioned in Section 1 clearly were in 1973 (and still are) trading with the public. Why should the 1973 Act put some special restrictions on the Supplies Division when eg an order might be made under Section 1(3)(f) in relation to another Division of PSA without the Act impinging on the question whether it can trade with the public? And if the 1973 Act is reflecting any existing limitation on the powers of PSA, where is that limitation?

THE PREROGATIVE POWER OF THE CROWN TO TRADE

It has always been accepted that the Crown enjoys an inherent prerogative right to contract. It is accepted constitutional doctrine that if Parliament legislates in a particular area where there are prerogative powers, the statutory provisions supersede the prerogative powers. Where the statutory powers are narrower, the consequence is an abatement of the Crown's powers (AG v De Keyser's Royal Hotel Ltd).

Reference has been made in earlier papers to the Opinion given by Sir Maurice Cwyer in 1932 that "as a natural person the King in addition to his special prerogative possesses equally with his subjects those rights which the Common Law confers on all free men, including ... the right to enter into contracts" and to the comments of Sir Anthony Stainton when drafting the Agriculture (Miscellaneous War Provisions) Bill "I have deliberately not given you an express power to buy, sell etc. I think it is clear that His Majesty can set up as many shops as he likes provided he can persuade Parliament to pay for his trading losses. It seems to me ... it is important not to draft Acts which might tend to throw doubt on the constitutional principle that there is nothing in law to prevent the Crown in engaging in such activities as it pleases, except in so far as Parliament may have otherwise provided."

GOVT MACH: Crown Supplier Sept 83.

cc. P.H.

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Rt Hon Nicholas Ridley
AMICE MP
Secretary of State for the
Environment
Department of the Environment
2 Marsham Street
LONDON SW1A 3EB

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*M.B.P.M.
P.C.G.
18/10*

Direct line 215 5422
Our ref PB5AEK
Your ref
Date 28 October 1988

Jean Secretary of State,

PRIVATISATION OF CROWN SUPPLIERS

with request if report

I have seen the exchange of letters between you and Norman Lamont dated 6 and 20 October.

I wish to join with Norman in giving you support for your proposal that the Crown Suppliers (TCS) be authorised to make a cautious beginning in serving private sector customers, with the caveat proposed below.

As Norman rightly pointed out I do have an additional comment to make about the possibility of complaints about unfair competition. These may well arise as I understand that TCS will have a target rate of return which may not appear to be demanding compared with those in the private sector. Although TCS' Business Plan indicates that relatively high margins will be set for the new sales to the private sector, I think we should also seek to safeguard ourselves as far as possible against complaints from TCS's private sector competitors about undue cross subsidisation. I should therefore be grateful if your Written Answer would include a statement to the effect that TCS' sales and costs will be monitored by Ministers to ensure no undue cross-subsidisation of the new sales to the private sector.

The monitoring will have to be by Ministers as the Director General of Fair Trading will not be able to act on complaints against TCS while it remains under the Crown. This means, in effect, it will need to be done by your officers. Once TCS is privatised, however, competition legislation should apply.

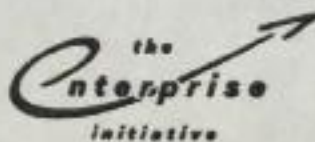
dti

the department for Enterprise

I am copying this letter to the Prime Minister, Norman Fowler,
Norman Lamont and Sir Robin Butler

Yours sincerely
Morgan Ken

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

The logo features the word "Enterprise" in a stylized, bold font with an arrow pointing upwards and to the right. Above "Enterprise" is the word "the" in a smaller font, and below it is the word "Initiative" in a smaller font.

the
Enterprise
Initiative

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CEPU

MBL

RAC

20/10

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of Environment
 2 Marsham Street
 LONDON
 SW1A 3EB

20 October 1988

Dear Nick

PRIVATISATION OF CROWN SUPPLIERS *AC*

Thank you for your letter of 6 October proposing that The Crown Suppliers (TCS) be authorised to make a cautious beginning in serving private sector customers.

There is always a certain sensitivity in allowing public sector bodies to compete with private sector suppliers in what the latter regard as their own territory. In the present case, however, the Government has announced its intention to privatise TCS in the near future. I therefore have no objection of principle to your proposal. If TCS can demonstrate a degree of success in serving private sector customers, that could help us to obtain a better price for the business.

There are however several notes of caution which I think it is necessary to strike.

First, I think we need to check carefully whether serving private sector customers would be consistent with section 1(3) (e) of the Government Trading Funds Act, 1973. This describes the Crown Suppliers as being concerned with the provision of goods and services to "government departments and other agencies in the public domain". It may be that some new order would be required.

Secondly, I attach particular importance to the four constraints mentioned in paragraph 3 of the Business Plan for sales to the private sector:

- (a) extra capital investment to be avoided;
- (b) sales to be at profitable prices;
- (c) sales and resources to be monitored and reported;
- (d) adverse effects on services to existing public sector customers to be avoided.

As implied in point (d), we cannot afford to risk losing the public sector customers who will continue to be the backbone of the business. Adverse effects on the price of the business from losses in this area could easily outweigh the beneficial effects from sales to the private sector.

The point about pricing at (b) above is, I believe, particularly sensitive. David Young will doubtless be commenting separately on this. While private sector competitors are likely to complain in any event, it would be particularly unfortunate if any of them were able to lodge a formal complaint with the Director General of Fair Trading about unfair competition. It seems to me that TCS will have to be told to adopt a commercial pricing basis for its private sector sales so as to provide a level playing field. Your initial announcement would need, I think, to make this clear. Whether the 25 per cent mark-up mentioned in paragraph 8 of the business memorandum would suffice to protect us from charges of unfair competition is something you may wish to consider further.

Finally, I do wonder whether it would be advisable to conclude a collaborative agreement with Ernest Gill Ltd at this stage. We have to remember that privatisation might still take place quite soon, and a collaborative arrangement with the company would not necessarily be welcome to potential purchasers. Such an arrangement would also be likely, I think, to attract considerable publicity which we might prefer to avoid. I do wonder whether the proposed collaboration with Ernest Gill Ltd is really compatible with the cautious approach which you rightly advocate elsewhere?

I am copying this letter to the Prime Minister, David Young, Norman Fowler and Sir Robin Butler.


NORMAN LAMONT

GOVT MAIL - Crown Supplem

Sop 83



Telephone
01-212 8001

DEPARTMENT OF THE
ENVIRONMENT
2 MARSHAM STREET
SW1P 3EB



Attached is the missing enclosure to the
Sec of State's letter of 6 October.

*With the Compliments of the
Private Secretary to the Secretary of
State for the Environment*

Apologies for any inconvenience caused.

110

CCPV



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 2434

My ref:
Your ref:

The Rt Hon Norman Lamont MP
Financial Secretary
HM Treasury
Parliament Street
LONDON
SW1

MBM
PRG
7/10

6 October 1988

Dear Norman

PRIVATISATION OF THE CROWN SUPPLIERS

As you know, we have announced our intention to privatise The Crown Suppliers and we are now considering how that might be effected. If legislation is needed we will not be able to complete the sale before 1990, so we are looking into the feasibility of proceeding by other means.

Whatever the timing of privatisation, we should now allow The Crown Suppliers to begin trading with the private sector, in order to demonstrate their ability to do so and enhance their attraction for sale and to offset any reduction in their trading with the public sector as a result of the freedom which Government Departments now enjoy to purchase where they wish, rather than being tied to central Agencies such as The Crown Suppliers.

I attach a copy of a Business Plan for sales by The Crown Suppliers to the private sector. It is essentially a toe-in-the-water approach, providing assurances against the excessive use of resources for this purpose and against sales at less than a reasonable rate of return; it also provides for monitoring and review. I propose to authorise The Crown Suppliers to begin trading in accordance with this Business Plan, and will announce this shortly through a Written Answer.

I am sending a copy of this to the Prime Minister, David Young, Norman Fowler and Sir Robert Armstrong.

N Ridley
ARM

NICHOLAS RIDLEY





THE CROWN
SUPPLIERS

THE CROWN SUPPLIERS (TCS)

BUSINESS PLAN FOR TRADING WITH THE PRIVATE SECTOR

1. Introduction

TCS only sell to the private sector:-

- (a) to former public sector customers who have been privatised such as British Telecom;
- (b) through royalty agreements with suppliers which allow them meet requests from the private sector for goods to manufacture for TCS; and
- (c) to private sector contractors who are engaged on projects for public sector (but not central Government) customers such as local authorities or universities.

TCS wish to begin selling more widely in the private sector.

2. Aim

- (a) To offset loss of central Government business as a consequence of untying. (This might amount to, say, £5 million in 1989.) TCS has had some success in developing alternative public sector customers, and Annex G lists a number of significant new accounts. The aim would be to expand this through sales to private sector customers.
- (b) To improve the prospects of a successful privatisation by providing evidence of the organisation's ability to sell its goods into a fully competitive market, and to gain experience of trading in the private sector.

3. Constraints

- (a) Capital investment must be avoided.
- (b) Sales must be at profitable prices.
- (c) Sales and resources used must be monitored and the subject of reports.

- (d) Any adverse effect on service to existing public sector customers must be avoided.

4. Method

A limited approach to the private sector market might be made through:-

- (a) national sales to the financial services sector through a small sales unit;
- (b) local sales, subject to strict controls, through the regional sales force;
- (c) a special product (the IKON museum showcase) to be sold overseas; and
- (d) partnership with a supplier who would sell TCS products through his showrooms.

5. National Sales

The Market

Coopers and Lybrand, in their March 1988 study into the feasibility of privatising The Crown Suppliers, estimated the size of the private sector market to be £1.2 billion, of which £250-300 million for contract furniture and £200 million for flooring would be readily available for The Crown Supplies. This is supported by the Furniture Industries Research Association who estimate the total UK market for office furniture to be in the order of £500 million in 1988, rising to £585 million by 1990.

More recently (August 1988) IFF Research Limited, in a study to monitor the effectiveness of The Crown Suppliers' recent PR and advertising programmes, established that nearly two-thirds (63%) of private sector firms approached expressed an interest in purchasing from TCS, and indeed, quite a number have already made unsolicited approaches. Annex E lists examples.

Products

The primary aim would be to promote sales of TCS own designed products such as the Wellington, Whitley, Laser and

Context ranges of office furniture; and the Magna and Quadrille ranges of carpet. The purchase of special products and provision of services such as interior design would be kept to a minimum.

Approach

Initially marketing activity would consist of Direct Mail approaches to named individuals selected from a list of potential customers identified through the methods described in Annex F. Any resulting enquiries from customers would be dealt with by a sales section consisting of two staff reporting to a Grade 7 Manager. It is estimated that these resources could generate and process sales and profits as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	<u>£M</u>	<u>£M</u>	<u>£M</u>
Sales	1.00	1.50	2.00
Profit	0.07	0.15	0.23

The possible trading analysis is set out in more detail in Annex A. The business would require no capital investment, no increase in stocks and sales would be of standard TCS items at prices not less than those in the TCS catalogue (see 8 below). This effort could expand if there is a further decline in public sector business.

Examples of sales which might be made in this way are to the Prudential (Annex B) and Deloittes (Annex C).

On a separate point, there is a large potential market for the newly-developed IKON showcase system in Europe and the USA. Sales of some £0.3 million per year might be achieved for a maximum outlay on marketing of £20,000. This activity would be carried out by existing staff of the Museums Group.

6. Local Sales

Regional Sales Managers would be free to approach the private sector locally where existing resources allowed, and provided that there was no effect on service to existing public sector customers. No estimate has been made of the

sales that could be generated in this way, but the business would be monitored closely and the Minister informed if sales seemed likely to reach £1 million a year.

7. Cooperation with a Supplier

TCS has been approached by Ernest Gill Limited who intend to establish five showrooms, through which they would like to sell TCS products to the private sector; details in Annex D. The prices for TCS products sold by Gills would have to be fixed at higher than the TCS list price for such business to be acceptable. TCS would like authority to work up an agreement with Gills covering the conditions of sale, and their estimate of sales of TCS products.

8. Pricing

Prices would be fixed at the maximum the market would bear, but in no case would this be less than the price currently charged to public sector customers. The target would be to achieve an average gross margin of 25%, 5% in excess of average margins on public sector sales.

9. Monitoring

A reporting system would be established to identify sales and gross margin obtained from each private sector customer on a monthly basis, and to identify any variance from standard public sector prices. The resources employed in each area would also be recorded.

A summary report would be included with the Quarterly Accounts to the Chief Executive, together with a statement detailing the value of outstanding orders, and highlighting any significant orders received in the period.

A review would be held at the end of the first year and a more detailed forward plan covering all activities with the private sector produced at that time.

10. Conclusion

The only quantified plan is at Annex A, which shows a modest profit contribution from seeking to sell in the Banking and Insurance sectors. Other areas of entry to the private sector, ie local sales, the IKON showcase sales to overseas museums and the Gill initiative cannot be

quantified at this stage, but will be relatively insignificant in the first year. The activities will be monitored and reported on a regular basis. Approval is sought for action on the range of proposals summarised above.

NATIONAL SALES ACTIVITY1. Trading Analysis

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
	<u>£M</u>	<u>£M</u>	<u>£M</u>
Sales	1.000 -----	1.500 -----	2.000 -----
Margin	0.250	0.375	0.500
Costs			
Marketing (1)	0.050	0.050	0.050
Sales (2)	0.050	0.050	0.050
Distribution(3)	0.065	0.095	0.130
Finance (4)	0.020	0.030	0.040
	0.185 -----	0.225 -----	0.270 -----
Profit	0.065 -----	0.150 -----	0.230 -----

2. Investment (5)

Additional Stocks	Nil	Nil	Nil
Debtors	0.170	0.250	0.330

3. Notes:

- (1) Marketing expenditure of £50,000 per year covers the identification of prospective customers and the product and distribution by direct mail of sale literature.
- (2) Sales expenditure of £50,000 per year represents the annual salary cost of two HPTOs and half of one Grade 7 who would man a London unit specifically targetting the private sector.
- (3) Distribution costs assume that all sales will be met from existing stock and covers the marginal cost of delivery from TCS store to the customer.
- (4) The finance cost is the loss of interest on funds required to finance the increase in debtors.
- (5) The investment relates to the working capital requirement to carry the estimated two months delay, following delivery, before customers pay for the goods : ie one sixth of annual sales. The increase in debtors would be funded from existing resources, but would result in a loss of interest which has been included as a cost (see (4) above).

POSSIBLE SALES TO DELOITTES

1. The Managing Director of one of The Crown Suppliers' key manufacturers recently introduced the Property Administrator of Chartered Accountants, Deloitte, Haskins and Sells, to our showroom to view the new range of office furniture.
2. Deloitte's are planning to house some 2,500 staff in the London area and are searching the market for suitable furniture suppliers. Whilst interest in the new range was lukewarm in view of the lack of desktop storage facilities, keen interest was shown in the wider produce range available and it is possible that a formal approach will be made to supply a number of ancillary items.
3. A follow up visit to discuss the possibility of meeting the customer's wider brief for desking has been arranged.

COOPERATION WITH ERNEST GILL

1. Following the announcement to privatise The Crown Suppliers, and prompted by the need to safeguard future manufacturing capacity, the Directors of Ernest Gill Limited felt obliged to carry out a major investment programme to open five showrooms and develop own-brand products to attack both the public and the private sector markets.
2. In reaching this decision, they expressed a preferred option of seeking a joint venture whereby they could market TCS own-design products only to the private sector which would ensure increased sales across the total market. They recognise the difficulty of becoming inextricably linked to TCS before the privatisation date, but are willing to operate on a commission only basis until the position becomes clear.
3. The package would allow Ernest Gill to market TCS own-design products in the private sector and to route orders to TCS for delivery from our stores to his warehouse for distribution. Although margins vary on individual items, the feeling is that there is an opportunity to increase selling prices by 50%, sharing the increased margin between the manufacturer and The Crown Suppliers. Ultimately, market forces would prevail, and selling prices would be set to compete with those currently available to the private sector. The higher private sector prices would be discounted down for public sector business.
4. Backing for such an initiative is likely to be well received by the majority of TCS suppliers if increased business provides more stable demand profiles and a share of the increased margins for private sector sales.
5. There might be opportunities to transfer or second TCS staff to the Gill operation to develop private sector experience.

ENQUIRIES FROM PRIVATE SECTOR FIRMS

British Medical Association

Barclaycard

Private Ambulance

ASLIB

Sainsburys

Arthritis Care

IBA

Lloyds Bank

Healthcare Services International

Sealink Limited

West Midlands Travel

South Yorkshire Transport

Walsall Chamber of Commerce

Stock Exchange

Nirex Limited

Bus Company

Thames Television

Shell Limited

London Weekend Television

DEGW

Norwich Union

Prudential

Surelock McGill Limited

Deloittes, Haskins and Sells

BUSINESS WITH THE PRIVATE SECTOR : CUSTOMER TARGET LIST

1. A customer target list would be selected as follows:
 - (i) Large companies 500 + office staff
Medium sized companies 10-500 office staff
 - (ii) Details of decision makers and influencers would be obtained from controlled circulation lists eg individuals who receive copies of specific journals, or from specially compiled lists.
 - (iii) Fast growing companies would be identified.
2. Published research has isolated the job titles of businessmen making decisions on office furniture by area of main responsibility. The source is the BMRC 1988 data. As an examples in the 500 + office staff companies the Administration Director, Office Manager, Purchasing Manager and Managing Director are all job titled with a significant role in influencing or making the decision to buy furniture. Responses will provide further information on their relative importance.
3. List selection is, therefore, a two stage process with a file of core companies being set up, classified by the number of office staff, using data provided by Market Locations Company Schedule and the Times Top 1000 companies. Named individuals in these organisations are identified by the controlled circulation lists. For the financial services sector this will be the City of London list which details directors and senior partners.
4. A database can then be set up on the following lines:
 1. Name of company
 2. Address
 3. Standard Industrial Classification code
 4. Managing Director
 5. Financial Director
 6. Office Manager
 7. Other decision makers (specific to individual SIC codes)
 8. Turnover
 9. Growing company indicator

SIGNIFICANT NEW ACCOUNTS

British Railways Board
The National Trust
City of London
London Borough of Croydon
London Borough of Hillington
London Borough of Southwark
London Borough of Lambeth
The Abbeyfield Society
Construction Industry Training Board
Housing Assocs (Various)
British Standards Institute
The Australian High Commission
Dental Estimates Board
British Aerospace

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 1AT

26 July 1988

NBM
FCG
ref

Dear Nick

PRIVATISATION OF THE CROWN SUPPLIERS

at 11.45
You wrote on 22 July about the problems caused by your inability to say anything at all about the possible timing of the sale of the Crown Suppliers, because primary legislation is needed to enable the sale to proceed. I do understand your problems on this, and would like to be able to help you. From my point of view, however, the important thing is to ensure that the Cabinet's room for manoeuvre is not unnecessarily limited when the legislative programmes for future sessions come to be settled. Given the amount of the programme which has to be set aside each year for Bills that are either technically or politically essential, I am sure we should not be in a hurry to close our options on the less important measures. I am afraid that even the generalised form of words that you have drafted would cause difficulties for me, and I hope that you and Christopher Chope will be able to manage the situation without making a statement that carries such implications for the legislative timetable.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, members of QL, Richard Luce, to First Parliamentary Counsel and to Sir Robin Butler.

John Wakeham
John

JOHN WAKEHAM

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

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GOVERNMENT MACH: Future
of Crown Supplier Sept 83



CONFIDENTIAL

cc/pv



QUEEN ANNE'S GATE LONDON SW1H 9AT

22 July 1988

NBRM

Proc
22/7

Dear Nicholas,

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for copying to me your letter dated 7 July to Nigel Lawson about the draft announcement you propose that Christopher Chope should make on the sale of The Crown Suppliers.

I am content with the approach which you have taken in the draft announcement. The purchase of fuel represents a major part of Home Office expenditure with The Crown Suppliers, and I therefore welcome the decision to retain this service in Government in seeking to achieve the best value for money. I also support your view that the design and procurement of security furniture and the provision of the Government Car Service should not form part of the package for sale.

I have asked my officials to liaise with yours on the points of detail raised in the list of all activities of The Crown Suppliers and recommendations. Home Office interests include the car service, EC/GATT aspects, alternative ways of providing direct call-off arrangements, Emergency Planning requirements and the question of including as a firm condition of sale nominated single sources of supply to cover the priority supplier status of prison industries.

Copies of this letter go to the Prime Minister, other members of E(A), other Ministers in charge of Departments, the Lord President, the Financial Secretary, the Chief Whip and Sir Robin Butler.

[Handwritten signature]

The Rt Hon Nicholas Ridley, MP.

GROUT MATCH: Crown Supples Sept 83.



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EEPU



1 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
68 Whitehall
LONDON
SW1

Prime Minister

My ref:
Your ref:

ht

REC 6

22 July 1988

2/7

mt

Dear Lord President,

We spoke briefly about the possibility of legislation to enable us to privatise The Crown Suppliers. You thought that there was a good chance of our getting legislation in the 1989/90 session, though you were, of course, not prepared to commit yourself. Nevertheless, I hope you will feel able to agree that Christopher Chope could say something, however tentative, about the timetable for privatisation (rather than legislation) when he announces our proposals on the package of activities to be offered for sale, by Written Answer next week. I have circulated a draft of that statement under cover of my letter of 7 July to Nigel Lawson. *at flap*

Our inability to say anything at all about the possible timing of the sale is causing us great problems. First, the present uncertainty is having a serious effect on staff morale. TCS is now experiencing a net loss of non-industrial staff equivalent to 163 a year. Secondly, Samuel Montagu, the merchant bank advising on the sale, are convinced that without a timetable, interest expressed so far by 13 or so firms, which include such substantial prospects as Hilldown Holdings, Inchcape, Unigate, Hollis and Storehouse, will melt away. Finally, uncertainty, combined with the effect of departments' untying, is eroding customer confidence in TCS. This is exacerbated by press articles such as those in the Independent and Guardian of 21 July, revealing the level of dissatisfaction within the organisation. If this continues we would end up with hardly any business to sell.

Under the circumstances I think that Christopher might include in his Answer something along the following lines:

"It is not yet possible for me to announce a firm timetable for the privatisation of The Crown Supplies, but I hope to complete the sale by the end of 1990."

I should be grateful for your agreement to our taking this line. It would be helpful to have your reply by close on Monday 25 July.

I am copying this letter to the Prime Minister, Nigel Lawson, members of QL, Richard Luce (because of the Civil Service personnel management issues), to First Parliamentary Counsel and to Sir Robin Butler.

Yours sincerely,
Deborah Lamb

PP NICHOLAS RIDLEY
(approved by the Secretary of State)



Gov't Mach: Crown Suppliers
Sept 83





Treasury Chambers, Parliament Street, SW1P 3BG

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON SW1P 3EB

21 July 1988

Dear Nick

PRIVATISATION OF THE CROWN SUPPLIERS

Nigel Lawson has asked me to reply to your letter of 7 July, setting out your proposals for the activities of the The Crown Suppliers which should be included in the package for sale.

I am generally content with your proposals for the package of activities to be sold. My officials are in contact with yours about the extent to which a privatised TCS could continue to fulfil EEC/GATT requirements for public sector purchasing on behalf of Departmental clients. We will also need to be satisfied that the proposed arrangements for contracting-out the Inter-Departmental Despatch Service provide for existing security requirements to be maintained, in particular for documents classified Top Secret and above and for Budget-Classified documents.

I welcome your proposal to set in hand discussions with the Royal Households and the House Authorities on the scope for work done by the Palaces and Residences section to be contracted out. As for the fuel business, I have no objection to your proposed reference to the possibility of agency status. As drafted, this leaves it open to you to choose another course in the light of that consideration, and I am sure it is wise to leave your options open at this stage.

The major remaining uncertainty over the timing of the sale is that of the necessary legislation. I note that you will be taking this up separately with John Wakeham, and I would only say at this stage that prolonged uncertainty over when the Government will be in a position to sell TCS must greatly complicate the task of managing the business. It would be very helpful if you had a firm date towards which to work.

I am copying this letter to the Prime Minister, other members of E(A), other Ministers in charge of Departments, the Lord President, the Chief Whip and Sir Robin Butler.

Norman Lamont
NORMAN LAMONT

Gov. of MACH: Camp Sunoliss

Sept 83



CCP
HOUSE OF LORDS,
SW1A 0PW

21 July 1988

R22

Dear Nicholas,

MS

Privatisation of the Crown Suppliers + flap

Thank you for sending me a copy of your letter of 7th July to Nigel Lawson. I have no comments on the draft announcement attached to your letter.

Copies of this letter go to the recipients of yours.

Yours etc,

Jan.

The Right Honourable
Nicholas Ridley, MP
Secretary of State for the Environment
2 Marsham Street
London SW1P 3EB

Govt Machin. Crown Suppliers
Sept 33



CCFV

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP
 Secretary of State for the
 Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

NBRM
 RACB
 2/1

21 July 1988

Nicholas

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for copying to me your letter of 7 July to Nigel Lawson.

I do welcome this initiative to improve competitiveness in the source of supplies for the public sector, and support your proposal to retain within Government some services where it is sensible to do so. I am pleased to see that the London car service and fuel supply will be retained and that a focal point will be established within Government for the privatised IDS service. I am content with the text of the proposed statement.

My Department is taking steps to ensure that we are properly placed to respond to the changes in responsibilities which will follow from privatisation. Before our arrangements can be finalised, we do of course need to know the proposed date of transfer and the precise contents of the sale package. I am sure you are moving quickly to resolve the remaining uncertainties, for example, whether the privatised TCS will be able to undertake activity for compliance with EEC/GATT Regulations.

I am copying this letter to the Prime Minister, other members of E(A), other Ministers in charge of Departments, the Lord President, the Financial Secretary, the Chief Whip and Sir Robin Butler.

John Moore

JOHN MOORE

GOVT MACH: Crown Supplem Sep 83



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SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

*Robson
PAC6
15/7*

The Rt Hon Nicholas Ridley MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

14th July 1988

Dear Nick,

*will request
if required*

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for copying to me your letter dated 7 July to Nigel Lawson covering the draft announcement you propose Christopher Chope should make on the sale of the Crown Suppliers.

I am sure it is right to exclude the Government Car Service in London from the sale for the reasons you mention. It will be important to ensure standards are maintained wherever the service is finally settled.

I also welcome the decision to retain centrally within Government the Crown Suppliers fuel business, with its ability to achieve good value for money and to pass these benefits on to Departments in competitive fuel costs.

I am otherwise content with the contents of the draft announcement.

Copies of my letter go to the Prime Minister, other members of E(A), other Ministers in charge of Departments, the Lord President, the Financial Secretary, the Chief Whip and Sir Robin Butler.

*Yours
Cecil*

CECIL PARKINSON

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2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1 3AG

Prime Minister
Contact with the
Attended announcement 27 July 1988

Recs
St

Dear Nigel

Yes mib

PRIVATISATION OF THE CROWN SUPPLIERS

You will recall that on 3 February this year, Christopher Chope announced the Government's intention to privatise those of The Crown Suppliers' businesses which can be undertaken on a normal commercial basis. We have now reached preliminary conclusions about which businesses will be offered for sale. This letter is to consult members of E(A) and all Ministers in charge of Departments which are customers of The Crown Suppliers (TCS), about our proposals for the package for sale. I am taking up separately with John Wakeham the question of the timing of legislation to effect the transfer.

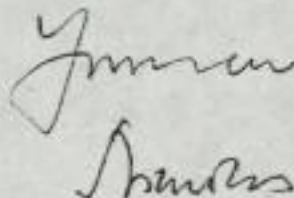
I enclose a list of all the activities of The Crown Suppliers with officials' recommendations in relation to each, which I endorse. You will note from this list that it is recommended that the Palaces and Residences section of The Crown Suppliers should not be privatised. I do not, however, wish to rule out, in the longer term, contracting out appropriate parts of the work of this section and to that end I shall be setting in hand discussions with the Royal Households, and the House Authorities. You will also see that the Government Car Service in London is not being privatised. So far as the Government Car Service outside London is concerned, I have asked my officials to consult interested Departments about how best to make satisfactory arrangements for the provision of transport for Ministers and senior officials outside London after the remainder of The Crown Suppliers transport operations are privatised. Furthermore, once we have settled the general lines of the package, there will be a number of other detailed matters for officials to resolve at working level in the first instance.

I would like the fuel business to be examined to see whether it is suitable for Executive Agency status and I have referred to this in the statement.

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In order to enable The Crown Suppliers to divest itself of the activities which will be excluded from the sale package and to regroup in readiness for privatisation, we need to make public our decisions soon. An announcement will also serve to alleviate the uncertainty of the staff as to whether their jobs will be transferred into the private sector or elsewhere in the Civil Service. I therefore propose that Christopher Chope should announce our proposals by means of a Parliamentary answer as soon as possible, but anyway before the Summer Recess. I attach a draft of the announcement on which I would welcome your comments by 21 July.

I am copying this letter to the Prime Minister, other members of E(A), other Ministers in charge of Departments, the Lord President, the Financial Secretary, the Chief Whip and Sir Robin Butler.



NICHOLAS RIDLEY

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TCS PRIVATISATION

DRAFT ANNOUNCEMENT

I announced on 3 February the Government's intention to sell those of The Crown Suppliers' businesses which can be undertaken on a normal commercial basis. Such businesses can be carried out more efficiently in the private sector and should provide an improved source of competitive supplies for the public sector. I have excluded from the package for sale only those of TCS activities which are not run on commercial lines; which raise questions of security; or which, because of the very specialised nature of the business, exceptionally provide better value for money within the public sector.

The package for sale will therefore include The Crown Suppliers' businesses of selling furniture, furnishings, floor coverings, domestic appliances, electrical, mechanical and laboratory equipment, building materials and vehicles, together with its associated repair, design and technical services. It will also include the transport hire business and the interdepartmental despatch service between Government Departments. All these are businesses which are commonly carried out by private firms with which I hope The Crown Suppliers will be able successfully to compete.

For security reasons, I have decided to exclude from the sale the design and procurement of security furniture and the car service which transports Ministers and senior officials in London.

On value for money grounds, The Crown Suppliers fuel business will not be sold. I accept that the extremely specialised nature of fuel procurement is such that the Crown Suppliers, once privatised, would be unlikely to be able or willing to secure as low prices as it can at present. The business will, therefore, be retained in Government, and the possibility of establishing it as an Executive Agency will be examined.

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Also on value for money grounds, I envisage that the expertise necessary to procure those few highly specialised items of equipment where the Property Services Agency is the only customer and there is a single supplier should be retained in the Agency, since in these circumstances, there are no additional cost advantages to be gained from using The Crown Suppliers to find sources of supply or to purchase in bulk for a number of customers.

Finally, the special unit in The Crown Suppliers which provides services to the Palace of Westminster and other Royal Palaces and Civil Residences in Whitehall and elsewhere is not presently run on strictly commercial lines; it is not therefore suitable for inclusion in this sale, though I would not wish to rule out contracting out parts of the work of the section in due course.

I shall now be consulting the trade unions on these proposals and working up detailed plans for the sale. A number of efficiency improvements are being made so that The Crown Suppliers will be structured and ready for the challenge of privatisation.

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I ACTIVITIES TO BE RETAINED CENTRALLY WITHIN GOVERNMENT

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
<p>1. Palaces and Residences Group - furniture & furnishing advice & supply for</p> <p>a) i. Parliamentary Buildings; ii. Palaces, residences ceremonials and conferences.</p> <p>b) Textile and Tapestry conservation at Hampton Court Palace</p> <p>TOTAL STAFF: 50 (11 PTO, 4 AEG EQUIVALENTS 24 INDUSTRIALS 11 CONSERVATION OFFICERS)</p>	<p>This section of TCS provides services to various clients. Because of their sensitivity and variety and the way the work is funded, much of it on an allied service basis, there are difficulties about privatising many parts of it.</p> <p>We therefore recommend at this stage that it should remain in PSA, except for the textile conservation studio which might transfer to DOE.</p> <p>Contracting out parts of the work, where possible, should, however, be given further consideration, in consultation with DOE, the House authorities and the Royal Household.</p>

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
<p>2. Procurement of specialised items:</p> <p>i. Mechanical & Electrical (M&E) Equipment</p> <p>TOTAL STAFF 2 AEG EQUIVALENTS</p> <p>ii. security furniture (strong-rooms, safes, security door locking systems, containers and key boxes) including development work</p> <p>TOTAL STAFF 19 (9 AEG, 10 PTO) EQUIVALENTS</p>	<p>TCS procures specialised mechanical and electrical items, eg airfield lighting, firefighting equipment, standby generators etc, regarded as essential by PSA, for which in many cases PSA is the only customer. In cases where PSA is the only customer and there is a single supplier, a middleman cannot earn commission by making sourcing decisions or by earning discounts through bulk purchasing. Therefore, a strong value for money case for retaining the procurement expertise for these items within Government (PSA). At present only airfield items are likely to meet this criterion. All other items of specialised M&E equipment to be the responsibility of client depts, mainly PSA on behalf of MOD, through the privatised TCS if they wish and the work is profitable.</p> <p>TCS designs security furniture and commissions appropriate manufacturers to supply it. Security considerations argue against delegating to a private firm, either the design of security furniture or the choice of approved manufacturers. This activity therefore to be retained in Government, probably in PSA, where it is an extension of PSA's existing security work.</p>
<p>3. Overseas Customer Unit (Small unit working exclusively for PSA)</p> <p>TOTAL STAFF 6 EQUIVALENTS</p>	<p>This is an arm of PSA ensuring that PSA's overseas customers receive a satisfactory service. Part of PSA's own function, which could not be delegated to a private firm. The activity should be transferred to PSA.</p>
<p>4. Fuel Supply</p> <p>TOTAL STAFF 33 (18 AEG, EQUIVALENTS 15 PTO)</p>	<p>Savings of up to £11.2M a year claimed for TCS' public sector customers for this service. Strong reasons for believing that a privatised TCS would seek to increase the profit margins from the low margins applied by TCS. The Central Unit on Purchasing endorses this view and recommends on value for money grounds that Central Government Fuel Purchasing should not be privatised.</p> <p>Consideration needs now to be given to new arrangements, outside TCS, for Government fuel purchase.</p>

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
<p>5. Government Car Service</p> <p>i. 110 First call cars of which 14 have high level protection.</p> <p>ii. Back-up Pool service of 30 cars</p> <p>iii. Despatch service for Red Boxes (10 cars)</p> <p>iv. Nine Elms secure vehicle worksop - repairs and maintains London GCS fleet</p> <p>v. Regional GCS - a pool of 24 cars in Edinburgh Cardiff and Belfast, Leeds, Newcastle and Bristol for visiting Ministers and dignitaries.</p> <p>TOTAL STAFF APPROX 241 (12 AEG, EQUIVALENTS 6 PTO, 11 OTHERS, 212 INDUSTRIALS)</p>	<p>Security Service recommends that whole of the first call car service with back-up pool and despatch service should remain under direct Government control and continue to be operated from and garaged at the specially protected garage at Nine Elms or an equally protected alternative site. This advice appears to preclude any attempt to privatise any of the four elements of the London GCS. Final destination of service to be settled, but GCS does not fit in with the rest of services provided by PSA.</p> <p>Privatisation of Regional GCS with possible exception of Belfast service not ruled out on security grounds. But scattered regional units without the main London core unlikely to be particularly attractive to a purchaser of TCS. Therefore recommend against including Regional GCS in the package for sale. Instead there should be separate consultations to ensure that satisfactory arrangements continue for the regional services once the remainder of TCS' regional transport operations are privatised. Consultations to cover Welsh, Scottish and Northern Irish Ministers and officials, as well as PSA and DOE/DTP directors in the north and south west and Home Office officials.</p>
<p>6. PART III Services -</p> <p>Management of the repair programme for floor coverings, built in furniture etc for the defence estate</p> <p>TOTAL STAFF 100 EQUIVALENTS</p>	<p>TCS local staff manage the work, do a little procurement and control the expenditure on behalf of PSA for MOD. The actual repairs etc are contracted out. It would be inappropriate for a private firm to manage MOD funds. Management of the work should be retained in Government to form part of the dialogue between MOD and PSA about the future of PSA and untying defence work, which is now getting underway</p>

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II EXPECTED CONTENTS OF THE PACKAGE FOR SALE

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
<p>1. Supply of Goods</p> <ul style="list-style-type: none">i. hard furnitureii. furnishings/floor coveringsiii. domestic equipmentiv. mechanical & electrical equipment (except single client/single supplier essential items: see I 4 i)v. building materialsvi. vehicles <p>Note: The supply of goods described above is as now carried out by TCS, excluding only:</p> <ul style="list-style-type: none">a. a few specialised M&Eb. security furniturec. fuel supply	<p>This is the central component of the package for sale and the most attractive to potential purchasers of TCS.</p> <p>These categories of goods include a proportion of low value work which may prove unattractive to purchaser of TCS and so could cease to be provided centrally. This can only be tested by including them in the package offered for sale.</p> <p>Needs to be tested by being offered in the package for sale.</p>
<p>2. Contract furnishing service</p>	<p>Part of the core business which will be offered for sale. See comments against Item 1 i and ii.</p>
<p>3. Furniture and furnishings repair and maintenance service for civil clients.</p>	<p>Whether or not this activity is saleable needs to be tested by offering it in the package. As with the supply of goods low value work may prove unattractive to a purchaser of TCS, and so could cease to be provided centrally.</p>

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ACTIVITY

TCS PRIVATISATION UNIT
RECOMENDATION/CONCLUSION

4. Design

- i. product
- ii. interior
- ii. quality assurance

We regard these activities as supporting the core business and as such they should be included in the package for sale.

5. Vehicle hire fleet and vehicle maintenance workshops

There is considerable interest from potential purchasers in acquiring this part of TCS' business and there is no doubt it is a key component of the package for sale. There is an element of doubt about the viability and thus the saleability of the workshops which the tendering process should help to resolve.

6. Interdepartmental despatch service

The IDS will need to be offered as a separate component within the package for sale since there is a need for the service to be planned and provided centrally with a focal point somewhere in Government co-ordinating departmental requirements in order to avoid duplication of work. The likely destination of the focal point remains to be settled.

7. DCO:

Arranging direct call-off contracts

A change in the EC/GATT purchasing rules (see Item 8 below) will be necessary for a privatised TCS to offer compliance with them as part of its service. We are pursuing the possibility of such a change with the EC through Treasury. If our approach is unsuccessful, Departments will no longer be able to delegate their responsibility for compliance to TCS and it may not be sensible for a privatised TCS to continue to arrange DCO contracts. PSA to discuss with HM Treasury whether contingency arrangements necessary.

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
8. Compliance with EC/GATT Purchasing Regulations	EC/GATT rules require that Departments advertise all but the smallest Government contracts. See remarks above. If a privatised TCS could offer this service it might also be attractive to some departments in relation to non-DCO contracts, ie standard contracts.
9. Overseas Services including freight, warehousing and Washington and Hong Kong Offices	These outstations exist almost exclusively to supply furniture to the Diplomatic Estate overseas. FCO unlikely to take over but have said they would continue to purchase from them subject to the usual commercial considerations of quality and competitive price and delivery terms. We think the outstations may be attractive to a purchaser wishing to develop export markets and should therefore be in the package together with the unit in London which deals with TCS' foreign sales.
10. Marketing, including production of TCS catalogue	Part of the core contract furnishing business.
11. Issuing Stores	Part of the core contract furnishing business.
12. Cardiff furniture workshop	The repair and renovation service provided is still in demand and may be attractive to potential purchasers of TCS. It should therefore be offered in the package.

CONFIDENTIAL

III CENTRAL SERVICES LIKELY TO CEASE - DEPARTMENTS TO ASSUME RESPONSIBILITY WHERE FUNCTION IS STILL REQUIRED

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
1. Agency storage for DHSS	TCS already regard this work as not commercially viable and intend to hand it over to DHSS before privatisation. Separate proposals have been approved by Ministers.
2. Clearance stores and disposal of unwanted furniture	TCS intend to cease offering a disposals service before privatisation and are liaising with Treasury regarding the necessary notification to departmental Accounting Officers which will need to include formal guidance on public accountability aspects.
3. Standards. Ensuring that office furniture complies with any centrally laid down accommodation and furniture standards	Departments are already responsible for standards if they buy from a source other than TCS as they are now free to do following untying. After privatisation their responsibility will extend to all their purchases.
4. Priority Suppliers. Ensuring that priority suppliers and sheltered workshops have an opportunity to supply Government contracts	Under the Treasury Priority Suppliers Scheme, Exchequer Dépts are required to offer priority suppliers (Remploy factories and sheltered workshops employing severely disabled people and prison industries) an opportunity to supply Government contracts. After privatisation individual depts would still be under this obligation. Although a privatised TCS would be freed of its obligation under the scheme this is a point we intend to discuss with potential purchasers.
5. Supply of Goods & Services for Departmental Emergency Planning	PSA Emergency Planning Unit has notified all departments that they need to consider whether there is anything for which they will need to make alternative supply arrangements after TCS is privatised.

CONFIDENTIAL

ACTIVITY	TCS PRIVATISATION UNIT RECOMMENDATION/CONCLUSION
6. New Delhi Office	Because of the policies of the Indian Government this activity could not operate without diplomatic privileges. It cannot therefore be included in the package for sale. Alternative arrangements are being discussed with FCO.

CBG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

Moira Wallace
PS/The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1

NBM

RALC
1/2

2 February 1988

Dear Moira,

PRIVATISATION OF THE CROWN SUPPLIERS ^{Flap}

Thank you for your letter of 26 January. Thanks also to others who have commented.

I attach a copy of the revised draft statement which Mr Chope intends to make tomorrow. This takes in your comments and others.

I am copying this letter and the statement to the private secretaries to the Prime Minister, members of B(A), the Leader of the House of Commons, the Chief Whip and Sir Robin Butler.

Yours sincerely,
Deborah Lamb.

DEBORAH LAMB
Assistant Private Secretary



ORAL STATEMENT BY MR CHOPE

PRIVATISATION OF THE CROWN SUPPLIERS

1. With permission, Mr Speaker, I should like to make a statement about the future of The Crown Suppliers.

2. The Crown Suppliers is a self-financing business within the Department of the Environment. It sells furniture, and other equipment and services to the public sector. It has operated as a Government Trading Fund since 1976, and under the title of The Crown Suppliers since 1984.

3. As direct suppliers to Government Departments, The Crown Suppliers have achieved considerable success in the design and procurement of their own-brand furniture, the procurement and supply of a wide range of equipment, and the provision of fuel and transport. I have however considered the role and status of The Crown Suppliers in the light of the untying of Departments from the compulsory use of purchasing agencies.

4. I have had the benefit of two recent reports by consultants, and have discussed a summary of those reports with staff representatives. It is clear that The Crown Suppliers must reduce their overheads substantially to reflect new working practices and purchasing policies in

Government Departments.

5. Many of the activities of The Crown Suppliers are, however, of a commercial nature, and there is little doubt that they could be carried out more efficiently in the private sector. The question therefore is whether The Crown Suppliers should be given full freedom to compete in both public and private sectors, which would entail transfer to the private sector.

6. I am convinced that privatisation provides the brightest future for The Crown Suppliers, as well as a continued source of competitive supplies for the public sector. It will also allow The Crown Suppliers to have access to a wider market. It is the Government's view that the private sector should be invited to bid for those of The Crown Suppliers' businesses which can be undertaken on a normal commercial basis. Some activities will have to remain in the public sector, for security or other reasons.

7. The Government intends therefore to seek further advice from a financial institution on the best method of effecting the sale of The Crown Suppliers. The businesses available for sale will include the provision of furniture, furnishings and other equipment on an untied basis for the public sector, and the transport hire business. In

evaluating offers received, I shall pay particular attention to proposals for the involvement of the staff in the success of the enterprise.

8. I also intend to bring forward legislation to effect the transfer at an early opportunity.

GOVT MACH: Crown Suppliers

Sep 83





CCBG

NBLN

ALL

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

n/1

26 January 1988

Ms Deborah Lamb
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

Dear Deborah,

PRIVATISATION OF THE CROWN SUPPLIERS

at flap

Thank you for your letter of 22 January enclosing a draft statement on the privatisation of The Crown Suppliers.

The Chancellor agrees that a statement should be made as soon as possible. Given the recent Press leaks, it is important that the Government does not lose time in making its position clear.

The Chancellor thinks the statement would read better, however, if paragraph 5 were redrafted to avoid the implication that overhead reductions will not be needed if privatisation goes ahead. The dilemma posed there - between The Crown Suppliers having to reduce overheads or be privatised - does not seem a real one, since privatisation itself may well require a reduction in overheads for it to be successful. As drafted the statement might imply a degree of assurance to the staff which we could not guarantee. It would be preferable for this paragraph to imply instead that now that Government Departments are untied, The Crown Suppliers cannot stand still in its efforts to improve efficiency, so that whatever happens, reductions in overheads are likely to be needed.

The Chancellor is anxious, however, that the statement should not be unnecessarily delayed by problems over wording. He suggests therefore that the precise wording should be agreed between your and Treasury officials.

... We also have some smaller drafting amendments as shown in the Annex to this letter.

The Chancellor would also be grateful if your officials could show Treasury officials in advance briefing for supplementary questions after the statement.

MANAGEMENT IN CONFIDENCE



I am copying this letter to the Private Secretaries to the Prime Minister, members of E(A), the Leader of the House of Commons, the Chief Whip and Sir Robin Butler.

Yours,

Maira Wallace

MOIRA WALLACE
Assistant Private Secretary

Paragraph 4, penultimate line

Delete "and"; substitute "but".

Paragraph 6, line 5

Delete "the provision of these services"; substitute "those businesses of The Crown Suppliers".

Paragraph 7, line 5

Delete "at present provided"; substitute "to be provided as at present".

GOUT MACH: Future of Crown

Suppliers Sep 83





GCL

cebg

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 January 1988

Dear Deborah,

PRIVATISATION OF THE CROWN SUPPLIERS

The Prime Minister has seen the draft statement attached to your letter of 22 January to Alex Allan. She wonders whether it is necessary to include the penultimate sentence of paragraph 7 concerning the areas which will not be sold. She is concerned that this would unnecessarily stimulate questions about these services.

I am copying this letter to the Private Secretaries to other members of E(A), the Financial Secretary, the Leader of the House of Commons, the Chief Whip and Sir Robin Butler.

*Yours,
Paul*

PAUL GRAY

Miss Deborah Lamb,
Department of the Environment.

FW



CCB9.
2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Alex Allan Esq
PS/The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1

25 January 1988

Dear Alex,

nblm
REC
25/1

PRIVATISATION OF THE CROWN SUPPLIERS

It has been brought to my attention that my letter of 22 January to you covering a draft statement on the privatisation of the Crown Suppliers should have been classified "CONFIDENTIAL". I would be grateful if you and those to whom my letter was copied could note this. *will request 2 request*

I am copying this to the Private Secretaries to the Prime Minister, members of E(A) Committee, The Financial Secretary, the Leader of the House of Commons, the Chief Whip and Sir Robin Butler.

Yours sincerely,

Deborah Lamb.

DEBORAH LAMB
Private Secretary

cc



Govt. Muzee



CONFIDENTIAL

cc RBG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

Alex Allan
PS/The Rt Hon Nigel Lawson MP
HM Treasury
Parliament Street
LONDON
SW1

22 January 1988

Prime Minister

Colt?

RBG
ml

Dear Alex,

PRIVATISATION OF THE CROWN SUPPLIERS

will request required

In his letter of 22 December 1987 to my Secretary of State, the Financial Secretary approved the proposal to announce the privatisation of The Crown Suppliers early in the New Year.

I now attach a copy of the draft statement which Mr Chope proposes to make in the week commencing 1st February.

I understand there has been discussion at official level about the terms of the announcement and I attach a copy. I hope it may now be approved. I would welcome confirmation of this by Tuesday 26 January.

I am sending a copy of this letter and the proposed statement to the Private Secretaries to the Prime Minister, members of E(A) Committee, the Financial Secretary, the Leader of the House of Commons, the Chief Whip and Sir Robin Butler.

Yours sincerely,
Deborah.

DEBORAH LAMB
Private Secretary

*Do we need to draw attention
to what it will not include?
We shall have questions about how
much is spent on those items - answers
but for obvious reasons we should not give, no*



RECYCLED PAPER

DRAFT ORAL STATEMENT BY MR CHOPE

PRIVATISATION OF THE CROWN SUPPLIERS

1. I wish to make a statement about the future of The Crown Suppliers.
2. The Crown Suppliers is a self-financing business within the Department of the Environment. It sells furniture, furnishings, floor coverings and a wide range of equipment, fuel and transport to the public sector. It has operated as a Government Trading Fund since 1976, and under the title of The Crown Suppliers since 1984.
3. I have considered the role and status of The Crown Suppliers in the light of the untying of Departments from the compulsory use of purchasing agencies. I have had the benefit of two recent reports by consultants, and ~~my Hon Friend the Parliamentary Under Secretary of State has~~ ^{have} discussed a summary of those reports with staff representatives.
4. Previously, as direct suppliers to Government Departments, The Crown Suppliers achieved considerable success in the design and procurement of their own-brand furniture, the procurement and supply of a wide range of equipment, and the

provision of transport. These are activities of a commercial nature, and there is little doubt that they could be provided more efficiently by the private sector.

5. Either The Crown Suppliers must reduce their overheads substantially to reflect new working practices and purchasing policies in Government Departments, which would inevitably involve staff reductions; or they should be given full freedom to compete in both public and private sectors. This entails transfer to the private sector.
6. I am convinced that privatisation provides a brighter future for The Crown Suppliers, as well as a continued source of competitive supplies for the public sector. It is the Government's view that the private sector should be invited to bid for the provision of those services which can be undertaken on a normal commercial basis. Some activities will have to remain in the public sector, for security or other reasons.
7. The Government intends therefore to seek further advice from a financial institution on the best method of effecting the sale of The Crown Suppliers. The business available for sale will include the provision of furniture, furnishings and other equipment at present provided on an untied basis for the public sector, and the transport hire

CONFIDENTIAL

business. It will not include the provision of security furniture and those parts of the Government Car Service where security considerations are paramount. In evaluating offers received, I shall pay particular attention to proposals for the involvement of the staff in the success of the enterprise.

8. I also intend to bring forward legislation to effect the transfer at the earliest opportunity.

Gov. H. H. H.

22
H. H. H.

cg 86?



Y SODFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3800 (Switsfwrdd)
01-270 0538 (Llinell Union)
Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3800 (Switchboard)
01-270 0538 (Direct Line)
From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

12 January 1988

CT/3009/87

MANAGEMENT IN CONFIDENCE

NBPM
PCC
14/1

apologies - see trap

Handwritten signature

for please
PCC 12/1

PRIVATISATION OF THE CROWN SUPPLIERS

I have seen a copy of your letter of 17 December to Norman Lamont.

I have no objections to your proposed announcement about the future of the Crown Suppliers, and note that you will consult colleagues about its terms.

I also note that a considerable amount of work has to be done before privatisation can take place and I hope that colleagues will be kept informed of progress. I will naturally want to be assured that the new arrangements will be of benefit to a department like mine which has comparatively modest needs.

/ I am copying this letter to the Prime Minister, other members of E(A) and to Sir Robin Butler.

Large handwritten signature
PSA need
- S hope

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment

cash

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

22 December 1987

NBM

Dear Nick

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 17 December.

I am pleased about your decision to announce the privatisation of TCS early in the New Year. In order to maintain momentum I hope that the announcement could be made in the first week of Parliament's return, and I look forward to seeing the terms of that announcement.

I welcome the arrangements you describe to set up a steering group, and the unit under PSA's Principal Finance Officer to protect the Government's position as vendor. However, I remain of the view that the success of the eventual privatisation will depend very much upon the implementation of the various efficiency improvements which our officials are discussing. The draft Action Plan, containing as it does a very large number of recommendations, will require a considerable and concentrated effort if it is to be implemented in the time scale. In turn this will require supervision and monitoring by staff who are independent of the existing TCS line management. Also we will need to ensure that arrangements for the implementation group requested in my letter of 12 November are in place as quickly as possible. My officials will need to discuss these arrangements further with yours.

I am sending a copy of this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

Yours

NORMAN LAMONT



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Norman Lamont MP
Financial Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Prime Minister ²

17 December 1987

I suggest await Treasury comments unless you have any immediate reactions.

Dear Norman

DLW mt pb 18/12

PRIVATISATION OF THE CROWN SUPPLIERS

Christopher Chope has now met the industrial and non-industrial Trade Union Sides about the options for the future of The Crown Suppliers, and I think we are now in a position to reach and announce our decision.

The Trade Union Sides made it clear that they are opposed to privatisation; we have seen the beginnings of a campaign of opposition in the form of Questions in both Houses, and a series of letters from Members sparked off by constituents who are employees of The Crown Suppliers. I am however satisfied that we can answer all the points they raise, and until we can announce the decision we are not in a position to make positive points about privatisation - about continued employment, comparable terms and conditions and possible shares in the equity. Indeed, the present uncertainty is adversely affecting The Crown Suppliers' business and the morale of its staff, and the sooner we can announce our decision, the better.

I propose therefore to make an announcement in the New Year that we intend to introduce legislation to privatise The Crown Suppliers as early as possible, and that we propose to invite competitive bids, which might include bids by management, for The Crown Suppliers. The form of such a competition would have to be worked up in detail; it would involve pre-qualification on the basis of an information document about The Crown Suppliers, an invitation to tender which would have to include a full business analysis, perhaps further presentations to bidders and finally the evaluation of bids received. We would probably have to appoint advisers to work with us on the competitions, and Samuel Montagu, who covered this area for Coopers and Lybrand, appear to be front-runners.

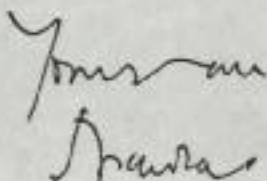
There is a good deal of work to do before privatisation could take place; the criteria for the competition for example would require careful consideration. Our officials met recently to discuss what is needed and the Controller, The Crown Suppliers, has sent to the Treasury a draft Action Plan covering efficiency measures which might be taken over the next few months without prejudicing privatisation. After Treasury and CUP officials have considered the draft Action Plan, and discussed it as necessary with The Crown Suppliers, we might adopt it as the control document for the work programme.



We have agreed that we will need a steering group of officials to oversee the work towards privatisation, and a unit under the Principal Finance Officer in PSA to prepare legislation, to set in hand the competition and to deal in due course (and in close contact with The Crown Suppliers) with the consultation process and load of staff queries over terms and conditions which will no doubt emerge. I propose to set the unit up immediately after the announcement. I shall also ensure that The Crown Suppliers internal arrangements adequately reflect the tasks which they will have to undertake.

Subject to the agreement of colleagues, I would like to announce our decision early in the New Year; I would of course consult on the terms of the announcement in due course.

I am sending a copy of this letter to the Prime Minister, other members of E(A) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Nicholas Ridley', written in a cursive style.

NICHOLAS RIDLEY



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon Richard Luce MP
Minister of the Arts
Cabinet Office
Office of the Minister for the Civil Service
Horse Guards Road
LONDON
SW1P 3AL

17 December 1987

Dear Richard

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 23 November drawing attention to the need adequately to cover security issues arising in connection with any move towards privatising, or otherwise contracting out, some of The Crown Suppliers' activities.

I agree entirely about the necessity to involve your officials in the development of proposals for what might be privatised, or for the programme of improvements to be implemented pending any privatisation. Such a programme is now being drafted by officials in The Crown Suppliers and the Treasury in consultation with the Central Unit on Purchasing, who will ensure that your officials are consulted.

I am copying this letter to the Prime Minister, David Young, Norman Fowler and Norman Lamont.

*Yours
Nicolas*

NICHOLAS RIDLEY

GOVT MAIL

COUNT SUPPLIES

7/13



cc BG



CABINET OFFICE
OFFICE of the MINISTER
for the CIVIL SERVICE

The Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Horse Guards Road
London SW1P 3AL
Telephone: (01)-270 5929

C87/5128

The Rt Hon Nicholas Ridley AMICE MP
Secretary of State for the Environment
2 Marsham Street
LONDON
SW1P 3EB

23 November 187

Dear Nicholas,

NRM

at 10/11

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for sending me a copy of your letter of 25 September to John Major. I have also seen Norman Lamont's reply of 12 November.

The main question of whether to pursue the possibility of privatisation is primarily for you and the Treasury. My officials have however been in touch with those in the Crown Suppliers (TCS) on the consideration that needs to be given to security issues in any process of privatising TCS, or contracting out its work.

You mention that three parts of the TCS do not seem suitable for privatisation. At first sight I agree that on security grounds there would seem good reasons for retaining the design and supply of security furniture within the public service. On the other hand, provided certain security conditions were met, I would not rule out privatisation of some parts of the Government Car Service, on security grounds at least. I cannot comment on the Palace of Westminster work. In addition, the privatisation of those parts of the IDS which carry classified documents would need very careful consideration.

Before information is sent to potential bidders it will be necessary to consider the criteria which any privatised service would have to meet in order to provide acceptable security. The subject is a complex one and not entirely in my department's hands.

MANAGEMENT IN CONFIDENCE

It is therefore very important that your officials keep mine closely in touch as proposals for what might be privatised are worked up and, indeed, for the programme of improvements to be implemented pending any privatisation.

I am copying this letter to the Prime Minister, Lord Young, Norman Fowler and Norman Lamont.

h —
Richard

RICHARD LUCE

Govt mach: crown supplier sept '83





Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

12 November 1987

Nick

NBRM

PRIVATISATION OF THE CROWN SUPPLIERS

Thank you for your letter of 25 ^{Mar} September to John Major.

There are clearly two options: accepting Dewi Jones' recommendations or privatisation. In many ways acceptance of the Dewi Jones' recommendations would be the easier solution and more likely to provide quick savings in public expenditure. The Jones report suggests that the Crown Suppliers do not need to carry out many of the functions which they now carry out. So there is obvious attraction in a radical pruning of the organisation, which could achieve significant savings in staff and assets and make privatisation unnecessary. Privatisation is by no means certain, particularly given the need for legislation. My officials, and the CUP, have not accepted the Crown Suppliers' management's arguments objecting to the Jones' recommendations. I was therefore disappointed that you were not able to recommend acceptance of them. I hope that in reaching this view you have carefully considered the alternatives.

I accept, however, that it is arguable that only by privatising will we ensure that the full disciplines of private sector management are brought to the task of rationalising the Crown Suppliers' operations. If therefore you are clearly of the view that you do not wish to pursue Jones' recommendations in full at this stage, then I agree in principle that we should press ahead with privatising the Crown Suppliers as quickly as possible through a competitive tendering exercise.

Nevertheless, privatisation is going to require a good deal of concentrated work. Before I agree firmly to proceeding along that route, I think it essential that we first agree this work and the way we organise it.

MANAGEMENT IN CONFIDENCE

First, as you recognise the Crown Suppliers cannot stand still before the necessary legislation is passed and we test the market for a potential buyer. My officials have looked at the Jones report and have identified a number of his recommendations which they believe should be implemented within the next 12 months. They will be writing separately about these. By improving the Crown Suppliers' performance these measures should enhance the saleability of the Crown Suppliers and hence the likely proceeds, and I therefore attach great importance to them. I suggest that Treasury, CUP and Crown Suppliers officials should get together quickly to agree a programme of improvements and a dated action plan for achieving these. (This can be begun if necessary before the other organisational issues have been resolved.) I suggest that officials should report back on that plan by the end of this year.

Second, we need to begin preparation on how those parts of the Crown Suppliers which cannot be included in the organisation to be privatised (for example those responsible for observing Government purchasing procedures) should be organised after privatisation. It is important that a timetabled action plan for dealing with all the consequences of privatisation for Government Departments (including the future arrangements for the Car Service and IDS) is prepared as soon as possible.

Third, we need to give early thought to the precise scope of the legislation. In particular we need to consider whether the legislation should consist solely of the most essential powers to avoid the risk of costs arising from employees claiming technical redundancy, or whether further powers are needed, for example to enable the Crown Suppliers to be turned into a public limited company before privatisation. The latter course would increase the size of the Bill but could make the Crown Suppliers more attractive to a wider range of potential buyers and hence enhance the proceeds. I assume you are likely to be seeking authority for legislation in the 1988-89 session. If so, decisions on the form of the legislation will need to be taken soon.

Fourth, we need to be clear about the timing and form of any approach to potential bidders, for example through an information document, especially when we will not be able to effect the actual sale until after the necessary legislation has been passed. We shall also need to guard against potential competitors receiving confidential information of the kind contained in the Coopers and Lybrand report; the CUP would be able to advise on what information would need to be excluded.

Finally, in the rather unusual circumstances of the sale of a Government Department, we shall need to take particular care in establishing organisational arrangements within Government which allow for Ministers to be properly advised by officials who are not part of the Crown Suppliers' own organisation; otherwise we cannot adequately separate the interests of Government as seller from the Crown Suppliers as the organisation being sold.

MANAGEMENT IN CONFIDENCE

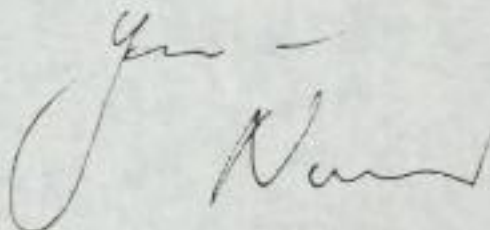
As part of these organisational arrangements you will need to establish a unit, outside the Crown Suppliers, to be responsible for advising Ministers in their capacity as vendor, including the preparation of legislation, considering the organisation of those parts of the Crown Suppliers which could not be sold to the private sector, monitoring the performance of the Crown Suppliers in implementing the necessary improvements before privatisation, and subsequently defending the terms and proceeds of the sale to Parliament including the PAC. Preferably it should be separate from that part of PSA which is directly concerned as the Crown Suppliers' largest customer.

All this work will clearly need to be supported by a steering group of officials, including representatives from the Treasury and CUP; if necessary it may need to be supported by consultants in order to provide sound commercial advice on the preparation of the information pack and on the quality of any bids. In addition, if we are to see through the necessary changes, I believe we need an implementation group with executive powers, and with appropriate expertise, based within the Crown Suppliers. That group, which need only be small, should be accountable for ensuring that the improvements are made to the agreed timetable. They should also be responsible for arranging for those parts of the Crown Suppliers which need to be retained within Government to be clearly separated so they can be hived off to the appropriate Department.

Finally, it is quite clear that the worst option would be the status quo or only minor improvements. If it becomes clear that privatisation is unlikely to work - for example because of lack of potential bidders - we must then be prepared to take radical action ourselves to achieve major changes in the Crown Suppliers' functions and reductions in its size.

If you could agree to this approach, I think we can look forward to a more efficient and streamlined Crown Suppliers, whether it is in the private sector or remains within Government.

I am copying this letter to the Prime Minister, David Young, Norman Fowler and Richard Luce.



NORMAN LAMONT

GOUT MACH: Crown Supplies Sep 83





Ref. A087/3020

MR. NORGROVE

NBM

The Crown Suppliers

The Secretary of State for the Environment copied to the Prime Minister his letter of 25 September to the Chief Secretary, Treasury, proposing:

- a competition to be held inviting bids to purchase the bulk of The Crown Suppliers' (TCS) activities;
- the preparation of legislation to permit privatisation of parts of TCS;
- in the meantime, a programme of management improvements at TCS, to be discussed between TCS and the Treasury.

2. There have been two reports, in 1985 and 1986, concluding that, while privatisation would be feasible, it would be unattractive; the costs of privatisation (including the cost of endowing a pension fund for TCS employees) are thought to be likely substantially to cancel out the proceeds of sale. None the less two prospective purchasers have emerged: it would seem to make sense to follow up their interest and test the attractiveness of whatever they are prepared to propose.

3. But privatisation would entail legislation; it seems unlikely that there will be room for such legislation in the current year's programme.

4. It is generally agreed that, if the bulk of TCS is privatised, certain parts of it would not be suitable for inclusion in the package to be sold: the parts to be excluded include fuel purchasing, the provision of security furniture, the security workshop at



Nine Elms, and the high security Government Car Service. There would in due course be decisions to be taken as to the Departments under which these activities should be brigaded.

5. I do not think that there is any need for the Prime Minister to intervene at this stage.

RA

ROBERT ARMSTRONG

26 October 1987

GOVT MAIL: Crown Supplied Sep 83



GOVERNMENT

1983



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

The Rt Hon John Major MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

My ref:

Your ref:

25 September 1987

NIRAN at this stage

Dear John

PRIVATISATION OF THE CROWN SUPPLIERS

Reports on two reviews of the role of The Crown Suppliers (TCS) were submitted at the end of March. Coopers and Lybrand, in association with Samuel Montagu, examined the feasibility of privatisation; Dewi Jones, a consultant with considerable experience of procurement in the private sector, considered the options for change other than privatisation. It is now time to reach a decision about the future of TCS.

I enclose a copy of the report of a Committee chaired by the Controller, TCS, with members from the Treasury, MPO, PSA and CUP, which considered the two reports. The Committee's report brings out clearly the dissension between two parties; The Crown Suppliers themselves, who contended that the changes recommended by Dewi Jones were unworkable - in particular those relating to direct call-off contracts and the operation of a "non-stores" policy - and the CUP/Treasury who contended that the changes were achievable, and should be implemented so as to effect cost savings.

There seems little profit in entering into this argument. What strikes me about the two reports is the common ground between them, to the effect that there is a "core business" consisting of furniture, furnishings and floor coverings and related services, which could be privatised - as indeed could parts of the transport business. I understand moreover that during their part of the review, Samuel Montagu identified two parties who might be interested in purchasing TCS as a whole. The Hollis Group made a conditional offer of £80 to £100 million, and Hilldown Holdings expressed a strong, unsolicited interest. Both are groups of substance, and while there can be no guarantee that their interest would be sustained to the point of final purchase, I do not think these indications can be dismissed lightly.

When I heard about the outcome of the two reviews, I asked the controller TCS to look into the question of whether legislation would be needed if we were to decide to privatise TCS. After

discussions with staff of the Treasury Solicitors and the Treasury Privatisation Division, the Controller concluded that legislation was unavoidable because of the problem of transferring staff to the new undertaking. I enclose a copy of the Controller's note on this subject, which was not disputed by the Treasury.

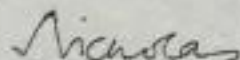

The need for legislation is a complication. Given the demands which my Department's legislation is already imposing on the Parliamentary timetable, I could not expect to obtain a place for a TCS Bill this session. On the other hand I do not think it need prevent us from taking action. Samuel Montagu envisaged privatisation by way of a competition between interested firms of consortia. I think we could go ahead with such a competition, which Montagu saw as taking six months or so, during which time we could have the necessary short Bill prepared, ready to slip into the programme as and when an opportunity arose. Christopher Chope will carry out the consultations with TCS staff associations which are an essential precursor to any announcement of our intentions for TCS.

My proposal therefore is that subject to the consultations with staff, we should go ahead with the preparation of an information document for firms to be invited to pre-qualify for the competition, which would be followed by an invitation to tender for TCS; the latter would have to include full information about TCS as a business, and in practice it might be advisable to send potential bidders the Coopers and Lybrand report. We might want to employ Samuel Montagu to assist with the competition. In parallel with this I would ask officials to draft the necessary legislation, so that if the competition identified a successful bidder, legislation could be introduced at the earliest opportunity.

It is of course possible that privatisation of TCS as a whole might not be achievable; Hollis and Hilldown might back off when they examine the business in detail, or wish to purchase only part of it. One would not wish to take steps while this examination was taking place which would have the effect of making privatisation of TCS as a whole a less attractive proposition. (I should add that some parts of TCS do not seem suitable for privatisation, the Government Car Service, the provision of security furniture, the work in the Palace of Westminster for example. These would have to be excluded from the invitation to tender.)

Nevertheless it will be important for TCS not to stand still during the examination period, as, if privatisation does fall through, time will have been lost during which desirable management improvements could have been introduced. I have therefore asked the Controller to draw up a programme of improvements which might be implemented over the next few months without prejudicing the prospects of privatisation. Perhaps our officials could discuss this programme together.

I believe it is for you and I to reach agreement in the first place that this is how we should proceed, and I hope we can do that. I am however copying this letter for information to the Prime Minister, Lord Young, Norman Fowler and Richard Luce.



NICHOLAS RIDLEY

12
B. Full
B. d. s.

MANAGEMENT IN CONFIDENCE

THE ROLE OF THE CROWN SUPPLIERS

REPORT BY THE COORDINATING COMMITTEE

INTRODUCTION

1. The Committee was set up to coordinate the two reviews announced by the then Parliamentary Under Secretary (Sir George Young) in answer to a Parliamentary Question on 25 July 1986:

- advice from an outside financial institution on the feasibility of privatising all or part of The Crown Suppliers;
- further detailed examination of various recommendations for change proposed by an inter-departmental review in 1985 and the Central Unit on Purchasing (CUP) in 1986.

The Committee was chaired by the controller of The Crown Suppliers (TCS) and included representatives from the Treasury, Management and Personnel Office, Property Services Agency and CUP.

THE TWO REVIEWS

2. The review on the feasibility of privatisation was conducted by Coopers and Lybrand and Samuel Montagu, and that on changes to a TCS which remained wholly or mainly in the public sector by Mr Dewi Jones, a consultant with extensive private sector procurement and business management experience. Their reports were submitted to Environment Ministers at the end of March 1987; key points are summarised below.

3. Coopers reviewed TCS's business and Samuel Montagu carried out a selective survey of potential investors. Together they concluded that it would be feasible to privatise parts but not all of TCS. They recommended that any privatisation should be conducted by way of a competition amongst corporate bidders; they considered there would not be sufficient support for a public flotation. Looking at asset and income valuations they estimated that TCS might be valued at around £45m, though in the event

interested parties might bid above or below that level. They noted that the costs of privatisation, notably substantial costs in endowing a pension scheme for transferred staff, would have to be set against these gross proceeds.

4. Mr Jones also reviewed TCS's business, customers and suppliers. He concluded that TCS should remain in the public sector but that major changes in working methods should be introduced. This would involve drastic slimming down, including privatisation of most of TCS's transport services and a transfer of some functions to other parts of Government. Mr Jones estimated that his recommendations would result in a net saving to Government of £16m per annum (after allowing for some increased costs for customer departments). There would also be one-off proceeds from disposal of assets, notably TCS Headquarters, of approximately £45m, though these would have to be offset by any redundancy costs. Only 400 of TCS's present 1,938 staff would be required for the reconstructed TCS; a further 483 would transfer to other parts of Government leaving a manpower surplus of 1,055. At the most general level Mr Jones' conclusion that TCS should remain in the public sector but be reduced in size and function follows the conclusions of the inter-departmental review in 1985 and CUP review in 1986; but Mr Jones' recommendations are more radical and his information of course more up to date (for example as to the response of TCS and customer departments to untying, introduced in April 1987). He has also made the point that if the changes recommended are not achievable in the public sector, then privatisation may be the best solution.

5. There is a dispute over the question of additional costs to the Exchequer involved in adopting the Jones proposal. The TCS Board estimate that, rather than savings of £16m per annum, there would be additional costs of £11m per annum. The breakdown of their estimate of additional costs is at Annex A and a corresponding breakdown of the savings estimated by Jones is at Annex B. The difference in these figures illustrates the different view taken by Mr Jones and TCS on the role of TCS as a whole.

6. In spite of the general Coopers/Montagu conclusion that it would be feasible to privatise only parts of TCS, during the Committee's work two offers were received from corporate bidders to purchase TCS as a whole. These were unsolicited but appear to reflect genuine interest from bidders of substance.

OPTIONS

7. Four initial options can be identified:

- (i) total privatisation of TCS;
- (ii) partial privatisation (by a combination of selling and contracting out) and TCS to continue in the public sector, adopting changes which are cost-effective and/or necessary to respond to the untied situation;
- (iii) partial privatisation as envisaged by Coopers;
- (iv) the status quo.

Options (iii) and (iv) quickly appear unattractive, however. Partial privatisation on the line suggested by Coopers would leave a rump TCS in the public sector with an assortment of left-over functions, only 15% of its present revenues and a large staff surplus. Continuing the status quo would ignore recommendations for increased cost-effectiveness in successive reviews since 1985 and, now that customer departments are untied from TCS, will not be a sustainable option to the extent that customer departments find it cost-effective to switch business to TCS's competitors.

8. The Committee therefore concludes that the choice lies between

- (i) total privatisation of TCS, or
- (ii) partial privatisation by contracting out plus modernisation.
 - (a) The Jones option - selling off/contracting out and slimming down to essentially a DCO operation;
 - (b) the TCS option - some contracting out and modernisation on a less radical basis.

THE TOTAL PRIVATISATION OPTION

9. Mr Dewi Jones suggested to the Committee that TCS could not be totally privatised because Government would

need to retain four relatively small parts of TCS business;

- fuel purchasing
- security furniture
- the security workshop at Nine Elms
- the high security Government car service.

10. Together with the CUP he also considered what additional costs total privatisation of all other parts of TCS would place on other Departments. Because a private sector TCS would find it uneconomic to handle the low value orders currently dealt with by TCS, customer Departments might need an additional 110 staff to process their own low value requirements. (This would also arise under Mr Jones' recommendations for a slimmed down TCS in the public sector, and is allowed for in his estimate of net savings.) Because a private sector TCS would find it uneconomic to arrange Direct Call Off (DCO) contracts for Departments, and could not take on Government/EEC/GATT purchasing procedures, Mr Jones suggests that privatisation would still require a group of about 50 professional and support staff somewhere in Government to arrange DCO contracts and provide a focal point for the application of Government purchasing policy. (Under his own recommendations this work would continue to be done by the slimmed down public sector TCS, possibly merged with HMSO).

11. This would not be a privatisation which contributed to wider share ownership but more likely a strategic acquisition by a large corporation, given the Cooper conclusion that there would be insufficient support for a flotation. Nor would there be any certainty of a significant net inflow of funds to the Exchequer. While the precise outcome must be uncertain until negotiations have been held with a potential purchaser, Coopers' findings suggest that the costs of privatisation (of which the largest single element would be endowing a pension fund) could substantially offset (or even largely cancel out) the gross proceeds of sale. Overall the Exchequer could suffer a loss. Primary legislation might be required, and probable trade union opposition would have to be faced.

12. Moreover, while legislation was going through and negotiations were continuing with potential buyers, it might

be difficult to carry out some of the radical changes recommended by Mr Jones. If the substantially slimmed down TCS which he recommends was achieved by 1989, it might not be saleable. However, a number of changes he recommends can be implemented and these will enhance the privatisation option. By not going down the Jones route, there could be a significant extra cost to privatisation (worth perhaps £30m) because of the delay of at least two years before the Jones' recommendations could begin to be implemented. This cost has to be set against the £80 - £100m offered by Mr Maxwell (the only quantified offer we have received), less the substantial discount in the eventual proceeds on this amount, as described above. Furthermore, as Mr Maxwell's own track record suggests, the risk of a complete withdrawal of his offer - or that of other bidders - is very high. There are also major uncertainties about the only other (conditional) offer for TCS as a whole (from Hilldown) which has provided virtually no indication of proceeds or terms. Against these points, total privatisation would ensure that the majority of TCS' current activities were exposed to commercial management disciplines. Further, assuming that the private sector buyers would take all TCS's present staff, restructuring and slimming down would take place under private sector rather than Government auspices.

PARTIAL PRIVATISATION BY SELLING OFF/CONTRACTING OUT PLUS MODERNISATION

13. The 1985 inter-departmental review, the 1986 CUP review and now Mr Dewi Jones' review all concluded that if large parts of TCS are to remain in the public sector, measures should be implemented to improve cost-effectiveness. This is accepted on all sides at official level. TCS management has not been able to evolve a long-term business plan while reviews have been in train and uncertainty about the future persisted. However, it has continued to implement measures which it accepts as likely to improve efficiency.

14. There was, however, disagreement within the Committee as to what specific cost-effectiveness measures should be implemented. On the one hand are Mr Dewi Jones' radical recommendations, which take into account the recommendations on the 1985 and 1986 reviews but also reflect Mr Jones' own procurement experience, and draw on recent fieldwork both by Mr Jones and by the concurrent Coopers study. These recommendations would result in a much reduced organisation. On the other hand the TCS Board argue that the result would

be poorer service and increased cost, and has put forward more restrained proposals arguing for a modernised status quo.

DEWI JONES' VERSION FOR PARTIAL PRIVATISATION

15. The Treasury and CUP agree with Mr Jones' view that his recommendations need to be seen as an integrated package and, if TCS is to remain mainly in the public sector, they favour implementation of all the Jones recommendations. They consider that implementing only some Jones recommendations would forego a substantial share of Mr Jones' total estimated net savings and would not fully recognise the new untied business environment.

TCS VERSION FOR PARTIAL PRIVATISATION

16. TCS accept some of Mr Jones' recommendations but dispute others. In particular they do not agree with the recommendations that TCS should within two years:

- change procurement to a DCO basis and introduce 'just in time' arrangements
- adopt the objective of eliminating all 'owned' stock.

TCS argue that their experience indicates that these recommendations would result in higher costs and poorer service to customers (eg longer delivery times). Their business and therefore the benefits of their customers would suffer. Having in mind that up to 1,000 staff would face compulsory redundancy, they consider that the Jones solution would be not only destructive to TCS, but more widely damaging to public sector procurement and in practice be unachievable in a Civil Service context.

17. If Ministers decide on partial privatisation by selling off and contracting out parts of the business, and thereby to retain large parts of TCS in the public sector, together with greater cost-effectiveness, a decision will be needed as to how far to go in implementing Mr Jones' recommendations. This will affect the scale of both the savings and the staff surpluses which could be expected and also the response from trade union and regional interests. The TCS proposes a programme of contracting out (subject to

market testing), sale of some assets (eg the provincial transport workshops), reductions in work and staff to reflect Departmental untying and some consequential loss of work to TCS and a review of activities such as own-design versus trade-brand products, and low value orders. This would delay matters and repeat the work covered in previous studies. However, this could avoid, at least in the short-term, the confrontation arising from the full Jones solution. CUP favour the undiluted implementation of the Jones recommendations by recruiting two private sector managers at Deputy Controller level. If Environment Ministers wished to pursue Mr Jones' recommendations that some activities currently undertaken by TCS should be transferred to other Departments and that TCS itself should report to the Treasury (machinery of Government changes), the Prime Minister's prior approval would be required.

CONCLUSIONS

18. Considerations such as those summarised in paragraph 11, especially the risk of a deal coming unstuck, make it difficult to recommend total privatisation on purely administrative or financial grounds. The 1985 inter-departmental review, 1986 CUP review and 1987 Jones report all conclude that parts of TCS should remain in the public sector with some individual activities privatised or contracted out. Ministers will however wish to make their own judgement, taking account also of wider political factors and the management and personnel tasks inherent in the alternative option of retaining a reduced TCS in the public sector.

19. TCS management and staff have faced uncertainty for some two years now, as successive reviews have considered, but not produced, a decision between the two basic options of privatisation or restructuring within the public sector. This has to some extent affected both current performance and particularly planning for the future. A decision is therefore needed between these two options.

20. If Ministers decide that TCS should not be totally privatised, a further decision is needed on whether Mr Jones' recommendations should be implemented or the more modest proposals of the TCS management. The former could lead to much bigger savings, though this is disputed by the TCS Board (see paragraph 5) and would certainly be at the cost of greater opposition from staff and unions. Some

detailed decisions on these recommendations can be taken later. But a broad steer on whether or not to accept Mr Jones' recommendations is needed now.

21. Ministers are invited to decide:

- (a) whether, despite the risks, the option of privatisation of TCS as a whole should be pursued, including legislation if this is necessary;
- (b) if the answer to (a) above is "yes", whether nonetheless to proceed with changes on the lines of Mr Jones' recommendations or the TCS ones so that if privatisation does not materialise a start will have been made in making TCS more cost-effective;
- (c) if the answer to (a) above is "no", whether Mr Jones' recommendations or the TCS ones should be implemented to improve TCS's cost-effectiveness.

TCS ESTIMATE OF THE FINANCIAL CONSEQUENCES

49. In summary, the Board believes that the adoption of the strategy proposed by Mr Jones would result in the following additional costs to the Exchequer which he has not taken into account:-

(i) Regional Support

Cost to Departments of arranging their own supply of local services	£13m	
<u>Less</u> staff costs allowed in the Jones' report	£1.7m	£11.3m

(ii) Supplier Stockholding

Cost of suppliers holding stocks	£2m	
<u>Less</u> cost allowed in Jones' report	£1m	£1.0m

(iii) Increased Cost of DCO arrangements

Increase in the cost of goods and services as a result of trading up by the customer and fragmentation of demand		£12.0m
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(iv) Supplier Direct Delivery

The additional costs of delivering small piecemeal quantities to customers rather than bulk deliveries to store.		£2.5m
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£26.8m

MR JONES' ESTIMATE OF THE FINANCIAL SAVINGS

ANNEX B

OPERATING COST - COST/BENEFIT ANALYSIS

<u>ACTIVITY</u>	<u>OPERATING COST 1985/86 EM</u>	<u>EFFECT OF RECOMMENDATIONS</u>	<u>ADDITIONAL COST TO OTHERS</u>	<u>NET EFFECT</u>
<u>Transport</u>	12.6	GCS high risk - 12 vehicles plus drivers and Nine Elms workshop to be retained. Balance contract/private	Assume 62 people transferred Contracted services available on DCO	
<u>Vehicle Workshops</u>	2.2	£14.8 M reduction plus £1.6 M reduction in Marketing, Administrative and Financial costs	Plus £2 M -Transfer of GCS & Workshop Plus £14.4M-Contracting Out of Transport	*
<u>Procurement</u>	3.9	Reduction due to streamlining, procedures, potential co-location. Fuel to DCO £0.9 M reduction	No change	- £0.9M
<u>Stores</u>	7.4	Elimination of all stock Closure all stores £7.4 M reduction	DHSS to make arrangements for agency stock + £1.6M Suppliers to supply back up stock Plus £1 M Departments to arrange own disposal activity Plus £0.5M	- £4.3M

* The net effect of contracting out transport activities takes no account of the possible saving of £8M over 5 years identified in the body of the report.

<u>ACTIVITY</u>	<u>OPERATING COST</u> <u>1985/86</u> <u>£M</u>	<u>EFFECT OF RECOMMENDATIONS</u>	<u>ADDITIONAL COSTS</u> <u>TO OTHERS</u>	<u>NET EFFECT</u>
<u>Sales</u>	11.5	Reduction of Sales personnel to 50 - public sector requirements Activity replaced by DCO facility, transfer to PSA, and low value to Departments. £10.5M reduction	DCO and low value effect plus 110 personnel Plus £1.7M Transfer 274 staff to PSA/MOS Plus £4.6M (includes workshop transfers)	- £4.2M
<u>Marketing</u>	2.0	20% current level £1.6M less £0.3M included in transport above	No change	- £1.3M
<u>Design</u>	0.8	Small group in product/interior design 50% present level £0.4M reduction	No change	- £0.4M
<u>Finance/computer office services</u>	6.3	£3.4M reduction less £0.7M included in transport savings above	No change	- £2.7M
<u>Central costs</u> <u>Financial charges</u>	6.7	£4.4M reduction less £0.6M included in transport savings above	PSA charges to be absorbed or re-allocated £2.0M	- £1.8M
<u>TOTALS:</u>	<u>53.4</u>	<u>43.4</u>	<u>28.6</u>	<u>-£15.6</u>

MANAGEMENT IN CONFIDENCE

PRIVATISATION OF THE CROWN SUPPLIERS (TCS)
NEED FOR LEGISLATION

NOTE BY MR ROUTH

1. PS/Mr Chope's minute of 13 July asked me to report back as soon as possible on whether legislation would be necessary for the privatisation of all or part of TCS. I will consider first the question in relation to all of TCS, and cover subsequently the effect on a part of it.

2. This a complex area. As consultations with colleagues have been usually by telephone, often third-hand and always hurried, I think the Minister should see it as my distillation the discussions rather than a final considered view from Treasury or DOE Solicitors.

3. However, I do not think there would be serious dispute over my general conclusion, which is that legislation is unavoidable because of problems of transferring staff to the new undertaking.

4. Legislation is not strictly necessary to effect the transfer of assets, or other business liabilities. In theory, if agreement could be reached with staff to resign and accept re-employment, and Treasury were prepared to buy out their rights to redundancy compensation, legislation might not be needed for matters concerning staff. In

practice such a course is far from realistic. The difficulty, perhaps impossibility, of negotiating a voluntary scheme acceptable to, say, 1,000 individuals, can readily be seen. Even if staff agreed to resign, there is some risk that they might subsequently be able to claim that the scheme was simply a device to avoid the consequences of redundancy.

5. Assuming that staff transfers cannot be effected voluntarily, it appears that the Transfer of Undertakings (Protection of Employment) Regulations 1981 would almost certainly apply to TCS - so that the staff concerned would transfer to their new employment on essentially the same terms as their present one. (There is, incidentally, no salvation in assuming that the Regulations might not apply; this would bring us back into the area of individual agreements and redundancies.) However, there is still another snag.

6. Under the Principal Civil Service Pension Scheme (PCSPS), staff transferred to a new undertaking, even though on the same terms of employment, would fall to be treated as "retired on redundancy" from the civil service. Such staff would be entitled to compensation in respect of this technical redundancy, and legislation would be needed to

avoid this effect. (Section 1(11) of the Dockyard Services Act 1986 did it for the dockyards.)

7. A considerable sum would be involved if legislation did not remove the necessity for it. An inevitably crude MPO assessment, based on a hypothetical model of about 1,200 transferring staff, suggests that the extra cost to the Exchequer of technical redundancy under the PCSPS would be of the order of £35 million over and above their ordinary preserved retirement pension rights, if none of them transferred their accrued rights to the new scheme; or £7 million, in addition to the cost to the Exchequer of transfer values, if they all transferred their accrued rights to the new scheme.

8. There is another point. Most routes towards privatisation would involve the setting up, at some point, of a company owned by the Secretary of State. Public accounting conventions (not strictly legal, but connected with accountability to Parliament) would require such an action to be sanctioned by legislation - which might also be needed to cover any significant capital restructuring of TCS, if that were necessary for example to deal with their National Loan Fund debt and balance sheet.

9. So, legislation is almost certainly needed, and one would take the opportunity to include provisions to effect conveniently the transfer of land, property, contracts and other assets. A short (say 5-6 clause) Bill would be necessary. If Ministers decided that privatisation was their preferred choice, legislation might not be a constraint. If a Bill could not be fitted into this year's programme, it should fit in next year, which would mean privatisation by Summer 1989. There would be a good deal of work to do before then (finding out whether a buyer really would be available, for example) so the time would not be wasted - though the disruption on the day-to-day working of TCS, and the effect on the Trading Fund, should not be under-estimated.

10. Finally, there is the question as to whether legislation would be needed to effect the privatisation of part of TCS. Here I think the answer would depend on the size of the part involved. If it were decided to privatise the core furniture business, involving perhaps 500-600 people, I suspect the considerations above would lead to the conclusion that legislation was necessary. If however one were simply to seek a buyer for the transport hire business, involving about 30 staff, it might be possible to simply "buy off" the staff (ie meet the cost of making them

redundant) and offset the gains from the sale of the business with that cost. If one were successful in this, legislation might not be necessary, but it might not be possible to avoid all the public accounting conventions, and there could be no guarantee of negotiations being acceptably concluded even in a small privatisation such as this.



CCBG

DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
MANAGEMENT - IN CONFIDENCE 01-212 3434

My ref:

Your ref:

September 1986

See memo

NBA

THE FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 19 August. Gordon Manzie had a useful discussion with Michael Willacy about the names he recommended and has now written to Robin Butler and Michael Willacy with his conclusions, with which I agree. I understand that they will be shortly letting you have their advice.

Apart from the succession to John Dole as Controller of The Crown Suppliers, there are a number of other points in your letter on which I should like to comment.

The present organisation is not, as you suggest, predominantly a procurement organisation. It is a much more complex business, involving the provision of a wide range of goods and services, such as the Government Car Service and the supervision of the furnishing and equipping of historic buildings like the Palace of Westminster. Whatever happens in the longer term, the organisation will have to continue for at least the next two or three years to provide this wider range of services efficiently, as it does now.

On the matter of savings, I have already expressed in my earlier letter my doubts about the real level of savings to be expected from the CUP proposals. The Unit itself accepts that it took no account of resulting increases of costs to other parts of the public sector. I am therefore happy that you agree that a dispassionate review of these issues should be the first task of the new Controller.

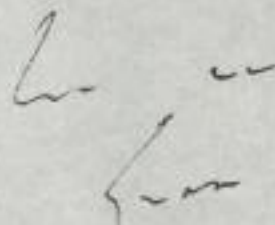
MANAGEMENT - IN CONFIDENCE

I should comment, however, on the size of overheads quoted in your letter. It is wrong to regard the activities of the technical field force in The Crown Suppliers as being purely salesmen. About 50% of their time is spent on managing furnishing services that are the responsibility of, and funded by, the PSA and a further 20% on behalf of the Defence Accommodation Stores Organisation of MOD. They also set up and monitor on an area basis a whole range of routine services such as removals, portage and floorlaying that are available for use by all Government Departments and by the Armed Services. Without this central facility, each Department would be required to arrange their own contracts adding enormously to costs. Since Departments are in the process of being untied, and The Crown Suppliers, with the approval of Ministers, are seeking to expand their non-Government business in line with their corporate strategy which the Treasury agreed, some sales activity is essential, but it remains a minor proportion of the field force's activities. Design activities are only undertaken where they are necessarily complementary to the main function of providing goods and services which offer the best value for money, and in support of the Government's own Design Initiative.

As far as the level of on-costs is concerned, it is important to recognise that these cover not just the activities of the field-force, but the costs of storage and distribution, central services and return on capital employed. I am confident that the review will find these competitive. (It is difficult for me to comment on your remark about sofas - comparative costs must depend on the quality and specifications of items supplied).

I am grateful for your agreement that the banker's study should continue. The terms of reference for such a study have now been agreed with your officials and I can confirm that only advice on the possibilities of privatisation is being sought at this stage.

/ I am sending copies of this letter to recipients of yours.



SIR GEORGE YOUNG

Norman Lamont Esq MP

GOLT MACHT

PSA

7/83





Treasury Chambers, Parliament Street, SW1P 3AG

Sir George Young Bt MP
 Parliamentary Under Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

19 August 1986

Dear Minute

FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 28 July.

Taking first your point about the successor to John Dole, I agree that it is important to get this settled soon. I understand that Gordon Manzie is now considering some names suggested by Michael Willacy and will be coming back to Robin Butler on these.

I do question, however, your assumption of what are the key aspects of the job of Chief Executive and therefore your conclusion that these require a Civil Servant. To my mind the most important part of the job is that of managing a procurement organisation to achieve the most efficient and effective results. Knowledge of Government rules and regulations are of course important; but they are hardly the crucial aspect. It should be perfectly possible for these to be covered by advice from within the organisation. Equally the job of piloting a Bill through Parliament - if it gets to that point - ought to be the responsibility of someone working on your behalf as representative of the vendor, ie the Department of the Environment or PSA, rather than the management of the Crown Suppliers itself. (Our officials have already stressed this distinction to yours.) Your Departments will of course require advice on these aspects from the Crown Suppliers themselves; but again this does not strike me as the crucial task of the Chief Executive. For all these reasons I am very much in favour of bringing in as Chief Executive someone from the private sector or at least with direct senior management experience in procurement.

MANAGEMENT IN CONFIDENCE

On the question of the scope for savings, I agree that rather than debate these further between us at length, the right course is for these to be examined further by the new Chief Executive, as part of the follow-up to the CUP and MPO proposals. At this stage I would just repeat that I would be very surprised if there were not some significant benefits to be had from implementing them. I find it surprising, for example, that the services TCS's sales staff provide should have to add as much as 15-20% to costs. Why do we have to have salesmen to sell to ourselves? And why do TCS need to employ designers? Moreover, I have heard that prices for sofas in the TCS catalogue are much higher than those from John Lewis.

On privatisation, I am content that the banker's study should continue on the basis I have previously agreed. I do feel however it is most important not to give any firm commitment to privatisation. There are arguments against privatisation. In my view therefore the important thing is that you and the Crown Suppliers management under their Chief Executive should have a clear commitment to looking hard at the scope for these kind of savings and achieving them wherever possible.

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

*Yours sincerely
Vivien Life*

VIVIEN LIFE
Private Secretary
(approved by the
Financial Secretary
and signed in his absence)

MANAGEMENT IN CONFIDENCE

GOVT NACH

Cloud SUPPLIERS

9/83



C. B. G.

Mr Stank

Sir George Young, with the Treasury's reluctant agreement, made the announcement today. So late I'm afraid!

Ref. A086/2168

PRIME MINISTER

Future of the Crown SuppliersD.S.
25/7.

Mr Norgrove's letter of 2 July expressed your wish for early decisions on the future of the Crown Suppliers. The letters of 9 and 22 July from Sir George Young's office, and of 22 July from the Financial Secretary, give Department of the Environment and Treasury responses.

2. It appears from the latest correspondence that Department of the Environment Ministers are still eager to obtain merchant bank advice on privatising the Crown Suppliers as a whole. Both last year's "Turton" report and the subsequent report by the Central Unit on Purchasing concluded that privatisation would be feasible, but recommended against it on the ground that Departments would incur additional costs if they had to staff and operate their own procurement units. Instead both reviews recommended changes in the way the Crown Suppliers operates, including contracting out of some activities and, in the case of the Central Unit on Purchasing report, possible merger with HMSO.
3. The Financial Secretary sees the early pursuit of those recommendations, and the associated savings, as the main priority. He appears far from convinced that merchant banks' advice would be helpful. But he is prepared to go along with it on the basis that privatisation could not in practice be achieved for some time to come, and that the recommendations in the reports should be pursued meantime.
4. This approach would sidestep the difference of view as to whether to obtain bank advice which has held up the progress of this issue. But it seems to leave the Government pursuing both privatisation and implementation of the reports' recommendations, and I doubt whether running both these options at the same time would produce the early decisions you sought. It would leave

management without a clear sense of direction, and face the staff and trade unions with two sources of uncertainty rather than one. It would also pose practical difficulties, because complete privatisation and the reports' recommendations overlap: many of the recommendations in the two reports are for contracting out of particular activities within the Crown Suppliers, and if implemented would change the boundary of what was available for any privatisation. The danger is that in the end neither privatisation nor the alternative would be carried forward effectively.

5. One way of avoiding this risk would be to ask that, before any announcement is made, Department of the Environment and Treasury Ministers should agree a paper for consideration at E(A) Committee. This would now mean postponing an announcement until after the Recess; but the resulting uncertainty would be no greater - perhaps less - than following the course proposed by the Treasury.

REA

ROBERT ARMSTRONG

25 July 1986

GOVT MACH.

CROWN

SUPPLIERS

9/83



GOVERNMENT

9/83

CGB



Treasury Chambers, Parliament Street, SW1P 3AG

Sir George Young Bt MP
 Parliamentary Under Secretary of State
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

NBN

23 July 1986

Dear George

With DRW?
Will request if required

FUTURE OF THE CROWN SUPPLIERS - ANNOUNCEMENT

Thank you for your letter of 22 July in reply to my letter of the same date.

I am concerned that we should be rushing ahead with a public announcement on the future of the Crown Suppliers before you have let me know how you propose to take up the proposals in my letter, and before other colleagues have had a chance to react. I also wonder if it is really necessary to make an announcement before the Recess. If the main aim is to reassure your own staff about the future, could this not be done, for example, through an internal note to staff, followed by an announcement to Parliament after the Recess?

However if you really feel that an early Parliamentary announcement is necessary, I would like to ask for the changes to be made as indicated in the Annex to this letter.

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

Yours
 Norman Lamont

NORMAN LAMONT

SUGGESTED AMENDMENTS TO DRAFT ANNOUNCEMENTParagraph 1, lines 8-9

Delete "But they operate under one major disadvantage. Although". Substitute "They operate of course under the constraint that although".

[This puts it more neutrally: there are arguments both for and against limiting business to the public sector.]

Paragraph 3, lines 2-3

Delete "...this function does not have to be in the public sector and".

[The Government has not firmly decided that the central procurement function does not have to be in the public sector.]

Paragraph 3, lines 8-9

Replace start of third sentence as follows:

"Our final decision about privatisation must take account of the costs and benefits to Government, including the marketable value of the organisation and the effects on other Government Departments. I have therefore decided, without commitment,"

[The decision on privatisation will need to reflect other factors than simply marketability.]

Paragraph 3 penultimate sentence

Replace by "I have also instituted a further detailed examination of the various recommendations for change proposed by the original review team and by the Central Unit on Purchasing, with the aim

of implementing those recommendations for change which would be advantageous in terms of cost and efficiency."

[This wording is more in line with my letter of 22 July.]

Gov't Machinery: Sept 1983 - PSA

NBBN.

MR NORGROVE

22 July 1986

FUTURE OF THE CROWN SUPPLIERS

We agree with Norman Lamont's letter to George Young pressing for the pursuit of the economies which seem capable of being achieved by Crown Suppliers, and the choice of an appropriate successor to the Chief Executive, preferably from the private sector.

We would not dissent from obtaining merchant banking advice on privatisation, if this keeps George Young happy, provided that Norman Lamont's reasonable conditions are accepted. It is accepted that privatisation, even if practicable, could not be achieved before the next Election, since legislation would be needed.

David Hobson

DAVID HOBSON



CEB

Treasury Chambers, Parliament Street, SW1P 3AG

Sir George Young Bt MP
Parliamentary Under Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

NBN

22 July 1986

Dear George

FUTURE OF THE CROWN SUPPLIERS

Following our meeting on 27 June I agreed to consider your proposals further. I have now also seen the Prime Minister's views as recorded in her Private Secretary's letter of 2 July and your own further views recorded in your Private Secretary's letter of 9 July.

2. I am certainly sympathetic in principle towards the idea of privatisation. But there are arguments against it, and in any case since it will require legislation, it cannot happen until after the next election even if it is a practical alternative. In the meantime I regard as the most immediate issue the urgent pursuit of the scope for economies now on the lines suggested in the two reviews by the Central Unit on Purchasing and the MPO. The CUP review in particular has suggested that there ought to be significant economies from:-

- (a) contracting out all services (eg technical advice and transport services) not associated with the main procurement activities;
- (b) cutting back on stockholdings;
- (c) concentrating procurement on "direct call-off" (ie where Departments go direct to suppliers);
- (d) forging closer links with HMSO, including merging computer systems.

3. In my view we ought to make these changes, if, as the CUP suggest, there are genuine benefits to be had from them. I understand that your own officials accept that implementation of these recommendations could result in savings.

4. There is a further question raised by the CUP of whether additional savings could be achieved through elimination of sales outside central Government. There is a difference of view here between the CUP and the Crown Suppliers and

MANAGEMENT IN CONFIDENCE

I myself have an open mind on the issue; but again I think this area needs to be looked at.

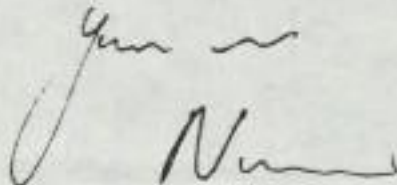
5. If you wish to proceed with a merchant bank study, I will not stand in your way. But it must be on the clear understanding both that the Government will not necessarily decide to privatise the Crown Suppliers whatever the study concludes, and that the study does not distract us from the much more urgent task of seeking savings in the way the earlier reviews have suggested. A condition of my agreement is therefore that before the merchant bank is appointed, there should be a clear commitment by you and the Crown Suppliers to the implementation if at all possible of the areas identified for savings in paragraph 2 and an examination of the question raised in paragraph 4 above. I shall also want to agree beforehand a clear statement of objectives, programme and time scale for this further work.

6. In addition I should want my Department to agree with yours on the choice of a successor to the present Chief Executive to supervise the further work. If at all possible the successor should come from the private sector and have a proven track record in procurement or general managerial ability. I should have thought you would see the desirability of this too from the point of view of privatisation. As a preliminary, I suggest that Mike Willacy should be in touch with Gordon Manzie about possibilities here.

7. My officials will also need to agree with yours the terms of reference for the merchant bankers' study (which should include the additions suggested by the CUP), as well as of course their terms of appointment.

8. Until this is sorted out, I think it must be premature for you to make any public announcement about the future of the Crown Suppliers, as I understand you may have in mind.

9. I am copying this letter to the Prime Minister, Richard Luce, Sir Robin Ibbs and Sir Robert Armstrong.



NORMAN LAMONT



GOUT MACH

CROWN SUPPLIERS

9/VS

NBPN.

MR NORGROVE

14 July 1986

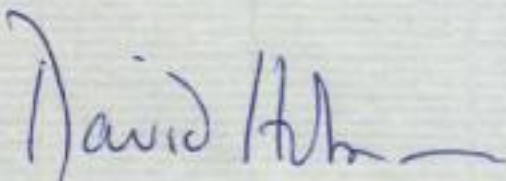
FUTURE OF THE CROWN SUPPLIERS

Following receipt of the letter from George Young's office of 9th July, I attended a meeting at the Treasury, where officials from Crown Suppliers (CS) and Central Unit on Purchasing (CUP) were present.

The two sides were not in agreement on the main issue, whether CS should carry on as hitherto or whether it should be reorganised on commercial lines as CUP recommend. The head of CS is being transferred to HMSO, so on this decision rests the choice of his successor, between a nominee of PSA and a general manager recruited from outside.

It was agreed that privatisation, even if practicable, could not be achieved in the lifetime of this Parliament.

Following the meeting, a draft letter has been supplied to Norman Lamont, which we should wait to see in final form. The draft favours the CUP view, which we support.



DAVID HOBSON

GOUT MACH
CROWN SUPPLIERS

9/83



DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

CGSG

Any DH comments?

My ref:

Your ref:

*JRF
11/7*

9 July 1986

Dear David,

FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 2 July.

You will recall that the team of officials which last year reviewed the future of The Crown Suppliers (the Turton review) came to the conclusion that privatisation, while practicable, would not be in the public interest. Sir George Young did not accept that conclusion and in a letter to Mark Addison dated 26 February Sue Vandevord indicated that, before making final recommendations to colleagues, Sir George proposed to seek advice from a suitable merchant bank about the feasibility of selling The Crown Suppliers as a going concern. The previous Financial Secretary was not wholly convinced of the need to seek such advice at that stage and proposed that the views of the Central Unit on Purchasing should first be obtained. The letter from Mark Addison dated 3 March asked that this be done and the CUP views were sent to the Financial Secretary on 9 May.

The CUP recommend against privatisation, but Sir George nevertheless remains convinced that this is a viable option in full accord with the Government's policy of reducing public involvement in commercial enterprise. Sir George has discussed this with our Secretary of State and he is of the same view. Sir George would therefore still like to seek the advice of an outside financial institution as soon as possible about the feasibility of privatising the Crown Suppliers - both the Turton review and CUP's advice suggested this should be done if privatisation is to be pursued - with particular emphasis on some form of management buy-out. However, the CUP report also raises a number of other important issues about the future role of The Crown Suppliers and the Treasury have now asked us to consider these alternative ideas in more detail before we seek outside advice. Sir George had a preliminary meeting with the Financial Secretary on 26 June to discuss the best way to make progress. As a result, we are preparing a critique of the CUP proposals which will be sent to the Treasury within the next few days. This, Sir George hopes, will quickly lead to agreement to approach a suitable merchant bank or consultant. If there remains an element of doubt about the best way forward, a paper will be presented to colleagues (perhaps at H Committee) explaining the situation and seeking guidance.

Meanwhile, the Prime Minister can be assured that The Crown Suppliers continue to improve the efficiency of their performance. Despite increased untying (now over 65%), they are maintaining the volume of their business and have more than met their financial objective for 1985/86. Their response to the challenge of PRS has been to seek to hold and to increase their share of the public sector market by raising the level of service they offer, speeding up deliveries, reducing their resource costs and offering still better value for money for the commodities and services they provide to an increasing number of public sector customers. This process will continue undiminished.

/ I am copying this letter to those who received yours.

Yours

Nich

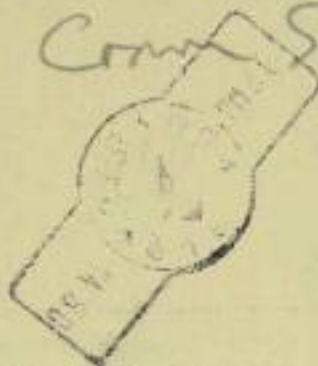
NICHOLAS DEXTER
Private Secretary to
Sir George Young

David Norgrove Esq

~~Contract~~ *Contract* Suppliers: GOV

MACT

Sept '83





10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

2 July 1986

Dear Neil,

FUTURE OF THE CROWN SUPPLIERS

The Prime Minister is aware that the report from the Director of the Central Unit on purchasing about the future of the Crown Suppliers has now been received and understands that the future of the Crown Suppliers is under discussion between the DOE and the Treasury following Sir George Young's letter to the Financial Secretary of 13 June.

BA X
The Prime Minister is concerned that discussions about the future of the Crown Suppliers have been dragging on for some months. She hopes that decisions about this can be taken very soon and would be grateful to know the proposed timetable. She would also be grateful to know the action which has been taken to improve the performance of the Crown Suppliers while discussions have been in progress and for an assurance that the pressure for improved performance will be kept up while yet further discussions are in progress - a time which she hopes will be short.

I am copying this letter to Vivien Life (Financial Secretary's Office, HM Treasury), Paul Thomas (Office of the Minister for the Arts), Sir Robin Ibbs and Michael Stark (Cabinet Office).

Yours sincerely,

David Norgrove

David Norgrove

Neil Mitchell, Esq.,
Department of the Environment.

ECU

Pamie Rinker 4

Mr. Rinker

To be aware.

MR NOB GROVE

JRS
27/6.

27 June 1986

Mark comment -
WMI action. why?
no

CROWN SUPPLIERS

A review team reported on Crown Suppliers in September 1985. It concluded that the organisation should be retained, that it should not be privatised, and that a merger with HMSO would not be advantageous.

We recommended - and it was agreed - that the Central Unit on Purchasing should be consulted on the Report. They reported in May 1986 suggesting radical changes in the organisation, including the following:

- a. Government purchasing activities to be maintained in a more cost-effective form, running down the stockholding activity.
- b. The other activities of Crown Suppliers to be run down, privatised or contracted-out, with the exception of some parts of the car service which may have to remain for security reasons.
- c. A General Manager to be appointed from the private sector to implement the proposals over a period of 2 years.
- d. The purchasing activities of HMSO and the balance of Crown Suppliers' purchasing to be merged on completion of the reorganisation.

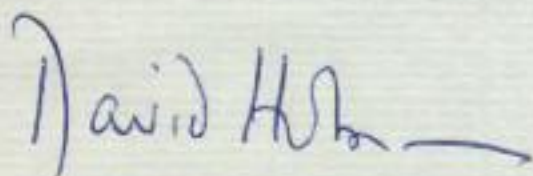
These
figures
are very
dubious.
D&N

These proposals were estimated to save some £30m per annum when implemented, together with cash gains on the disposal of surplus premises and stores and the cancellation of a proposed computer programme, estimated to cost £30m over 10 years.

George Young suggested that a merchant banker should be consulted as to privatisation of the existing organisation - probably by way of a management buy-out. Since legislation would be necessary, and major reorganisation would be needed to put Crown Suppliers into a corporate form with adequate commercial accounting, it does not seem practicable to consider privatisation during the life of this Parliament. Pursuit of the savings and greater efficiency recommended by the Central Unit on Purchasing looks much the more sensible proposition.

At a meeting between Norman Lamont, George Young and officials this week, it was agreed that Crown Suppliers would comment urgently to the Treasury on the Central Unit's report, following which Norman Lamont expected to be in touch with Ministers on the subject by the end of July.

No action is needed now; we will keep in touch with progress.



DAVID HOBSON

GOVT. MACH. Crown Supplies, Sept 1983.



711F
CBB
DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

13 June 1986

NBP? at this stage

Dear Sir,

THE FUTURE OF THE CROWN SUPPLIERS

I should be grateful if time could be found in the very near future for a meeting to discuss how to handle the paper from the Director of the Central Unit on Purchasing about the future of The Crown Suppliers, which was sent to John Moore on 9 May. An early indication of the line we intend to pursue is desirable to avoid further speculation, and the risk of damaging loss of morale among a dedicated workforce.

The paper from the Central Unit follows the request from No 10 (letter of 3 March copied to John Moore's office) that the CUP should advise on the cost consequences of privatisation and that, depending on that advice, the financial institutions should be asked to consider the feasibility of privatisation.

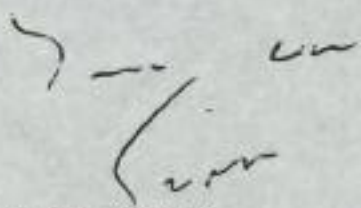
The request for CUP advice followed preliminary consideration of a more detailed review of The Crown Suppliers' activities (the Turton Review) undertaken by a team of officials led by the Cabinet Office. The Turton team came to the conclusion that, on balance, it would not be in the public interest for The Crown Suppliers to be transferred to the private sector. The paper from the CUP endorses the Cabinet Office team's main conclusions, but hardly addresses itself to the question of cost. Instead it recommends virtually dismantling The Crown Suppliers as it exists today and replacing it with a narrowly-based purchasing organisation, which would be a shadow of the present operation which is widely accepted as being successful and efficient. Two years ago, The Crown Suppliers was re-launched with full Ministerial backing as a high-profile, design conscious and competitive public sector business, and encouraged to go out to win new public sector customers, maximising the savings available to the public sector through aggregating purchasing power, and minimising the resource costs which would otherwise be deployed by numerous public sector purchasing organisations.

Frankly, I do not find the CUP report very helpful towards making a decision about the organisation's future. Many of the arguments in favour of dismembering The Crown Suppliers are not explored in any depth; it contains a number of unsubstantiated assertions, and the savings claimed are very misleading because they ignore most of the costs of the alternative of contracting-out and the other increased costs which would result from the disaggregation of purchasing power identified in the Turton review. The practicability of HMSO absorbing the remainder of The Crown Suppliers activity has not really been examined at all and the proposals would put up overheads, and yet would deny other public bodies the advantages of buying from The Crown Suppliers.

Nothing in this latest report causes me to revise the view that I put in my letter of 27 February to John Moore that privatisation of The Crown Suppliers remains an attractive option, which the investigations undertaken so far have failed adequately to consider. Given the highly motivated and committed workforce, my preference would be to keep The Crown Suppliers as a complete entity. I believe that under the stimulation of a private sector environment, the present organisation is skilled and efficient enough to retain much of its current business and to penetrate wide new private sector markets. Of course I acknowledge that officials in both the Cabinet Office and The Crown Suppliers have misgivings about the Government placing its requirements in the hands of a private sector company, but I personally believe that the forces of competition would ensure that the price and quality of supply to the Government would remain advantageous. Moreover, there would be benefits to the staff if they had a stake in the business. The more open-minded amongst them are by no means opposed to the opportunity of sharing in both risk and reward.

I hope, therefore, that instead of dismantling The Crown Suppliers we could explore, with outside financial advice from the institutions, the feasibility of privatising The Crown Suppliers, and the various ways in which this might be achieved, including the possibility of a staff and management buy-out.

I am copying this letter to Sir Robert Armstrong.



SIR GEORGE YOUNG

Norman Lamont Esq MP

CONT MACH PSA Sep 83



Asat ME response to CUP report.

MR ADDISON

21 May 1986

THE FUTURE OF THE CROWN SUPPLIERS

The Central Unit on Purchasing (CUP) has produced a report which recommends, instead of privatisation, reorganisation and disposal or contracting-out of many of the Crown Suppliers' activities.

In short, the proposals involve:

- a. Retaining central Government purchasing negotiations and providing a direct call-off facility from commercial suppliers at centrally negotiated prices as hitherto.
- b. Amalgamating this service with that provided by HMSO, basing it in Norwich. They serve the same customers, to a large extent.
- c. Running down, or contracting out, the remaining services of Crown Suppliers, possibly retaining, for security reasons, certain parts of the car service within Government.
- d. Disposing of the London premises and stores and cutting out the expensive and lengthy computerisation programme which would no longer be needed.

- e. Thereby obtaining much greater value for money, savings of over £30m per annum, as well as the cash gains from closing down the storekeeping function and cancellation of the (£30m over 10 years) computer programme.

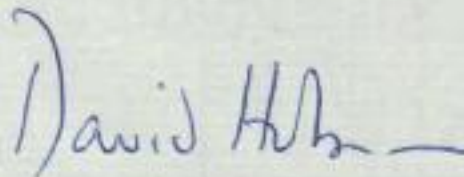
Crown Suppliers is an organisation of a kind only seen in the public sector, carrying out expensive design, selling, storage and cataloguing functions which could not be justified unless the captive public sector customers were not too interested in value for money. Alternative private sector services have now developed, so that this organisation has now become largely unnecessary.

Although the report suggests that merchant banking advice might be helpful, we doubt this since privatisation is not considered appropriate. However consultancy help may well be needed to develop a plan as to how the reorganisation could be put into effect and establish whether the CUP's estimate of savings would be achieved. Consultation with departments and unions would be necessary, so implementation would take some time to achieve.

In our opinion the report makes good commercial sense; its implementation will involve careful planning, hard decisions and political will to carry it through. Considerable redundancy in London (with some small increase in staff in Norwich) looks inevitable if these proposals are carried

through and this will have to be faced if the reorganisation is to be effective. Timing is therefore likely to be a sensitive issue.

We strongly support the report and suggest that a target date for its implementation should be requested. In the meantime the direct call-off facility for stores should be promoted and trading and stockholding by Crown Suppliers discouraged and reduced to a minimum.

A handwritten signature in blue ink that reads "David Hobson" followed by a horizontal flourish.

DAVID HOBSON



With the Compliments of

M. J. O. Willaoy

of

Await response from his
large Fuji office. Jv (Drs) will
clear it up. PL to his 2 weeks.

MSA 14/5

Central Unit on Purchasing
Standard House

27 Northumberland Avenue

London WC2N 5AL

Telephone: 01-240 6716



Central Unit on Purchasing

Cabinet Office/Treasury Joint Unit

Standard House, 27 Northumberland Avenue, London WC2N 5AL

Telephone 01-210 6716

Our Ref: CUP/12/TCS

9 May 1986

Miss V Life
Private Secretary to the Financial Secretary
H M Treasury
Parliament Street
London SW1P 3AG

Dear *Miss Life,*

THE FUTURE OF THE CROWN SUPPLIERS

In your letter of 17 February to Mark Addison you asked that the Central Unit on Purchasing should complete its review of The Crown Suppliers (TCS) quickly and report jointly to DOE and Treasury Ministers, particularly commenting on the issue of privatisation. We have pleasure in submitting a report based on our own findings, which emphasises the importance of procurement in Government Departments.

On the matter of privatisation, although we agree with much of the study carried out by the Cabinet Office last year (the Turton report), we are proposing a number of radical alternatives to complete privatisation which involve a merger of some functions with HMSO, the disposal of others to the private sector, and a few which Departments should take on themselves.

Our report advances many reasons for taking this view, the main ones being:

1. A successful privatisation would involve some ongoing commitment for continuity of Government business. This would not be in the interests of Departments and would almost certainly breach EC/GATT rules.
2. Privatisation would result in Departments having to do a great deal of their own procurement and this would require a substantial increase in both the quality and quantity of staff at Department level.

/ This does

This does not mean however that we do not see the need for change at TCS. It had been our intention to review the activities of TCS within the first year of the life of the CUP. The issue of privatisation has brought this matter to a fore and as a result we have taken the opportunity to express our views:

1. TCS is a catalogue warehouse providing a range of services to Departments; it is not simply a central purchasing agency.
2. The purchasing and supporting activities of TCS should remain within Central Government though on a different and more cost effective form resulting in the eventual elimination of all TCS stocks.
3. The remaining functions of TCS, including sales and marketing, should be rundown, privatised or contracted out (though certain parts of the car service may have to remain with Central Government for security reasons).
4. All work for parties other than Central Government Departments should cease.
5. Within six months, a General Manager from the private sector should be appointed to implement these proposals. His terms of reference should require him to review each function of TCS, identify which parts of these must be retained in Central Government and to dispose of the remainder within two years at a maximum return to the Exchequer. During this period TCS should report directly to the Treasury.
6. The remaining TCS purchasing functions should be transferred to HMSO (either as part of Supplies Division or as a new furniture division)
7. HMSO should produce, within 18 months, a detailed plan for amalgamating their purchasing activities with the balance from TCS; and identify what additional computerisation, if any, is necessary to include the customers of TCS.

Within the limited time available we have quantified the effect implementation of our proposals would have on TCS operating costs. We conservatively estimate that these would be reduced from £47.5m per annum to £6.3m per annum. There would however be some increased costs at Departmental level, estimated at £6.4m per annum and certain PSA charges currently levied on TCS would need to be absorbed elsewhere (£2.8m per annum). Our assumptions are contained in Appendix II of our report and the remaining TCS procurement activity could be funded from a 2-3% commission on contracts and should not present an added financial burden to HMSO.

/ In addition

In addition there will be substantial cash gains in the form of returns from the sale of the current TCS premises, the closing down of stores (fixed assets currently + £33 million; including £10 million vehicles) and the cancellation of the proposed computer programme (+ £31 million over ten years).

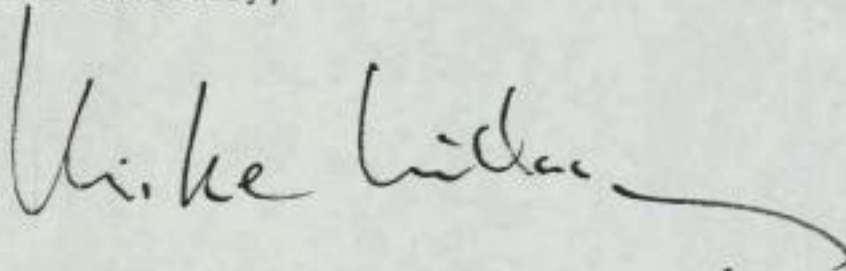
In the event that the matter of privatisation is pursued then you have asked us to consider what further advice it might be appropriate to seek from a merchant banker or outside consultants. Our own view is that while it would be useful to have an outside view on how best to dispose of TCS, the terms of reference should involve the following specific questions:

1. If TCS were to be completely privatised, what guarantees would a potential purchaser require by way of Central Government business.
2. If complete privatisation is not a viable option (and we do not believe it is) what would be the financial benefits from the partial privatisation or contracting out of TCS.

I am, of course, willing to discuss with Mr Moore and Sir George Young any of the issues arising from our report and the proposals put forward in it and to assist in the future implementation where necessary.

Copies of this letter go to Miss Sue Vandervord (Sir George Young's office, DOE), Mark Addison (Prime Minister's office), Michael Stark (Sir Robert Armstrong's office, Cabinet Office), Anne Mueller (MPO), Robin Butler (H M Treasury) and Gordon Manzie (DOE).

Yours sincerely,



M J O Willacy
Director

THE FUTURE OF THE CROWN SUPPLIERS

(The Views of the Central Unit on Purchasing)

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CUP - 1 May 1986

THE FUTURE OF THE CROWN SUPPLIERS

A. INTRODUCTION

Over the last month the Central Unit on Purchasing (CUP) has carefully considered the future of The Crown Suppliers (TCS). The views taken are predominantly of a professional procurement nature based on experience of the private sector. We have also examined the contents of the Turton report on the future of TCS and where relevant have taken account of their findings in expressing our views.

B. THE FACTS

TCS has two main roles:

1. The supply of furniture, furnishings, floor coverings, domestic, electrical and mechanical equipment, fuel, etc and their related services, including design and planning on behalf of Government Departments and other public sector users.
2. The provision of transport services for Government.

To achieve these roles and to ensure a level of service compatible with clients' demands:

1. It purchases goods and services to the value of approx £200 million per annum and in addition administers direct call-off sales of a further £180.5 million.
2. Has Operating Expenses of approx £40 million per annum of which £20 million are staff costs.
3. Has Fixed Assets of approx £33 million; split 2/3rds Buildings, 1/3rd Vehicles; owns a central office in London valued approx £17 million and maintains ten different stores around the country.
4. Is introducing a client orientated Information System costing £31 million over ten years from 1985.
5. Will meet the Treasury requirement for a 5% return on assets at the end of this financial year.
6. Maintains in-house stocks to meet fluctuating client demands and to provide immediate coverage of security furniture.
7. As part of Transport Services it runs a Government Car Service (GCS); an Interdepartmental Despatch Service (IDS); a Self-Drive Hire Service and Vehicle Maintenance Workshops.

8. Employs approx 1,900 staff (industrial and non-industrial):

Sales - 530; Transport - 500; Purchasing - 270;
Stores -190; Financial and Computing Services - 240;
Design, Marketing and Special Services - 200.

C. COUNTING THE COSTS

TCS is not simply a central or group purchasing activity as one would anticipate meeting in the private sector. Rather we would view TCS as a catalogue warehouse or a distributor or wholesaler of a whole range of general goods and services. Only 270 of the 1,900 staff employed by TCS work for the purchasing section. The remainder are engaged in a range of different though often linked activities.

A breakdown of the different functions together with associated costs in 1984/85 are given in Appendix I to this report.

It is very difficult therefore to find a comparative private sector procurement activity; indeed the trend currently, with the appearance of better information systems, is to move towards decentralisation of procurement. The provision of the range of in-house services offered by TCS is perhaps the consequence of unchecked centralisation!

The danger of such a policy particularly in the public sector is that it tends to desensitise users to questions of price and value for money. Departments just buy from the catalogue or call in TCS salesmen without considering alternatives. The idea of untying Departments from the Agencies is an attempt to regenerate departmental considerations of the competitive market but we still have a long way to go.

So whilst TCS may be able to point to a number of satisfied customers does this really tell us anything? The fact that British Telecom still take direct sales from TCS (a subject to which we will return later) may have more significance although equally it is possible to point to previous customers who have taken business away, the Post Office, the National Health Service. Does this prove the competitiveness of TCS or the effectiveness of the customer's procurement activity?

In looking at the efficiency of TCS, the CUP has therefore concentrated on the "on-costs", or the difference between the buying in price for the goods and services provided and the sale price paid by the customer.

Our calculations (see Appendix 1) indicate that the apparent "on-cost" on direct sales (excluding fuels) in 1984/85 was 16%. Direct sales are generally orders taken by the team of TCS salesmen who then arrange for deliveries to be made either directly from suppliers or from TCS stocks.

The 16% "on-cost" figure is the average of all direct sales hence the true "on-cost" for items which physically pass through TCS stores will be much greater (at least in the region of 25%). The main concern of CUP is that Departments get good value for this money.

Conventional wisdom tells us that the biggest buyer always does better than the smaller, however conventional wisdom should not be taken at face value. A recent Audit Commission report on Local Authority purchasing for a vast range of products, including items similar to those purchased by TCS, found no direct correlation between size of spend and lowest prices.

There are advantages of aggregation of spend, of this the CUP have no doubt. Concentration on a small range of purchases at the centre of an organisation results in the staff involved becoming very well informed and highly skilled at their job. CUP remain unconvinced however that the benefits of aggregation in the areas covered by TCS produce a 16% saving let alone the 25% saving which would be needed to cover the costs of TCS' double handling of stores items.

TCS have also developed a whole range of special furniture for the Civil Service which has never had to stand up to the true commercial test of the market place. The MPO report on Government purchasing urges Departments to get away from in-house specifications and to purchase readily available products, the CUP endorse this view but TCS role in designing special furniture does not.

TCS may be able to point to third parties but CUP have some serious reservations about this aspect. Is it really the role of Government to operate in direct competition for third party business (ie British Telecom) with the private sector?

D. PRIVATISATION

On first evaluations then it might appear that TCS are prime candidates for privatisation. One of the most effective sectors of British industry is that of supplying services and distribution facilities. Privatisation would devolve responsibility for purchasing to the Departments in line with FMI, reduce Civil Service numbers and in future the costs of goods and services could be determined by competition and market forces.

It is, however, the view of CUP that the medicine is likely to be worse than the disease. The first major misgiving we have on privatisation is that we cannot see any organisation wishing to purchase TCS without receiving some ongoing commitment covering continuity of Government business.

In an era of greater Government awareness of value for money it would be totally wrong to stop the process of untying of Departments from TCS indeed to direct Departments to buy uncompetitively from a privatised TCS would have a positively dispiriting effect.

On the other side of the coin although the process of untying of Departments from the Agencies currently under way has indeed encouraged some Departments to be more price sensitive it would be wrong to assume that this is the general case. A large number of Departments, particularly the smaller ones, use TCS almost as part of their own organisation, and we would be very fearful of a privatised TCS exploiting this situation and the strings of the public purse slipping into private hands.

The administration costs of procurement in the public sector are greater than those in the private sector. The need to conform with Government rules on competitive tendering, EC/GATT regulations, looking after the interests of small firms, sheltered industries and the Public Purchasing Initiative all add to the costs. Indeed one of the main attractions to Departments in using TCS is that they can be sure that "due process" has been met. No supplier is going to accuse a Department buying through TCS of showing undue preference, etc. Whilst this has, as explained earlier, tended to desensitise Departments to price it also means that from an administrative viewpoint it is a fairly cost effective way of ensuring due process is met and effort is not duplicated.

If as a result of privatisation of TCS all Departments had to do their own procurement then we would see a need for a substantial increase in both the quality and quantity of staff at Department level. We would also see a duplication of effort between Departments and consequential increase in costs which in CUP's eyes would be totally unjustified when more cost effective organisational solutions are available.

E. THE FUTURE

CUP believe that some form of central purchasing activity should be retained for the following reasons:

1. Central purchasing allows you to employ staff to concentrate on particular market sectors. They then become highly knowledgeable about the supply market in which they operate and develop procurement skills. Successful purchasing is about having well trained and well informed people.

2. Considering the scale of Government purchasing and its repetitive nature retaining a central purchasing activity will reduce administration costs and avoid different Departments going through the sometimes costly Government purchasing procedures for identical requirements.

CUP do not believe that it is necessary to pay the existing TCS "on-costs" for such a service.

There has been an increasing development in recent years of the "direct call off" type arrangement. This involves Departments in calling forward deliveries directly from suppliers against prearranged contracts in which prices, quality and normal delivery times have been agreed. The Department deals directly with the suppliers as far as placing orders expediting and making payment is concerned but can still be assured that value for money and "due process" criteria have been met.

The dissemination of information on "direct call off" contracts can be achieved with a regular simple bulletin and does not require a marketing and sales organisation (+ 500 staff in TCS). The "direct call off" principle also leads to the eventual elimination of all stocks and allows closure or disposal of storage facilities (+ 190 staff in TCS).

CUP believe that TCS should adopt the "direct call off" principle as the model for the future. In 1984/85 £180.5m of all TCS sales were of the "direct call off" type with a commission of less than 1% being charged. It is perhaps interesting to note that Departments have two options when requiring goods which are covered by call off contracts. They can order direct from the supplier in which case on average they pay the 1% commission or they can order via a TCS salesman in which case they need to pay a much larger on cost (possibly 16%) to cover TCS' greater costs.

CUP believe that a move towards "direct call off" contracts would reduce the need for marketing, sales, storage and the administration associated with order and invoice processing such that a straight commission of 2-3% could be charged to cover costs thus representing very good value for money to Departments.

F. CONTRACTING OUT

Over a quarter of TCS' direct sales in 1984/85 related to activities which are not strictly procurement (see Appendix 1). We list these below:

- Agency Storage and Distribution
- Transport Services (GCS, IDS)
- Vehicle Hire
- Vehicle Repair and Maintenance
- Customer Services UK (Interior Design, etc)
- Customer Services O/S (Furnishing Service)
- Secondhand furniture

Although CUP have not made a detailed survey of these services other than that stated in Appendix III we believe they are candidates for immediate contracting out. We understand that there may be some security implications, perhaps over emphasised, in contracting out, but apart from these CUP once again seriously questions if running such services is the role of Government.

G. RECOMMENDATIONS

In summary CUP recommends the following:

- (1) The running down and the eventual elimination of all third party direct sales business other than Central Government Departments within a specific timescale.
- (2) Contracting out all those services not associated with the main procurement activity.
- (3) Establishing a procurement activity which is predominantly "direct call off" in nature, preferably linked with another Central Agency, and we recommend HMSO, thus reducing the need for storage, sales and marketing.
- (4) Curtail all development work on current computer systems and investigate with HMSO the extension of their system to cover the reduced requirements of TCS.
- (5) Once recommendations (1), (2) and (3) are at an advanced stage consideration should be given to the disposal of Wellington House, the current TCS HQ moving to more appropriate premises, and we recommend HMSO at Norwich.

H. IMPLEMENTATION

If our recommendations are accepted we recommend:

1. That precise target dates are established within an overall timescale of two years.
2. The management of TCS is placed directly under the control of Treasury. This will avoid dissipation of management and staff effort during a period when the remainder of the business is to be rundown or contracted out.
3. TCS current activities placed under control of a new General Manager with a successful record of contracting out (preferably from the private sector) with a clear programme of action drawn up by Treasury/CUP/TCS and HMSO if they are to be involved.

CUP - 1 May 1986

APPENDIX I

(Based on Turton Report - Volume II Table 1)

The Crown Suppliers

Analysis of Sales and Costs 1984/85

Summary £000's

	Sales	Cost of Sales	Difference	
Wooden Furniture	29,693	24,675		
Metal Furniture	27,782	23,276		
Furniture and Floor Coverings	18,912	7,083		
Domestic Equipment	14,991	12,691		
Electrical and Mechanical	19,787	17,787		
Building Materials and Supplies	2,946	2,570		
Vehicles	151	148		
	114,295	98,230	16,065	(16.35%)
				(%on cost)
Heating Fuel	62,181	61,312	869	
Agency Storage and Distribution	2,125	-		
Transport Services	6,046	44		
Vehicle Hire	8,039	257		
Vehicle Repair and Maintenance	1,746	494		
Customer Service UK	39,286	31,334		
Customer Service O/S	6,009	3,474		
Secondhand Furniture	588	49		
	(26.6%)	63,839	35,652	28,187
	(% of sales)			
Totals	240,315	195,194	45,121	

Figures shown in () are used in the report.

CUP PROPOSAL - COSTS/BENEFITS (OPERATING COSTS)

(Operating Cost Information taken from Turton Report)

Table 4 Volume II

Division	Operating Costs 1984/85 fm	Benefits	Additional Costs
Procurement	3.710	<p>We anticipate some reduction in these costs as a result of:</p> <ul style="list-style-type: none"> (1) The elimination of non-Government business. (2) The move to greater use of direct call off contracts. (3) The elimination of stocks currently administered by procurement. <p>This will be offset to some extent by the need to let new contracts in the areas to be contracted out.</p> <p><u>No change</u></p>	<p>We do not anticipate any increase in procurement costs at Departmental level.</p> <p>There will be some increase in costs associated with procurement - see below.</p> <p><u>No change</u></p>

MANAGEMENT IN CONFIDENCE

Division	Operating Costs 1984/85 £m	Benefits	Additional Costs
Stores	7.077	We anticipate the eventual elimination of all TCS stocks.	<p>DHSS would need to make their own arrangement for Agency stocks (with possible savings).</p> <p>PSA would also need to make arrangements for project stores for which they are currently charged by TCS.</p> <p>Suppliers to take increased responsibility for holding stocks.</p>
		<u>£7.077 reduction</u>	<u>No change</u>
Sales	10.013	We do not see a need for a TCS sales force for Government Departments.	<p>The TCS sales force provides technical advice, supervisory services and arranges the supply of goods. It also operates two workshops for renovation of furniture. If required Departments will need to provide this service themselves or contract it out.</p> <p>As an estimate of the cost we have taken TCS's current sales operating costs for customer service, both UK and O/S, ie £6.4m.</p>

MANAGEMENT IN CONFIDENCE

Division	Operating Costs 1984/85 fm	Benefits	Additional Costs
Sales (cont)		<u>£10.013m reduction</u>	We do, however, believe that in most cases suppliers will provide these services but we have been generous in our allowance. <u>£6.4m increase</u>
Marketing	1.06	We do not see a need. <u>£1.06m reduction</u>	A replacement for the current catalogue would be needed. Possible merger with HMSO catalogue - negligible increased costs. <u>No change</u>
Design	0.727	We would retain product design (11 of 26 people) to support procurement with greater emphasis on quality control, which could be eventually contracted out. <u>£0.419m reduction</u>	Interior design to be contracted out by existing Departmental procurement staff as part of individual capital projects as and when required. <u>No change</u>

MANAGEMENT IN CONFIDENCE

Division	Operating Costs 1984/85 fm	Benefits	Additional Costs
V. Workshops	2.864	These services are to be contracted out apart from GCS security requirements estimated to be 50% of GCS costs, ie £2.3m.	The remainder of the services contracted out in a direct call off basis by existing TCS procurement staff.
Transport	11.308		
		<u>£11.872m reduction</u>	<u>No change</u>
Finance/ Computers Office Services	6.230	These will be absorbed by HMSO.	Some bill paying and customer invoicing may fall to Departments and some to HMSO but should be absorbed by existing staff. £1.7m was payment to PSA for computer services. This will now be absorbed in HMSO.
		<u>£6.230m reduction</u>	<u>No change</u>
Central Costs and Financial Charges	4.506	No longer applicable.	£2.8m is payment to PSA for central services, personnel etc. This will need to be absorbed elsewhere. The remainder are financial objective and current cost.
		<u>£4.506m reduction</u>	<u>£2.8m increase (PSA)</u>
<u>TOTALS</u>	£47.495m (includes 5% financial return)	£41.177m reduction (Ongoing operating costs £6.3m)	Increased Departmental cost £6.4m Increased PSA cost £2.8m

Estimated Reduction in Operating Costs (excluding PSA cost) £34.777m

THE CROWN SUPPLIERS: THE ISSUES OF PRIVATISATION1. GOVERNMENT POLICIES AND PROCEDURES

At present, clients in Central Government Departments know that The Crown Suppliers (TCS) - in executing their Materials Management role - have complied with Government policies and procedures, eg:

- (i) Competitive tendering (which inter alia means knowing the market).
- (ii) EEC/GATT obligations.
- (iii) Compliance with standards (Governmental and BS).
- (iv) Compliance with safety requirements (Health and Safety at Work Act).
- (v) Fostering British industry, if necessary by joint development of new standards of specifications (Public Purchasing Initiative).
- (vi) Promoting use of small businesses, sheltered industries, firms in development areas.
- (vii) Accounting for reporting on and monitoring contractual decisions.

In the event of privatisation, Central Government Departments would no longer be able to regard TCS as a single supply source. They themselves would need to take on this role of complying with Government proprieties.

2. TECHNICAL KNOW-HOW AND SERVICES

TCS have technical know-how relating to their products and services. This know-how enables them to service users in respect of:

- Office Planning
- Interior Design
- Site Control
- Installation
- Removals
- Maintenance

These activities are generally carried out from TCS Regional Offices, at the request of Central Government Departments or other public sector users. A major user is PSA, and the projects it is undertaking. In most regions, TCS staff are co-located with their PSA opposite numbers, in PSA accommodation

Privatisation could have the following consequences:

- (i) Departments would need to acquire deeper technical know-how than at present in order to carry out efficient competitive tendering for products and the above services. This could mean increased workloads, additional staff, or the extended use of consultants.
- (ii) PSA might not wish to have employees of a private sector company (TCS plc) co-located with it in its (PSA) accommodation. Alternatively, TCS plc might wish to withdraw their employees from PSA accommodation. Either way the relationship between PSA and TCS plc would be at arms' length compared to the present, and PSA would need to acquire within its own organisation the know-how now provided by TCS in execution of PSA projects. This could result in extra staff or the transfer of this work to consultants in PSA.

3. STAFFING CONSEQUENCES

Without detailed investigation, CUP cannot be precise about the staffing implications contained in paragraphs 1 and 2 above, but our best guess of the aggregate number increase in Central Government Departments (including PSA) would be 300 initially. This could increase if TCS plc rationalised its range of products and services, throwing back yet further procurement-related work onto Central Government Departments.

4. PRIVATISATION: WHAT COULD BE ACHIEVED

With privatisation, the overall size of the Civil Service could be reduced. This would be less than the total staff of TCS, presently around 1,900 because some of the following activities may need to remain within the public sector:

- (i) All procurement and technical know-how activities related to security furniture, but on a reduced scale (11 staff).
- (ii) All work for "Westminster" (12 staff).
- (iii) All procurement and technical know-how activities related to DEFINED projects for MOD, but we question whether this cannot be administered within MOD itself (40 staff).

- (iv) The Government Car Service (GCS), but we foresee greater contracting out in this area (170 staff).

These activities account for some 233 (industrial and non-industrial) staff in TCS at present.

Moreover, potential bidders for TCS might not be interested in the following being included in the package:

- (i) All or part of the Stores activities (163 staff). (See paragraph 10). CUP recommends these activities are rundown or contracted out.
- (ii) The rump of the Transport activity (ie non-security related work, 314 staff), but CUP is in no doubt that this could be contracted out if not required by a potential buyer.

These activities account for around 500 staff in TCS at present, including approx 350 industrial staff. Depending on the course privatisation or contracting out might take, the reduction in the Civil Service could range from 1,200 to 1,670 employees.

5. PRIVATISATION: MORE EFFICIENT MANAGEMENT?

It is most likely that TCS plc would be more efficient in Materials Management techniques in that it would cut out all non-essential work; operate more informally; apply simple and speedy decision-taking processes; not have obligations to small businesses, sheltered industries, GATT/EEC and the like; and perhaps take a less rigid attitude towards standards and safety regulations. TCS plc would probably obtain broadly the same price terms for the important products in high demand (eg furniture) as TCS does now.

The end result of all the above would be a lower comparable resource cost in TCS plc than is now the case in TCS. The question is: who would benefit from this? CUP conclude that users would only benefit if market forces made this necessary assuming that rock bottom buying-in prices are also available to TCS plc. As a result the cost benefits of greater efficiency in TCS plc would pass to shareholders rather than users unless as a result of negotiation this was defined to the benefit of Central Government Departments. (At present any profit from TCS activities, above the 5% return on assets, reaches its users through product prices.)

6. PERSONNEL MATTERS

TCS plc would be more flexible than TCS in its handling of personnel matters such as job satisfaction, delegation of authorities and responsibilities, and remuneration; and career prospects in Materials Management (assuming that

TCS plc would not be a "stand alone" company but a group subsidiary. Nor would TCS plc have to cope with the ongoing situation which has an adverse effect on TCS' ability to give the desired standard of Materials Management service - namely the high incidence of experienced or partly-trained staff who leave the team to advance their Civil Service career.

7. PRIVATISATION: THE PROBLEMS OF THE PACKAGE

CUP believes it is possible to sell TCS as a going concern, but the contents of the package will cause problems on both sides!

From the buyer's viewpoint this will probably revolve more around what will be excluded, than included.

CUP questions for how long, after acquisition, the "going concern" would retain the range of products and services with which TCS' users are familiar, and require. It is not unreasonable to assume:

- (i) Rationalisation (ie reduction) of the present product range. This would result in Central Government Departments and other public sector users having to do their own procurement of the omitted products, individually (at higher unit cost) or by creating a central buying point in Central Government Departments (another TCS in fact).
- (ii) Discontinuance of the large volume of contracts for services (many being of low value) now negotiated by TCS, for use nationally or regionally. Again, users would have to arrange for these individually, perhaps at higher cost, and certainly involving them in a "paper intensive" activity.
- (iii) Contraction of present regional/district office sales network, through which TCS receives orders from users for products and services. This would seem an obvious development if TCS plc were a group subsidiary company - the group would wish to use its existing sales network.
- (iv) Disposal of Wellington House. This could well be an important element in a rationalisation programme, or one designed to locate or absorb TCS plc in the buyers' existing premises.

CUP would argue that if Government were to insist on selling a total package only, then in all probability parts of the package would be resold or in some way terminated by the new owners at the first opportunity. The consequences for Central Government Users would be additional staff required to undertake the activity or activities concerned, either on an individual basis at extra cost, or aggregated through a recreated "TCS".

8. PRIVATISATION: FUTURE COMMITMENTS

If TCS is privatised, would Government be committed to placing a specified percentage of its business with TCS plc for a specified period? Whatever terms and conditions are agreed these would be open to misinterpretation; estimates of demand (in value or quantity) could change drastically; Central Government Departments could feel that the untying process had been reversed. All in all, it would not be helpful in a situation where the need to build a good relationship between the private and public sectors would be paramount.

9. PRIVATISATION PRIORITIES

TCS plc would aim to attract users in the private sector as well as those in the public sector. The latter would be more rigid in the service it would demand, whilst the private sector would be flexible in its attitude and able to be innovative along with TCS plc. But it would be less tolerant of, and quicker to react to, shortcomings in the performance of TCS plc. CUP believes that in situations where priorities need to be set by TCS plc, the public sector would take second place.

10. PRIVATISATION: STORES ACTIVITIES

These (partly co-located) activities, and their attractiveness or otherwise to potential buyers of TCS, are:

- (1) Stockholdings. Stocks of various products which TCS deem it necessary to hold to ensure an acceptable level of service, ie delivery time. TCS is engaged in a determined, and successful, effort to reduce stocks to a minimum, which will eventually permit release of storage space.

It is unlikely that any buyer of TCS will be interested in many of the stock lines of small domestic items (part of TCS' product range) such as brooms, buckets and the like. In CUP's view these items should not be in TCS' product range - the supply process (from the raising of a requisition by the user, through TCS' sales office to the store for picking and packing, to despatch to user by commercial carrier) is "paper intensive". The true cost of supply is in general probably very little less than buying the item "around the corner", which in CUP's opinion should be the normal route.

(ii) Agency Stores. Basically, the relatively minor activity of storing hearing aids on behalf of NHS, which are co-located with the small domestic items, and "picked and packed" for despatch to NHS centres; and the major activity (in volume, but with little movement) of storing high quantities of emergency Civil Defence equipment on behalf of DHSS. A buyer would probably have only one motive for taking on this activity - maximising his return for providing the service. DHSS have for some time now indicated their intention to disperse the equipment amongst their regional centres - but so far a decision has not been announced. CUP considers that a deadline for a decision should be set. In any circumstance this agency activity should not remain with TCS - it is unrelated to their line of business and can be a point of friction with users of TCS' products, who, incorrectly, assume they are subsidising the activity through product prices. If the activity is not taken over by DHSS, and remains in the public sector it should be contracted out.

(iii) Clearance Stores. Used for receipt and holding of surplus furniture ex-Central Government Departments, prior to disposal by auction. Although there may be doubts about the cost effectiveness of this activity. Government Departments express the view that they generally have no alternative method for large scale clearances of furniture and furnishings.

This activity is a good candidate for contracting out if it remains within the public sector.

(iv) Project "Care and Custody" Stores. Project stores meet an ongoing need to hold products which become available before they can be installed at the project site concerned. "Care and custody" is a one time storage arrangement, eg items destined for the International Conference Centre.

Another activity suitable for contracting out if it remains within the public sector.

11. FUEL SERVICES

It is likely that TCS plc would be able to negotiate lower Base Prices than TCS can at present, mainly because they would not be obliged to follow formal tendering procedures, and other public sector constraints. It is debatable how much of this price advantage would be passed on to TCS plc's users - but even a small part would represent a considerable saving to users over a period.

On the question of "single source tendering", it is possible that Government proprieties could be satisfied by data available from consultants (fuel price monitoring) which would confirm the competitiveness of TCS plc prices. This would obviate the need to acquire deeper know-how on the technical aspects of fuel delivery, storage and handling.

These aspects are now handled on their behalf by the Fuel Officers attached to Regional Offices of TCS.

CUP recommends a separate study into this aspect of TCS' involvement, but does not rule out closer liaison and cooperation with MOD.

12. TRANSPORT ACTIVITIES

CUP endorses the views that they are prima facie candidates for "contracting out", in part or wholly. The constraints seen by CUP are:

Security (in respect of GCS and possibly IDS).

Ministerial needs (in respect of GCS).

Commercial.

The "boundaries" of the first two constraints need identifying. Superimposed on this is a significant rationalisation and cost saving measures currently being implemented, ie concentration of diverse activities into a custom built centre at Nine Elms.

CUP concludes:

- (i) That tenders should be obtained from major Fleet Management groups for the self-drive hire service which TCS provides to Central Government Departments and other public sector users. A fair comparison (apples to apples) must include administration aspects (eg minimising accounting/cost allocation work in users' organisations) as well as the operational side.
- (ii) That tenders should be obtained from contractors (commercial carriers) for the IDS. First, TCS must have a definitive specification for the minimum acceptable security controls for this Government collection and delivery service, as now scheduled and executed. By the time tenders are evaluated TCS should know by what extent the costs of "own service" will be reduced by relocation in Nine Elms.

- (iii) Further study is required before competitive tenders are sought for the GCS service. Security considerations are overriding for the majority of GCS users but in theory a contractor could comply with them (at a cost).

- (iv) The future of TCS vehicle maintenance workshops depends on the acceptance/outcome of actions proposed for the other services, but CUP see no reason why this service should not be contracted out.

CUP - 1 May 1986

THE CROWN SUPPLIERS - (TCS) COMPUTERISATION PLANS

The Crown Suppliers have undertaken a large computerisation plan extending over ten years from 1985 until 1995 involving £31,116,000 expenditure as indicated in the attachments.

These figures indicate a 'worst case' costing and TCS management agree that a 20-25% reduction can be achieved - ie £5 million plus.

The viability, however, of the whole project, in the fast changing world of computer technology and the uncertainties of the Crown Suppliers itself would appear to be in question, whilst its cost in relation to the business appears too great.

1. Cost Reductions

The planning is being conducted by a large and costly team along conventional lines of computer systems planning. This is a protracted and expensive business that is often outpaced by the technology.

Fortunately, TCS are seeking established systems with software 'packages' of computer programs and implementation experience. For procurement and supply, as well as other business needs such as the general ledger and transport, a choice of potential systems is on the market. Moreover, as the costings indicate, the acquisition and implementation of the 'packages' constitutes a more reasonable area of the overall expenditure.

2. Reduce Implementation Time

The prime target for cost reduction and real cost effectiveness should be to reduce the implementation period. This nine year period is excessive. The dual running of old and new systems and the retention of a large in-house System Development team up until 1991-1992 is expensive. The drop in costs that year in (see attachment) illustrates the savings that might arise by earlier implementation.

3. Avoid 'Customisation' of Packages

In accelerating implementation 'Customising' of the packages must be minimised. TCS should change their practices to fit.

Avoidance of 'customising' should reduce the size of the development team.

The large size of the team will inevitably foster procrastination, and committees. The bigger the team, the greater the non-productive time, and the possibilities for complexity.

4. Reduce Hardware

In general initial plans envisage too many work stations - but why not contract out?

5. Re-examine Payout

Ten years is too long for both the business and the computer technology. Moreover in Government service the staff turnover and changing environment makes such a long time unrealistic.

Recommendations

1. Implement Purchase Ledger, Stock Control, and Purchase Order, and Customer Order modules at same time.
2. Change work practices to suit the 'PACKAGES' not vice versa.
3. Reduce implementations to one year.
4. Thereby reduce 'old system' cost overlap.
5. Thereby avoid need for long term large development team. This reduction of team necessitates less 'customisation' to suit in-house whims and prejudices.
6. Maximise responsibility of software/package contractor.
7. Possibly contract out 'own' computer centre to major outfit who run machines, etc. Use own staff to 'watchdog' the contractor. This avoids lack of in-house expertise wage compatibility and ensures continuity which is eroded by Civil Service staff changes.
8. Investigate a possible link with HMSO who serve the same customers and require the same concepts.

CUP - 1 May 1986

MANAGEMENT IN CONFIDENCE

SUMMARY BARCHART OF PROJECT ACTIVITIES

DESCRIPTION	YEARS						
	1985	1986	1987	1988	1989	1990	1991
	93 94	91 92 93	94 91 92 93 94	91 92 93 94	91 92 93 94	91 92 93 94	91 92 93 94
PREPARATORY WORK	-----						
SALES LEDGER		-----					
GENERAL LEDGER			-----				
PURCHASE LEDGER			-----				
STOCK CONTROL				-----			
PURCHASE ORDER					-----		
CUSTOMER ORDER					-----		
TRANSPORT	-----						
MISCELLANEOUS	-----						
GENERAL BUSINESS TRAINING	-----						
IHP CLERICAL PROG	-----						
T U LIAISON	-----						

MANAGEMENT IN CONFIDENCE

MANAGEMENT IN CONFIDENCE

INFORMATION STRATEGY PROJECT COSTINGS

Financial years	85/6	86/7	87/8	88/9	89/90	90/1	91/2	92/3	93/4	94/5	95/6	TOTAL
Management Staff	240	481	481	481	481	481	240	-	-	-	-	2885
Sys. Analysts/Design	445	1181	1135	1120	937	937	455	-	-	-	-	6210
Programming Cons.	-	168	266	140	-	-	-	-	-	-	-	574
Operations Staff	-	-	-	221	220	221	220	221	220	221	220	1764
F/T User Reps.	268	478	543	438	341	341	161	-	-	-	-	2570
Comp./Comm Costs	30	202	60	1300	1893	200	139	140	140	140	140	4384
Software Pack. Costs	-	-	786	26	-	-	-	-	-	-	-	812
OCTA Expenses	-	-	-	-	-	15	-	-	-	-	-	15
Maintenance Costs	13	38	39	148	326	441	416	416	416	416	416	3085
Accom. & Office Equip.	-	-	525	50	50	50	50	50	50	50	50	925
Consumable Items	-	2	5	5	5	5	5	5	5	5	5	47
Staff Training	-	160	150	150	100	50	50	50	50	50	50	860
Bureau Charges	-	-	150	300	300	-	-	-	-	-	-	750
Consultant Fees	-	128	210	169	128	128	128	-	-	-	-	891
PSAQQM Charges	750	1100	1165	977	692	440	220	-	-	-	-	5344
Annual costs	1746	3938	5515	5525	5473	3309	2084	882	881	882	881	31116

NB The 1985-86 figures are for the half year only. Project start date is october 1985.

MANAGEMENT IN CONFIDENCE

Govt Machinery: Request to rename PSA
Sept. '83





10 DOWNING STREET

From the Private Secretary

3 March 1986

THE FUTURE OF THE CROWN SUPPLIERS

Following the TCS review, Sir Robert Armstrong wrote to your Secretary of State on 11 November last year with a copy of the team's report. You subsequently wrote on to me on 20 December indicating that your Ministers were considering the report's recommendations, and in particular its main conclusion that it would not be in the overall public interest to privatise the Crown Suppliers. Your letter to me of 10 February, which the Prime Minister has seen, recorded that Sir George Young, with the support of your Secretary of State, proposed to seek advice from a merchant bank about the feasibility of selling TCS as a going concern. The Prime Minister has also seen Vivien Life's letter to me of 17 February, which recorded that the Financial Secretary was not wholly convinced that it was necessary to seek advice from a bank at this stage and which set out his concern that the views of the Central Unit should first be sought. You subsequently wrote to me again on 27 February.

The Prime Minister has asked that the CUP should now urgently provide advice on the cost consequences of privatisation; subject to that advice, a merchant bank should be selected, through the proper procedures, to provide advice on the feasibility of privatisation; and your Secretary of State should then come forward with recommendations for the future of the TCS in the light of the review, the advice of the CUP and the views of the bank.

I am copying this letter to Vivien Life (Financial Secretary's Office, H.M. Treasury), Paul Thomas (Office of the Minister for the Arts), Sir Robin Ibbs and Michael Stark (Cabinet Office).

MARK ADDISON

Miss Sue Vandervord,
Department of the Environment.

JB

PRIME MINISTER

CF
PP/pleas
[Handwritten mark]

THE FUTURE OF THE CROWN SUPPLIERS (TCS)

You agreed in March that there should be a review of the future of the Crown Suppliers and that this should look in particular at the possibility of privatisation.

The review, conducted by a team drawn from the Cabinet Office, the Crown Suppliers and the Treasury, reported in September last year, and the Secretary of State for the Environment has been considering the recommendations.

The key conclusions reached in the review (Flag A) are:

- (i) that the TCS should not be privatised;
- (ii) that central purchasing by TCS should be retained, but
- (iii) that the market for contracting out other services (eg an inter-departmental despatch service, vehicle maintenance etc) should be tested.

Sir Robin Ibbs and the Policy Unit were broadly content with the recommendation that the purchasing should be retained centrally, and kept in-house. But they noted that it might make economic sense to link the TCS procurement function with other parts of Government with purchasing functions, such as HMSO.

Sir George Young has now completed his examination of the report. He believes the review team may have under-estimated the benefits of privatisation and recommends (with his Secretary of State's support) seeking advice from a suitable merchant bank about selling the whole thing (Flag B). The Financial Secretary, on the other hand, believes a merchant bank would be unlikely to answer key questions about the procurement costs of privatisation to Government, and he

suggests that the Central Unit on Purchasing should first be asked to report on whether it might be appropriate to seek advice from a merchant bank (Flag C). Sir George Young will go along with that if it is done quickly.

The advice of a bank on privatisation cannot be the whole story, but it would make a contribution to a discussion on the future of the TCS. It should be possible to get such advice quickly.

If you agree that course is worth considering, and there does not seem much to lose by it, it would, however, be worth asking first for views from the Central Unit on Purchasing on the possible cost consequences of privatisation. It would also of course be important to follow the standard procedures for competitive selection before a bank is appointed.

Agree:

- (i) that the CUP should urgently provide advice on the cost consequences of privatisation, and subject to that Yes
- (ii) a merchant bank should be selected, through the proper procedures, to provide advice on the feasibility of privatisation, and Yes
- (iii) the Secretary of State for the Environment should then come forward with considered advice, in the light of the views set out in the review, by the CUP, and the bank? Yes

Mark Addison

Mark Addison

28 February 1986

JALALR

GOUT MACH

PSA

9/83

Ref. A086/617

MR ADDISON

The Future of the Crown Suppliers (TCS)

Miss Vandervord's minute of 10 February proposes that merchant bank advice be obtained on the feasibility of privatising the Crown Suppliers.

2. The review circulated by Sir Robert Armstrong on 11 November concluded that privatisation would be feasible, but that there would be costs outweighing the benefits. The review has since been released to the trade unions, so there is scope for Ministers to be pressed in public on any eventual decision that the review's conclusions misjudged the balance of benefit and cost.
3. Advice from a merchant bank might confirm the feasibility of privatisation and give a useful indication of the value likely to be obtained, but it is unlikely to help Ministers appraise the cost consequences. If the Prime Minister is attracted by the proposal to seek bank advice, she may therefore wish to ask for further advice on costs. The Central Unit on Purchasing is probably best placed to provide such advice. The letter of 17 February from the Financial Secretary's office has already suggested that the CUP might be asked to provide advice in the course of work the Unit plans to undertake on TCS, and that CUP views be obtained before a decision is taken on seeking merchant bank advice.

4. During the review several merchant banks registered an interest in providing advice. This underlines the importance of obtaining any advice required by competitive tender.

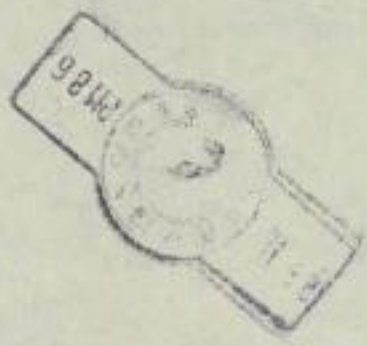
MS

M C STARK

28 February 1986

CONQUEROR

Acmt: Mach: Crown Supplies. Sept
83.



CONFIDENTIAL



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

27th February 1986

Dear Mark

Sir George Young has seen a copy of Vivien Life's letter to you of 17 February recording the Financial Secretary's reservations about consulting a merchant bank at this stage of our deliberations on the future of The Crown Suppliers. He remains strongly of the opinion that Ministers will need outside financial advice about the marketable value of TCS before they can take a well-considered view about the future status of the organisation and he would like to make progress on this as quickly as possible.

Sir George is not enthusiastic about asking the Central Unit on Purchasing to undertake a further review. The discussions between the Unit and TCS have so far been of a very general nature and not directed specifically to the question of a change of status. He fears that a more formal review will only re-tread the ground so recently covered by the team of officials who reported before Christmas and is unlikely to produce anything new. However, he recognises that the Unit does have central advisory responsibilities and may wish to express their views about the consequences a change of TCS status might have for Government procurement generally. Sir George would be prepared to consider their advice before approaching merchant bankers provided the Unit's views can be made available quickly.

He has noted the need to follow standard procedures when selecting a suitable merchant banker and will be happy to arrange for officials to consult the Treasury about this at the appropriate stage.

I am copying this letter to Michael Stark.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

Mark Addison Esq

GOVT. MACH. Crown Suppliers: Sept 1933





CCB
CC

Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq.
No. 10 Downing Street
London SW1

17 February 1986

Dear Mark,

FUTURE OF THE CROWN SUPPLIERS

CF.
SV(DOE) will be replying
to this. We should await that paper
re: replying order. B/c on 5/3

Sue Vandervord copied to us her letter to you of 10 February.

2. The Financial Secretary has asked me to say that he is not wholly convinced of the need to seek advice from a merchant bank at this stage.

3. There are two reasons for this. First, while a merchant bank study could establish whether the Crown Suppliers could be sold and the likely price, it would be unlikely to answer the crucial questions about the consequences of privatisation on Government procurement.

4. Second, he understands that, following the review by officials, the Central Unit on Purchasing is discussing with the Crown Suppliers TCS's future role and how efficiency might be improved, including the scope for contracting out or privatising individual activities.

5. The Financial Secretary therefore believes that the first step should be for the CUP's further review to be completed as quickly as possible. He suggests that they should be asked to report further jointly to DOE and Treasury Ministers before the end of April. Their report should include the question of what further advice, if any, it might be appropriate to seek from a merchant bank or other outside consultants.

6. Finally, if it is decided to proceed with the appointment of merchant bankers, it is important that the standard procedures for competitive selection are followed. Department of the Environment officials will need to be in touch with ours about these.

7. I am copying this letter to Sue Vandervord and Michael Stark.

Yours ever
Vivien

GOVT. MACH: Crown Supplies + Sept 1983



23/



JS11/JS

MANAGEMENT IN CONFIDENCE

MR ADDISON

CF

PL of in a merit.

BF

MEW 13/2

FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 11 February to Sir Robin with the letter of 10 February from Sir George Young's office. I imagine that a merchant bank could give an opinion quite quickly (Lord Camoys of Barclays was in touch with Mr Jenkin last March on this very issue). I suggest, therefore, that you chase progress in a month's time if you have heard nothing further.

I think it is unlikely, however, that Sir Robin's advice of 26 November 1985 ("A large purchaser should be better off purchasing through an in-house organisation than through an agent.") would change.

IB

IAN B BEESLEY
12 February 1986



file 16
a David Holson
of Griffiths

10 DOWNING STREET

From the Private Secretary

11 February 1986

FUTURE OF THE CROWN SUPPLIERS

I enclose a copy of a letter from Sue Vandervord at the Department of the Environment which explains that Sir George Young is having another look at the conclusion, reached in the Crown Suppliers Review, that privatisation is not the right way forward.

MARK ADDISON

Sir Robin Ibbs,
Efficiency Unit.

MANAGEMENT IN CONFIDENCE

16



BCCBG
 2 MARSHAM STREET
 LONDON SW1P 3BB
 01-212 3434

My ref:

Your ref:

10 February 1986

Dear Mark

THE FUTURE OF THE CROWN SUPPLIERS

I wrote to you on 20 December about the report of the team of officials which has been reviewing the future of The Crown Suppliers.

The team concluded that, whilst privatisation of The Crown Suppliers would be feasible, it would not be in the public interest. The investigations indicated that because The Crown Suppliers are already operating efficiently in the interests of their public sector customers, privatisation would, on balance, increase the cost of Government procurement in this area.

Sir George Young has examined the arguments in the report critically and believes that the review team may well have overstated the costs and understated the benefits of privatisation. Before making final recommendations he proposes to seek advice from a suitable merchant bank about the feasibility of selling TCS as a going concern. My Secretary of State supports this proposal. Such financial advice would supplement the arguments in the review team's report and would help Ministers to reach a considered decision about the future of this organisation.

I am copying this letter to the Private Secretaries to Mr John Moore and Sir Robert Armstrong.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
 Private Secretary

Mark Addison Esq

GOUT MACH
PSA 9/83





2/21
 CF. PL relety.
 cc/fo
 Agreed
 Mrs Wicks

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

I asked the E for
 program report. If you
 agree, I suggest we let
 this not-jury.

20 December 1985

MBA 20/12

Dear Mark

You received last month from Sir Robert Armstrong a copy of the report by the team which has been reviewing the future of The Crown Suppliers.

Sir George Young is preparing considered advice for the Secretary of State who will then recommend to the Prime Minister and other colleagues whether or not to accept the main recommendation of the review team that it would not be in the overall public interest to privatise The Crown Suppliers.

When he announced this review in March this year, Mr Patrick Jenkin promised that the staff and their Trade Union representatives would be fully consulted before final decisions were taken. A copy of the report (excluding certain commercially sensitive material) has therefore been sent to the Trade Union Side inviting their comments by 10 January. In a covering letter, it has been emphasised that Ministers do not necessarily accept the review team's main conclusion.

Our aim is to make recommendations to colleagues as soon as possible in the New Year.

I am sending a copy of this letter to the Private Secretaries to Mr John Moore and Sir Robert Armstrong.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
 Private Secretary

Mark Addison Esq
 PS/Prime Minister

Govt Mach 9/83

Grown Supplies



CONDIMENT

Ref. A085/3219

MR WICKS

Future of the Crown Suppliers

Sir Robin Ibbs's minute of 26 November to the Prime Minister proposes further consideration of possible mergers between the Crown Suppliers and other parts of Government with purchasing functions, such as HMSO.

2. The first step is for Ministers to reach a view on the existing review's recommendation against privatisation. If the Crown Suppliers are to remain in the public sector, we could certainly then look further at possible mergers. There are several parts of Government with procurement functions, and any further review would need to range more widely than just the Crown Suppliers and HMSO. We should ask the Central Purchasing Unit to advise whether mergers would significantly improve purchasing standards, or bring other benefits which might call in question the conclusion in the existing review that merging the Crown Suppliers and HMSO would produce no great organisational benefit to offset the disruption of change.

RA

ROBERT ARMSTRONG

CF

Mr. Wickes - to see

10 December 1985

I have already spoken to Robin Young (RtE) to come but his job is actively ending the report (and that Mr. Williams is being consulted). I should be grateful if CF would BF this to me next week so that I can chase RAE up.

BF

MGM 11/12

Govt Mach 9/83

Crown Supplies



COMPTON

500
JS10/RI2

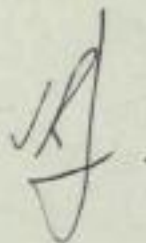
PRIME MINISTER

FUTURE OF THE CROWN SUPPLIERS

I have seen the review team's report on the future of the Crown Suppliers. On the evidence displayed I agree that the purchasing side should not be privatised. A large purchaser should be better off purchasing through an in-house organisation than through an agent. Michael Willacy has been brought in to improve the skills of departments in purchasing and his view (which I do not know) is obviously relevant on this matter.

It does not follow that the non-purchasing functions of the Crown Suppliers should be run in-house. I support the recommendation that the market for supply of these should be tested by seeking competitive tenders. If market testing - or other considerations - suggest that contracting out is not the best approach then each should be run and judged as a separate business.

There are a number of functions in government which need to be run primarily from a commercial viewpoint. The Crown Suppliers covers some; others are covered by HMSO and other agencies. This report dismisses the possibility of merging the Crown Suppliers with HMSO on the basis of few facts. I should have thought that it is worth considering bringing together these functions so that they can be given a strong commercial leadership. In these circumstances I see no merit in leaving the purchasing functions of the Crown Suppliers with PSA.



ROBIN IBBS
26 November 1985

Crown Suppliers: Gov. MACH.

Sept 83.

CF
Await JOE & Effingham that admin
revised Biff as
NOTE on RTA to NWicks 10/11/85
MEP 26/4

MR ADDISON

25 November 1985

CROWN SUPPLIERS

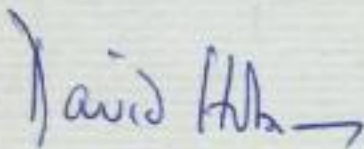
We have read the report enclosed with Robert Armstrong's memorandum of 11 November.

1. We consider that Michael Willacy should be consulted on this subject, as he is advising on Government purchasing generally.
2. We do not dissent from the view that the purchasing work for Government departments (and, where appropriate, Government agencies) should be retained in the public sector. It is doubtful whether it is necessary to retain a central stockholding function; individual departments could order from agreed suppliers at prices negotiated by the buying organisation. This suggestion would involve restricting the purchasing organisation to offering the direct call-off facility which it already provides.
3. If it is necessary to retain transport services and design capability, these should be separated from the purchasing organisation and made to stand on their own feet.
4. Restricting the organisation to a purchasing function would eliminate its present efforts to compete with the Crown Agents overseas. There does not seem to be any strong objection to letting organisations such as British Telecom and British Rail use call-off facilities, provided that they pay an economic price for the purchasing service.
5. The reasons given for not merging the organisation with HMSO - that there are different areas of purchasing, and separate organisations in Norwich and London - are unconvincing. Private industry would seek to merge comparable businesses

or activities, saving overheads by combining two head offices into one, and reducing total staffing. There may be other purchasing activities in Government which could be put into one organisation, such as the purchasing activities of COI.

6. We would favour:

- a. Restricting activities to acting as a buying department, providing a call-off service for departments at negotiated prices.
- b. Looking into possibilities of merging this service with others within Government, such as HMSO and COI's buying functions.
- c. Allowing other customers in the public sector and, if thought appropriate, British Telecom, to use the call-off service, provided they pay for it.
- d. Separating transport services and design services into separate units.



DAVID HOBSON

file

REVIEW OF THE CROWN SUPPLIERS

I enclose a copy of the Report on the Review of the Crown Suppliers, together with Sir Robert Armstrong's covering minute. I take it that Sir Robert's minute means that the Secretary of State for the Environment is now to consider the Report's recommendations and to come up with proposals. I should be grateful for your comments on the Report's conclusions.

I have spoken to Ian Beesley in the Efficiency Unit, and he, too, will be obtaining a copy of the Report and letting us have views in due course.

NB
*Copy of report held
in folder attached to file.*

MARK ADDISON

13 November 1985

Original Filed in:
GOVT. MACH:
Rayner: P619.

27



file P619

10 DOWNING STREET

From the Private Secretary

MR. STARK,
CABINET OFFICE.

The Prime Minister recently met Sir Robin Ibbs to discuss the scrutiny programme and other efficiency issues.

During the meeting, the Prime Minister asked about the progress which had been made on the review of the future role, aims and objectives of the Property Services Agency. This review was set in hand following a meeting to discuss the PSA held on 29 March 1984, at which Sir Robert Armstrong was present (David Barclay's letter of 2 April contains a record of the meeting). I should be grateful if you would let me know where matters now stand so that we may report to the Prime Minister.

I am copying this minute to Mr. Young (Department of the Environment) and to Sir Robin Ibbs.

MARK ADDISON

13 November 1985

bc Air 2 1885



Co

10 DOWNING STREET

From the Principal Private Secretary

12 November, 1985.

THE FUTURE OF THE CROWN SUPPLIERS

I would like to give the Prime Minister some indication of the progress made in the review of the future of the Crown Suppliers, which was the subject of correspondence between your office and No.10 in March, some eight months ago. I should be grateful for a note.

I am copying this letter to Michael Stark (Cabinet Office).

(Nigel Wicks)

Robin Young, Esq.,
Department of the Environment.



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A085/2888

SECRETARY OF STATE FOR THE ENVIRONMENT

Review of The Crown Suppliers

The review commissioned earlier this year on the future of the Crown Suppliers (TCS) has now been completed, and I --- enclose a copy of the team's report. *(not policy unit)*

2. A summary of the review team's conclusions and recommendations are at the beginning of the report. They have come down against privatisation; but they see scope for contracting out more TCS work to the private sector. They have also identified areas where the TCS could be contracted, by cutting out both services and customers.

3. I am sending copies of this minute and enclosure to the Prime Minister, the Chief Secretary, Treasury, and the Minister of State, Privy Council Office.

Robert Armstrong

ROBERT ARMSTRONG

11 November 1985

**THE FUTURE
OF
THE CROWN SUPPLIERS**

Report by a Review Team

September 1985

Volume I
Report

THE FUTURE OF THE CROWN SUPPLIERS

Report by a Review Team

September 1985

Volume I
Report

THE FUTURE OF THE CROWN SUPPLIERS

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SUMMARY AND CONCLUSIONS

INTRODUCTION

1. Our task was to consider the future of The Crown Suppliers (TCS), in particular whether transferring it to the private sector would be in the public interest or, if not, whether a change from its present trading fund status within the public sector would help it to meet its objectives.

2. We started our review by examining what TCS does, for whom, at what cost and how it goes about its business. We considered whether the activities it carries out need be undertaken at all and if they do whether centralisation is best or whether they could be left to individual departments. We then examined the prospects and the case for privatisation. We have concluded that whilst privatisation would be feasible that it would not be in the overall public interest.

3. But we were not convinced that more work could not be carried out by the private sector so we went on to examine the extent to which individual services still provided in house might be contracted out. We also considered whether the very comprehensive range of services offered by TCS is justified, or whether a "cheap and cheerful" service would meet government's requirements satisfactorily. We went on to consider whether TCS' present policy of making available its services to all public sector organisations and also to British Telecom, is justified in view of the policy of reducing the role of government. Finally we examined a number of organisational issues. These include TCS' relationship with the PSA and its future status if it is to remain in the public sector.

THE CROWN SUPPLIERS

4. The Crown Suppliers has two main roles; the procurement of furniture, furnishings, fuel etc and related services such as design and planning on behalf of government departments and other public sector users; the provision of a number of transport services. The latter can be regarded as a separate business, tacked on to TCS as a matter of convenience as much as anything.

5. In its main role of procurement TCS is essentially a "middle man". It does not manufacture any goods itself; all of these are bought in from the private sector for resale to its customers. It also buys in many of the related services, such as removals, carpet fitting and furniture repair from the private sector, although it still undertakes some services in house - these include most of the design work and furniture storage. The transport services are for the most part provided in-house, although some vehicle maintenance is contracted out. TCS employs over 1,900 staff and costs £47m a year to run (of which the transport services employ 500 staff and cost £14m).

THE NEED FOR THE CROWN SUPPLIERS

6. The objectives of centralised procurement are:
 - a. to obtain keener prices for bought in goods and services by aggregating individual departments' orders;
 - b. to concentrate in one organisation expertise for buying in these goods and services in order to reduce costs of administration.

It is also government policy to use purchasing consistent with international obligations, to foster and to enhance UK industrial competitiveness.

7. We considered how well TCS met these objectives.

8. The evidence available to us suggests that large departments, given additional resources, may be able to obtain terms from suppliers as good as those obtained by TCS. Price comparisons carried out by TCS, and more recently by the Furniture Industry Research Association on TCS' behalf, suggest that the prices of a wide range of goods which TCS sells to departments (after covering its costs) compare favourably with those which a smaller department making occasional, low volume purchases would get. In addition, some sizeable organisations such as British Rail and British Telecom use TCS in preference to carrying out their own purchasing because they get better overall value for money by doing so. An exercise by British Telecom to test the market showed that they could buy desks from TCS 35-40% cheaper than they could buy elsewhere, and 4-drawer filing cabinets 64% cheaper.

9. We have therefore concluded that for a wide range of goods, government departments and other users get better value for money from central purchasing by TCS than they would be likely to get from carrying out their own purchases.

10. We also concluded that central purchasing by a body such as TCS has a potential for contributing to the development of standards and raising the performance of British furniture manufacturers which it would be difficult to replicate with decentralised purchasing. TCS affects the performance of the UK furniture industry by contributing to the development of British Standards, by using its purchasing power to influence designs of products and by encouraging small firms, firms in designated areas and sheltered workshops. TCS has influenced British Standards and product design. While there is a delicate balance between raising quality standards and over-specification, individual purchasing would be likely to result in different specifications and reduced design input, diffusing and weakening the impact of government purchasing on industry, and reducing the scope for small firms who lack their own design capacity.

11. Our overall conclusion is that there is sufficient evidence of the value for money obtained by central purchasing and of a positive contribution to government industrial policies to warrant retention of a central purchasing agency.

PRIVATISATION

12. We have concluded that privatisation of TCS would be feasible. Whilst professional advice would be needed on a valuation it should be possible to sell the organisation as a going concern. Its track record should be sufficient to attract shareholders at the right price although it would probably be necessary to guarantee a level of central government business, maybe for up to five years.

13. In terms of the Government's privatisation objectives we have no reason to believe that a privatised TCS would be any less efficient than the present organisation, and we consider that it might well be more efficient. The opportunity for employees to gain a stake in the business could increase their motivation and commitment. Privatisation could also contribute to the Government's objective of an extension of share ownership. But in a limited way. We do not believe TCS would have the same attraction to small shareholders as say, British Telecom and there would be relatively fewer shares available for sale.

14. But there are a number of arguments against privatisation which we believe would outweigh any gains. In carrying out its procurement function TCS is also responsible and accountable on behalf of its customers for securing value for money and for observing the proprieties which central government is bound to follow in purchasing from the private sector. We do not consider that these responsibilities could be delegated to a private sector organisation. They would have to be retained in government. Departments would need to deal at arms length with a privatised TCS which itself would be in competition with other suppliers in the private sector. We estimate that if Government departments carried out this task individually a minimum of 300-400 extra staff would be needed at a cost of between £3.5m to £5.0m a year. A centralised procurement agency might require a similar number of staff.

15. We do not think that a privatised TCS would be able to buy in goods more cheaply than the TCS is able to at the moment. Furthermore a privatised organisation would charge what it thought the market would bear and the evidence available to us suggests that TCS could charge higher price without losing its competitive edge. Any reductions in overheads as a result of improved efficiency would probably find their way back to shareholders or staff. While there could be wider economic benefits these would be of no benefit to government purchasers.

16. If TCS were to be privatised, our security advice is that in present circumstances the Government Car Service and its garaging and maintenance support would need to be controlled by government to provide an adequate level of security. But this service could if necessary be retained in-house or disposed of separately with safeguards without affecting the case for or against privatising TCS as a whole. The balance of advantage in terms of the public interest, therefore, in our judgement is against privatisation.

17. We have considered whether the disadvantages of privatisation could be avoided by the government's retaining a controlling interest in a privatised TCS. Government could in that way retain control over value for money for public sector users. But the tension between the interests of government in keeping down prices to government customers and the interests of private shareholders in securing a return on their investment would create difficulty for Government directors in discharging their responsibilities to act in the interests of all the shareholders. It would also diminish the attractiveness of the company to shareholders. In the view of the review team, such an arrangement would probably prove impracticable in the particular circumstances of TCS.

CONTRACTING OUT

18. We went on to consider the scope for greater private sector involvement than at present by an extension of contracting out. While TCS already buys in many of the services it provides to its customers it seems to us that there is potential for further contracting out.

19. The major in house activities are a collection of transport services employing about a quarter of TCS' staff. An efficiency scrutiny of the Government Car Service (GCS) was carried out earlier this year. In the light of the scrutiny team's conclusion about costs and the nature of the service and advice from the security services we have concluded that the question of contracting out the GCS should not be considered in the immediate future. But costs and requirements change and we have recommended that the market should be tested in 3 years' time to see whether a satisfactory service could be provided more cost effectively by the private sector.

20. The other in house services we examined were: the Interdepartmental Despatch Service (IDS); Vehicle hire; Vehicle Maintenance; Stores (which break down into two main categories, agency clearance and project stores where TCS operates a service to meet specific customer requirements, and issuing stores, which are used for internal business purposes to support TCS' procurement role); product and interior design; furniture workshops.

21. We consider that the existing level of in house product design should be retained. Otherwise we have recommended that TCS should test the case for contracting out these services by inviting tenders in consultation with users as necessary. In some cases there are

prior questions to be answered, for example about the need for and the level of services currently provided by TCS; we have recommended that these should be rigorously appraised, before tenders are invited.

RESTRICTING TCS' SERVICES

22. Apart from purchasing goods and services on behalf of its customers, and providing attendant back-up, TCS offers a Direct Call Off facility. Under this customers may place orders direct with manufacturers using TCS contracts. We considered whether TCS should confine its service to making available Direct Call Off contracts. But the saving in TCS resources would be offset by additional resources employed by its customers and a risk of reduced efficiency. We consider therefore that TCS should continue to offer the two types of service provided that the charge for each adequately reflect the cost of providing them. Market mechanisms could then be left to control the use of TCS' services. We were surprised at the high level of small value orders, many of which require little expertise to be provided by TCS. We endorse a proposal by TCS to consider a minimum charge for goods and services purchased through them, encouraging departments to purchase small quantities of low value items direct by less formal means where appropriate.

23. We also considered whether TCS should be able to refuse to provide services which do not provide a commercial return. If it is more cost-effective for such services to be purchased or provided centrally than by departments individually, TCS, consistent with its public sector status, should be obliged to provide them. But the charges for such services should adequately reflect the cost of providing them.

RESTRICTING THE ORGANISATIONS SUPPLIED BY TCS

24. We considered whether TCS as a government department employing civil servants was justified in providing services to other public sector organisations.

25. The justification for continuing to serve British Telecom following its privatisation is particularly anomalous. But British Telecom is a major customer accounting for 11½% of TCS' sales and contributing significantly to TCS' overheads. Dropping this business could add almost £2½m to the cost which TCS would have to recover from its other customers. The reduction in the volume of TCS' purchases could probably add another £½m as a result of higher prices from suppliers. The issue for Ministers is whether removal of the anomaly of TCS' supplying a private sector company justifies costs of this order.

26. The provision of services to other public sector organisations is less unusual though the scale of this business is striking. Purchases by other public sector bodies account for 43% of sales. Dropping this business could add some £3m to the charges which government departments would have to pay to cover TCS' costs and perhaps a further £6½m in higher prices from suppliers as a result of volume reductions. Confining TCS to purchasing on behalf of government departments only does not look attractive.

27. We are less certain that TCS' policy of deliberate expansion (as distinct from passive acceptance of work for other public sector organisations) is justified. We have recommended that TCS should monitor the resources devoted to winning new public sector business against the volume of business gained, as a basis for assessing whether the policy is justified. We are particularly concerned at TCS' attempts to expand in the direction of supplying overseas governments in competition with overseas commercial suppliers. TCS argue that this provides new opportunities for UK suppliers. We question whether this is a proper role for a government purchasing organisation. The Foreign and Commonwealth Office is currently reviewing its use of TCS services overseas and we have recommended that the policy be reconsidered in the light of the FCO review.

TCS' STATUS WITHIN THE PUBLIC SECTOR

28. TCS shares a common Accounting Officer with the Property Services Agency, one of its principle customers. PSA and TCS have quite separate funding arrangements and we consider that it would help to clarify the customer-supplier relationship if TCS' Chief Executive were to become its Accounting Officer. PSA also provide certain common services to TCS, primarily in the areas of personnel and office services. It is important that this arrangement should be seen by both parties to be of mutual benefit: it would be wrong to impose it on either. If it is to continue, however, the charges levied on TCS, and through them on their customers, should reflect the true cost of providing the services.

29. We considered whether the efficiency of government purchasing would be enhanced by a merger between TCS and HMSO. Their areas of purchasing are quite distinct and we see no particular advantage in this, taking account of the initial costs and disruptions that a merger would entail.

30. Finally, we considered whether there would be benefits in making TCS a non-departmental public body (NDPB). This would distance day to day purchasing decisions from Ministerial responsibility and accountability and take TCS staff outside the Civil Service pay and grading regime. But we found no evidence that TCS' efficiency is hampered by the Civil Service status of its staff, and we see disadvantages in reducing Ministerial responsibility for a significant area of government purchasing. The balance is, however, a fine one and could change if the proportion of TCS' business with central government departments fell significantly from its present level of about 57%.

RECOMMENDATIONS

We believe that the balance of argument favours keeping a central purchasing agency in the public sector. We see no case for a change of status at present. But we recommend consideration of a number of changes in the way TCS now operates as follows:

CONTRACTING OUT

1 (Paragraph 5.8)

TCS should test by formal tender the cost of providing a predetermined level of service by the GCS and by private chauffeur driven services with adequate security safeguards. We suggest this is done in April 1988.

2 (Paragraph 5.11)

TCS should establish the customer requirement for the IDS and draw up a specification as a basis for competitive tender by the end of June 1986, with a view to completing the evaluation of tenders by the end of September 1986.

3 (Paragraph 5.14)

TCS should make an assessment, in consultation with their major customers, of the relative benefits of long-term hire by TCS as against ownership by departments of their own vehicles, as a basis for a decision by September 1986 on whether TCS should continue to provide a hire service. Subject to the outcome, TCS should draw up a specification for the hire service and seek competitive tenders by June 1987 as a check on the continuing competitiveness of TCS charges.

4 (Paragraph 5.17)

TCS should review the future of the vehicle workshops in the light of decisions on contracting out the other TCS transport services.

5 (Paragraph 5.19)

DHSS in consultation with TCS should make by December 1986 an assessment of the relative costs of their storage requirements being met by TCS, by contractors or by DHSS/NHS themselves.

6 (Paragraph 5.24)

TCS should review their stockholding policy by September 1986 with a view to determining the minimum stocks required consistent with providing a satisfactory service to customers; and compare by March 1987 the cost of maintaining their own stores with that of storage by contractors.

7 (Paragraph 5.25)

TCS in conjunction with HM Treasury should re-assess by September 1986 whether the proceeds of disposal of surplus furniture by TCS warrant the resource input by TCS and by departments, or whether surplus furniture could more economically be disposed of by departments by less formal means.

8 (Paragraph 5.26)

The review of TCS stockholding policy (Recommendation 6) should examine whether project stores are necessary.

9 (Paragraph 5.28)

The cost and quality of interior design obtainable from outside sources and the amount of supervision needed should be tested by putting out one or two typical government projects to competitive tender on a pilot basis. TCS should do this by September 1986.

10 (Paragraph 5.32)

TCS should continue their policy of designing their own products only when a suitable product is not available at the right price as a branded item, or by modification by the supplier of a branded item, and should assess after the event, in the light of experience with a product, whether the benefits expected of own design have been realised, taking into account the cost of design and development.

11 (Paragraph 5.37)

TCS should examine by September 1986 in consultation as necessary with the users of the Cardiff and Palace of Westminster furniture workshops, whether the service currently provided by them can be provided more cost-effectively by outside contracts.

RANGE OF SERVICES AND CUSTOMERS

12 (Paragraph 6.5)

TCS should continue to offer customers the choice of placing orders through TCS, drawing on TCS customer services, or of going direct to suppliers using contacts negotiated by TCS, provided that TCS prices for categories of goods accurately reflect the

costs of the two options. It may be appropriate for TCS to extend the range of services for which specific charges are made. Market mechanisms could then be left to control the use of TCS' services.

13 (Paragraph 6.7)

TCS should complete by September 1986 its consideration of the introduction of a minimum charge for TCS goods and services.

14 (Paragraph 6.9)

TCS should be required to provide services to government departments where it is the more cost-effective, but the price it charges should reflect the cost of providing them.

15 (Paragraph 6.18)

Ministers should consider whether TCS should continue to supply British Telecom (BT). There are two choices:

a. if Ministers consider that, if TCS is to remain in the public sector, it is wrong in principle for it to continue to supply BT, then BT should be given 3 years' notice of the change, to allow TCS time to seek offsetting growth in business within the public sector or otherwise to minimise the impact of losing BT business.

b. if Ministers consider that the case in principle is secondary to cost considerations, the question should nevertheless be reviewed again in September 1988 when the balance of advantage might be changed either by intervening growth in TCS' business or by reduction in BT's purchases, either of which would reduce the impact of BT sales on TCS' business as a whole.

16 (Paragraph 6.29)

TCS should continue to offer goods and services to other public sector organisations and to seek new business in the public sector; unless Ministers attach a higher priority to reducing civil service numbers (currently by about 130 posts) than to the cost penalty which would be paid by government departments (currently estimated to be about £9m a year) if TCS confined itself to supplying central government; and provided the provision of such services does not conflict with the government's wider policy objectives, for example on the control of public sector borrowing. However the costs and benefits of

providing goods and services to other public sector organisations should be monitored. In particular the resources devoted to winning new public sector business and the value of the business gained should be separately identified as a basis for assessing whether the effort involved is justified. The results to be reported to Ministers each year (most conveniently probably with TCS' annual report) starting in 1986.

17 (Paragraph 6.30)

TCS should review its involvement in contracts for overseas governments by March 1987, taking account of the outcome of the current FCO review of its use of TCS services.

STATUS AND ORGANISATION

18 (Paragraph 7.4)

TCS' Chief Executive should become its Accounting Officer.

19 (Paragraph 7.8)

The merits of common citizenship should be reassessed in the light of progress with developing a procurement functional specialism. In the meantime PSA and TCS should examine by June 1986 whether, consistent with common citizenship, it would be cost-effective to delegate to TCS more responsibility for staff management and for recruitment of junior grades.

20 (Paragraph 7.11)

PSA and TCS should jointly examine by June 1986 whether there are economies in the present common service arrangements, whether these arrangements adequately support TCS' operational needs and whether the charges levied by PSA could more accurately reflect TCS' use of the common services.

THE FUTURE OF THE CROWN SUPPLIERS

Report by a Review Team

CHAPTER 1: SCOPE OF THE REVIEW

1.1 The Review was carried out part-time between April and September 1985 by:

Miss E C Turton	-	Cabinet Office
Mr A A Carter	-	" "
Mr N L Gregory	-	The Crown Suppliers
Mr P S Mundy	-	" " "
Mr R J Meadows	-	H M Treasury

The cost of the Review, excluding the time of The Crown Suppliers and others to whom we spoke, was £27,000.

TERMS OF REFERENCE

1.2 The Review's terms of reference were:

To consider the future of The Crown Suppliers and in particular whether it would be in the public interest to transfer to the private sector the activities, or part thereof, at present undertaken by that organisation; if so, how this might be achieved during the life of the present Parliament; if not, to recommend whether any change of status within the public sector would assist The Crown Suppliers in meeting their objectives.

1.3 We interpreted 'public interest' as relating to:

- a. the value for money government and other public sector organisations obtain from the purchasing and other services provided by The Crown Suppliers;
- b. the wider benefits stemming from the Government's privatisation objectives;
- c. the effect of public purchasing on the competitiveness of British industry and on Government policies relating to small firms, firms in designated areas and sheltered workshops.

1.4 Privatisation is a means of transferring out of government tasks which do not need to be done by government. It is the Government's policy to make such transfers wherever this is "commensurate with sound management and good value for money for the taxpayer." (Prime Minister's statement of 13 May 1980, Official Report Cols 1052-3). In assessing the case for privatisation we therefore considered:

a. whether there is a need for an organisation like The Crown Suppliers to provide central purchasing and other services;

b. (depending on a) whether such an organisation needs to be in the public sector;

c. (depending on a and b) what should be the scope of such an organisation;

d. (depending on a, b and c) what should be the status of such an organisation and its relationship to government.

1.5 In carrying out the Review we talked to those listed at Annex A. We are very grateful for the time they gave us and for their frankness. Particular thanks are due to The Crown Suppliers officials on whose time we made heavy claims. Summaries of the main points arising in discussions with suppliers and with customers are at Annexes B and C. Some observations on how other organisations manage their purchasing are at Annex D. A copy of the written evidence submitted to us by the Department of the Environment/Property Services Agency Trade Union Side is at Annex E.

CHAPTER 2: THE CROWN SUPPLIERS

BUSINESS ACTIVITIES

2.1 The Crown Suppliers (TCS) is one of 3 government central purchasing agencies. Total government civil purchasing amounts to some £8,000m, of which TCS sales and purchases from TCS' contracts represents £420m. TCS is responsible for purchasing on behalf of government departments and a number of other public sector bodies a range of goods and services. Commodities purchased include furniture, furnishings, floor coverings, domestic supplies, heating fuel, electrical and mechanical equipment and building materials. Associated services purchased include removals, portage, floor laying and refurbishment of furniture and furnishings. In addition to these purchasing activities, TCS provides in-house the Government Car Service (GCS), the Interdepartmental Despatch Service (IDS), a self-drive vehicle hire service, a vehicle maintenance service, a repair and maintenance service for the furniture and furnishings of the Houses of Parliament and certain royal palaces, and an interior design service. Brief descriptions of the main business activities and analyses of TCS' revenues and costs are at Annex F.

2.2 TCS publishes a catalogue illustrating the range of goods and services it offers. It has showrooms in London, Manchester, Edinburgh, Bristol and Birmingham. Most goods are delivered direct from manufacturers to end users but TCS operates stores at Burtonwood and Milton to enable peak demands to be met quickly.

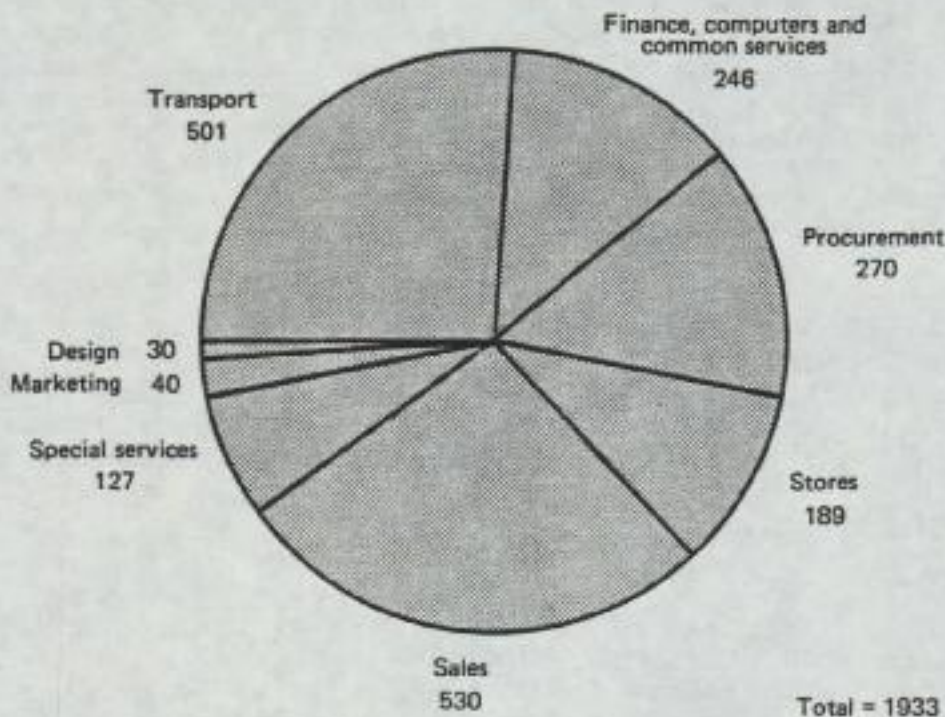
ORGANISATION AND FINANCE

2.3 TCS (called PSA Supplies until 1984) is a separately financed and managed part of the Property Services Agency. Ministerial responsibility for TCS lies with the Secretary of State for the Environment. Its Chief Executive (a Grade 3 post) reports to the Chief Executive of the Property Services Agency (PSA) who is the Accounting Officer for TCS. Below Accounting Officer level TCS is hierarchically distinct from the PSA, though the PSA provides certain common services to TCS on a repayment basis and TCS staff have common citizenship with those of PSA. Apart from its headquarters, TCS maintains a network of regional and area offices, mainly colocated with PSA, which are its points of contact with end users requiring goods and services.

2.4 TCS operates as a Government Trading Fund. The goods and services it purchases on behalf of end users are sold on to them at prices which are required to cover TCS' costs and to provide a return on net assets. A summary of TCS' recent trading performance is at Annex G.

2.5 On 1 April 1985 TCS employed 1933 staff (1375 non-industrial and 558 industrial), a reduction of 46% since 1 April 1979. Figure 1 shows the distribution of staff between business activities. 55% of staff are engaged on or in support of purchasing activities, 30% on the provision of distinct in-house services such as transport and interior design, and 15% on support services.

Figure 1 DISTRIBUTION OF STAFF NUMBERS



2.6 In 1984-85 expenditure on goods and services bought in from the private sector accounted for 84% of TCS' expenditure of £243m. Figure 2 shows the distribution of TCS' expenditure between main categories. In addition to purchasing goods and services from TCS, end users have the option of buying certain goods and services direct from private sector suppliers on terms negotiated by TCS. TCS receive from suppliers a commission on such purchases, known as Direct Call Off (DCO) purchases. In 1984-85 DCO purchases totalled a further £180 million. Figure 3 shows the value of goods and services bought through TCS and by Direct Call Off, analysed by main categories.

Figure 2

ANALYSIS OF COSTS (1984/85)

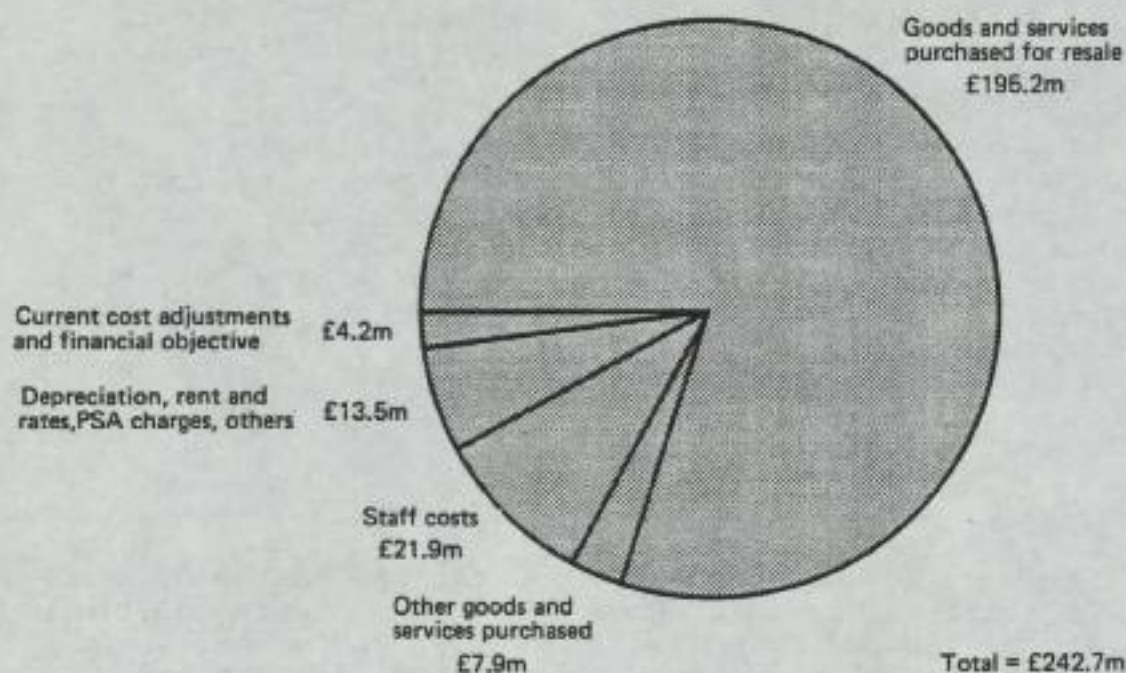
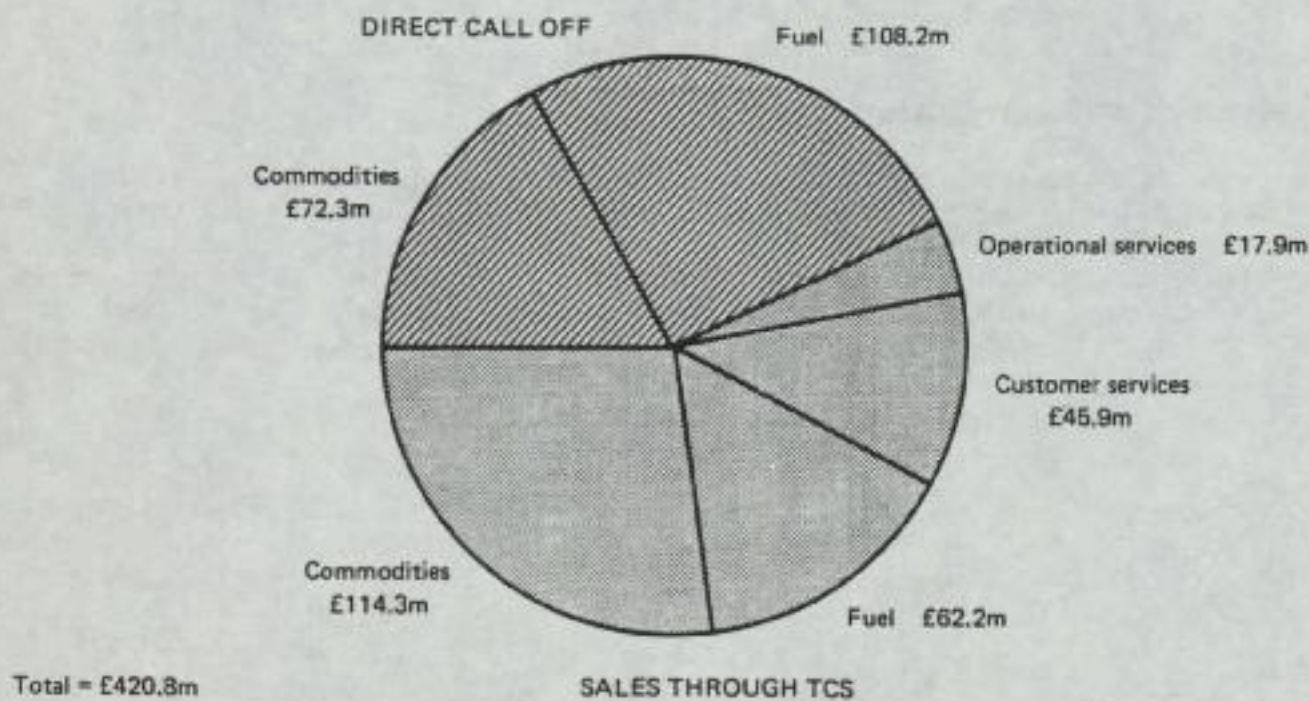


Figure 3

ANALYSIS OF 1984/85 SALES (INCLUDING DIRECT CALL OFF) - BY TYPE



2.7 Users of TCS services apart from government departments are a wide range of other public sector bodies, including local authorities, National Health Service authorities, nationalised industries and non departmental public bodies, notably the museums. British Telecom remains an important TCS customer despite privatisation. Recently TCS has begun to attract business from overseas governments. Figures 4 and 5 show respectively the value of goods and services bought through TCS and the value of goods and services bought by Direct Call Off under TCS contracts, analysed by major categories of customer. Apart from government departments, these bodies are under no obligation to use TCS services. Government departments are currently tied to TCS for the purchase of most goods, though not services, but this is in the process of changing (see paragraph 2.10).

OBJECTIVES

2.8 TCS' objectives are:

- a. to provide goods and services related to the domestic and operational needs of government departments and other public sector bodies more efficiently, economically and speedily than they can provide for themselves or enjoy from any other source;
- b. to act in a way which will help industry to improve its standards of design and operate more efficiently and to promote the exploitation of successful new materials and technologies;
- c. to manage its operations so that its revenue is sufficient, taking one year with another, to meet its expenditure and over the period 1.4.84 to 31.3.87 achieve a real return of 5% of the value of average net assets.

OPERATING ENVIRONMENT

2.9 TCS has operated as a trading fund since 1 April 1976. Before 1 April 1983 the cost of goods and services provided by TCS for most government departments was met centrally by the PSA; since the introduction of the Property Repayment Services scheme, government departments individually have repaid TCS the cost of these goods and services. On 18 January 1984 TCS was relaunched with its current corporate identity.

Figure 4

**ANALYSIS OF DIRECT SALES 1984/85
- BY CUSTOMER**

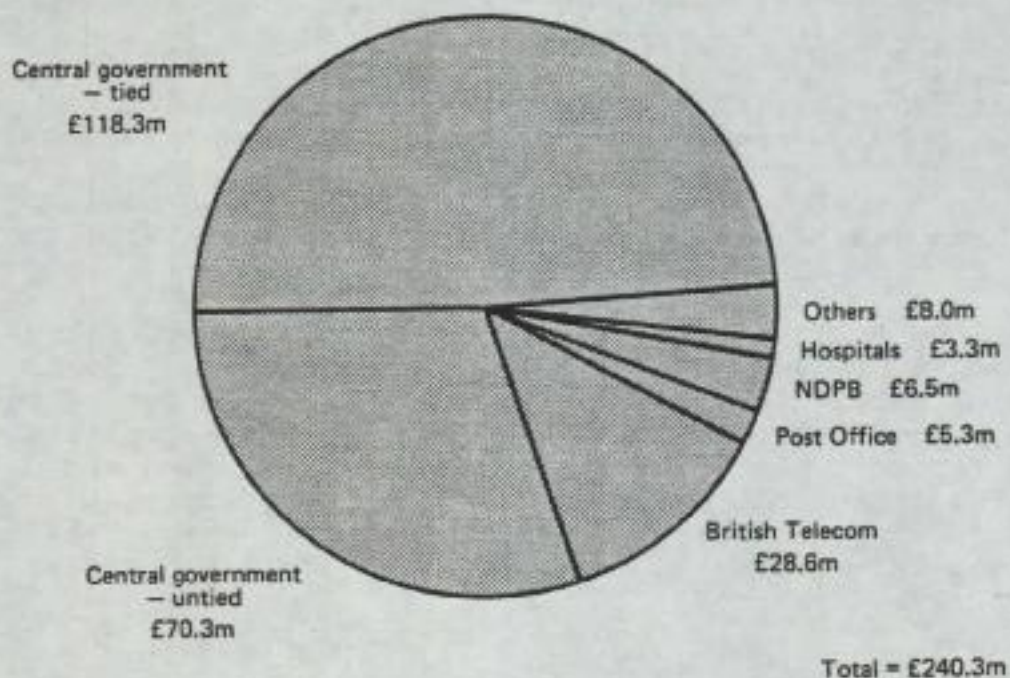
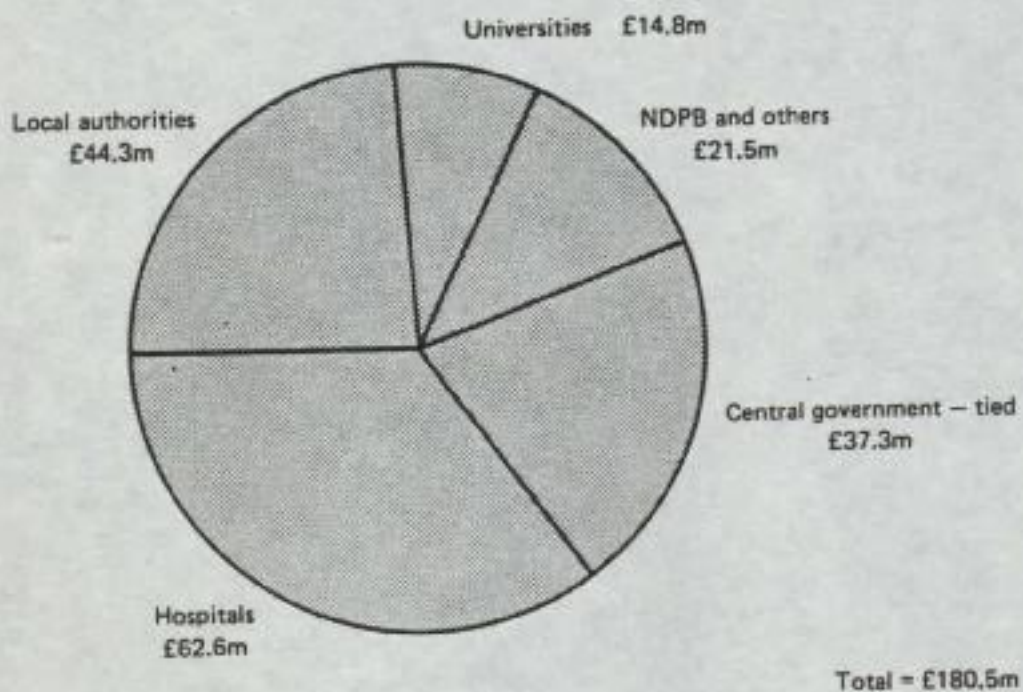


Figure 5

**ANALYSIS OF DIRECT CALL OFF SALES 1984/85
- BY CUSTOMER**



2.10 Currently government departments are tied to TCS for the purchase of most goods. A Cabinet Office Multi-Departmental Review of Government Purchasing carried out in 1984 recommended that departments should be formally untied from TCS by April 1987. It envisaged that supply and service agreements would be concluded between TCS and its customer departments; for categories of goods where greatest value for money could be achieved by central contracts, departments would have to demonstrate that buying elsewhere would be in the general interest. Detailed arrangements are to be worked out with the new Central Unit on Purchasing.

2.11 The trend of TCS business has been a reduction in sales volume from 1976 to 1981 of 40%, followed by a steady recovery to some 70% of the 1976 volume by 1984. During this period the volume of non-government business has remained broadly constant. TCS are now actively marketing their goods and services and seeking new business from public sector bodies at home and abroad. The current corporate plan covering the period 1984 to 1988 envisages an increase in non central government business of 40% over the next 4 years.

CHAPTER 3: THE NEED FOR CENTRAL PURCHASING AND SERVICES

3.1 The responsibility for defining the user requirement for goods and services, in terms of both type and volume, is that of user departments. TCS is responsible for acquiring (and in some cases providing) these goods and services cost effectively. This includes identifying user needs, turning the user's statement of his needs, or several users' statements of their needs, into a specification fit to serve as the basis for a contract, inviting and assessing tenders, placing contracts, and monitoring observance of those contracts by suppliers.

3.2 TCS' main function is that of a central purchasing agency. We have considered whether there is a need for central purchasing by an organisation such as TCS, or whether user departments could more economically and effectively carry out their own purchasing. We have also considered whether there is a need for central provision of the transport and other services currently provided by TCS.

VALUE FOR MONEY FROM CENTRAL PURCHASING

3.3 As was noted by the 1984 Cabinet Office Review of Government Purchasing, central purchasing adds an extra link to the chain of supply as departments do not deal directly with suppliers; the extra link may add cost and delay to the process. TCS has some 100 staff engaged in functions such as customer liaison, management of the trading fund and marketing which arise directly from the existence of a 'middle man' and would not exist if departments carried out their own purchasing. On the other hand, it is reasonable to suppose that there are economies from concentrating procurement expertise and purchasing power which may outweigh the costs of maintaining a purchasing organisation distinct from user departments. We have sought to assess where the balance of advantage lies.

3.4 Between 1975 and 1983 TCS carried out a programme of comparisons between its selling prices to customers of 77 representative items and the prices of similar items obtainable by a casual purchaser. In over 80% of the 77 comparisons, TCS' prices were lower, with price advantages of 20-40% on major items. Since 1983 a further 9 comparisons have been carried out by the Furniture Industry Research Association on behalf of TCS; in 6 cases the TCS price was lower and in the other 3 cases the comparator product was of inferior quality.

3.5 These absolute comparisons suggest that TCS offers value for money, having taken into account TCS' on-costs reflected in its selling price, when compared to one-off purchases from alternative sources. The comparisons are probably a good indicator of the prices which small departments making low volume, off the shelf purchases would get. They tell us nothing

about the value for money obtained by TCS relative to the value for money which would be obtained by major departments, or consortia of departments, setting up their own long term contracts.

3.6 Apart from government departments, TCS purchases on behalf of some 1000 other organisations who are free to go elsewhere if they choose. Some of these are small bodies who might not be able to secure the benefits of volume purchase by dealing direct with suppliers or to sustain technical and contractual expertise in-house. Others, however, are major organisations such as British Telecom and British Rail who have their own purchasing capability. That they choose to use TCS indicates that even large organisations judge that they get better overall value for money from using TCS than from setting up and managing their own contracts direct with suppliers. British Telecom gave us in confidence furniture price comparisons they had carried out between TCS and 4 other suppliers. These are reproduced at Annex H and satisfied British Telecom that using TCS was more economical than setting up their own arrangements. There is further anecdotal evidence of TCS' purchasing effectiveness in the case of the Southern Electricity Board which, until the practice was detected, purchased Electrolux vacuum cleaners from TCS for resale through SEB showrooms because TCS' price was almost 27% lower than that negotiated by the SEB with Electrolux.

3.7 In the case of fuel oils, TCS contribute to a regular survey, carried out by Purchasing Index UK Limited, of the prices obtained by fuel buyers. The survey covers 10% of fuel purchases in the UK. The August 1985 survey showed that of 177 current TCS contracts for the supply of fuel oil and motor fuel, 157 (89%) were for prices lower than the average for the relevant type and quality of fuel reported by the survey. The total annual cost saving by paying the TCS price rather than the average price was £2m.

3.8 In value for money terms we consider that the available evidence, while inconclusive in that an existing arrangement is being compared with a hypothetical one whose resource costs and procurement effectiveness are difficult to evaluate, supports continuing with a central purchasing organisation such as TCS. This is the same conclusion as that reached by the Cabinet Office's 1984 Review of Government Purchasing.

3.9 This is not to say that central purchasing of all goods and services currently purchased by TCS will continue to be justified. The Review of Government Purchasing recommended that the prices of individual goods should more accurately reflect the particular costs of TCS supplying them. Implementation of this recommendation, together with untying of government departments; should provide an opportunity to test the value of central purchasing as well as acting as a stimulus to TCS' efficiency.

INDUSTRIAL CONSIDERATIONS

3.10 TCS acts in pursuit of government industrial aims in a number of ways:

- a. by contributing to the development of British Standards;
- b. by influencing the design of products;
- c. by licensing the sale elsewhere by manufacturers of products developed to TCS' specifications;
- d. by encouraging small firms, firms in designated areas and sheltered workshops.

3.11 An instance of TCS' contribution to British Standards is in the field of fire retardancy, where the standard developed by TCS formed the basis of the British Standard. In the course of our review we also found evidence of the influence on industry of TCS' purchasing power: over the last 6 years some 50 royalty agreements have been concluded between TCS and suppliers to license sale elsewhere of items developed to TCS' requirements; a manufacturer of metal furniture has modified the design of its own range of filing cabinets to correspond more closely to TCS' specification; a carpet manufacturer is marketing successfully a carpet developed to a specification drawn up by TCS. The view was widely expressed by suppliers to whom we spoke that TCS' quality standards are higher than those applying generally in the furniture industry. Views were divided on whether this was a good thing; one or two suppliers thought there was an element of over specification, but another commented that concluding a contract with TCS was helpful to sales to other customers.

3.12 So far as small firms are concerned, much of the assistance takes the form of effort put into making small firms aware of opportunities for selling to TCS and of how to go about it. There is another sense, however, in which TCS' policies have the effect of helping small firms. By inviting tenders to manufacture to TCS' designs and specifications, TCS provides a sales outlet for small firms which do not have the design and marketing capacity to sustain their own branded ranges. Sheltered workshops receive more specific help in being offered a share of contracts which they would not otherwise have won provided they match the price of the lowest tenderer.

3.13 While there is a difficult balance to be struck between raising quality standards (in design and production) and over-specification, we are satisfied that centralised purchasing by a body such as TCS has a potential for contributing to the development of standards and raising the performance of British furniture manufacturers (and 95% of TCS' business is with UK

registered firms) which it would be difficult to replicate with decentralised purchasing. Without central purchasing there must be a risk that individual departments' specifications would differ and that they would pull in different directions. While it might be possible to achieve consensus through inter-departmental machinery, the likelihood is that this would be less effective than having technical specifications in the hands of a single organisation.

3.14 It would be feasible to continue the present policy of help to sheltered workshops without central purchasing and to continue to make small firms aware of the opportunities for selling to government, though at greater resource cost if each major purchaser carried out similar activity. Without centralised purchasing we should expect it to be less worthwhile for individual departments to produce their own designs, which would adversely affect small firms; they might continue to win orders for existing TCS designs but as these became outdated would probably lose business to larger firms who have their own design and marketing capacity.

CENTRAL SERVICES

3.15 The major services provided centrally by TCS which are not directly related to TCS' purchasing role are transport services: the Government Car Service (GCS), providing chauffeur driven cars for Ministers and senior officials; the Interdepartmental Despatch Service (IDS), carrying mail between government buildings; a long-term vehicle hire service; and a vehicle maintenance service.

3.16 Users are not tied to these services. If they can meet their needs more cost-effectively from other sources they are free to do so. That they do use the services therefore provides prima facie support for continuing with centrally run services. (The separate question whether the services need to be centrally provided as distinct from centrally controlled is considered in Chapter 5.) However, we see the central provision of these services by TCS as ancillary to the question of central purchasing. If there is to be a central purchasing agency then it is convenient to collocate the management of these services with it. If, however, there was no need to such an agency it would be feasible either to disperse the functions between users or to attach them to one department.

CONCLUSION

3.17 While it is difficult to compare directly central purchasing with purchasing by individual departments or consortia of departments, we consider that there is sufficient evidence of the value for money obtained by central purchasing and of the effectiveness of central purchasing in support of government industrial policies to warrant retention of a central

purchasing agency. Given that a central purchasing agency is warranted, then it is convenient to collocate with it the non-purchasing services currently provided by TCS. In relation both to the purchasing function and the other central services, untying of central government customers will provide a continuing market test of the effectiveness of central purchasing and a stimulus to efficiency.

CHAPTER 4: PRIVATISATION

4.1 The Government's objectives in transferring public sector activities to the private sector are:

- a. a reduction in the role of the public sector;
- b. greater efficiency;
- c. substantial sale receipts;
- d. a direct stake in the business for employees; and
- e. wider share ownership.

4.2 We have sought to assess how far these objectives would be achieved by privatisation of TCS. Our consideration has been in terms of privatising TCS as a whole. We have concentrated primarily on TCS' purchasing functions while recognising that considerations which apply to these do not necessarily apply to TCS' ancillary functions, which are considered further in Chapter 5.

REDUCTION IN THE ROLE OF THE PUBLIC SECTOR

4.3 TCS employs 1933 civil servants supplying goods and services to both government departments and other public sector customers. Privatisation of TCS would reduce the number of civil servants, though by less than this number as government departments took on the function of securing value for money from procurement. It would not significantly reduce the role of government. With the exception of transport and a few other services provided in-house the goods and services provided by TCS are bought in from the private sector.

4.4 The key factor is the effect of privatisation on responsibility for securing value for money from public purchasing. Currently the responsibility for securing value for money for government departments in the purchase of furniture, fuel, etc is that of TCS, to whom government departments are tied. With untying from April 1987, that responsibility, and associated accountability, will be shared with departments, though arrangements are likely to guard against the advantages of volume purchasing being dissipated. With privatisation, the responsibility and accountability would fall exclusively on departments; they could not, consistent with public accountability and commercial prudence, be delegated to a private sector organisation.

4.5 Our discussions with departments indicated that in the event of privatisation of TCS, in order to discharge their accountability requirements and their responsibilities under government procurement policy (and for purchases over £113,000 EC/GATT rules) they would normally consider it necessary to go out to competitive tender, to TCS and others. A further implication of privatising TCS is that government departments would assume responsibility for applying government policies in relation to small firms, firms in designated areas and sheltered workshops.

4.6 Without detailed study of each department it is not possible to be precise as to the implications of privatising TCS for staffing in departments. We have noted that commercial firms we visited with 7,000 to 25,000 employees and purchasing budgets of £10-£15 million had purchasing units of about 15 staff. While we should be wary of reading this across into government, because of differences in procedures and in the range of goods purchased by different organisations, very crudely it suggests that additional staffing in government departments to operate tendering, contracting, etc (without taking on TCS functions such as product specification, quality assurance, customer liaison, provision of transport services, etc) would be not less than 300-400 staff at a staff cost of the order of £3.5-£5 million. To the extent that departments took on more than the minimum tendering and contracting functions, these numbers would rise. (The number of staff currently employed by TCS on the comparable function is 270.)

4.7 An alternative to each government department tendering and contracting separately would be to set up a government-wide procurement agency. This would in effect be to recreate TCS stripped of its non-purchasing functions. It would be needlessly disruptive to privatise TCS and then build up a new organisation to discharge its core purchasing functions. A more practical alternative would be to retain TCS in government but to strip it of its non-procurement functions by contracting them out. We consider this in Chapter 5.

GREATER EFFICIENCY

4.8 We have considered whether efficiency gains from privatisation would offset the cost of additional purchasing staff in departments and in other public sector organisations. There is evidence to support the view that **TCS as currently constituted is efficient**. Taking one year with another it has achieved the target rate of return of 5% on net assets set by the Treasury while achieving prices for its customers which for the most part are competitive with those attainable elsewhere. Suppliers and customers in general speak well of TCS' professional competence.

4.9 There are two measures of the efficiency of a purchasing organisation like TCS: the keenness of the prices it obtain from suppliers; and the economy with which it uses resources to obtain those prices. Direct evidence of TCS' efficiency relative to other major purchasing organisations is difficult to obtain: the sheer scale of TCS' buying, its functioning as a trading fund for multiple customers and its obligation to meet the requirements of government purchasing policy distinguish it from private sector purchasing units to such a degree that comparisons of resource inputs relative to budget are of little value as indicators of efficiency.

4.10 The fact that both TCS' buying in prices and its resource costs are reflected in its prices to its customers, however, means that the competitiveness of its selling prices is a reasonable measure of its overall efficiency. Indicators of this competitiveness are:

a. the value of its business with customers who are free to go elsewhere. While government departments are tied to TCS for the purchase of major commodities, they are free to buy services elsewhere, and other public sector bodies are under no obligation to use TCS for either goods or services. Of TCS' turnover of £240 million in 1984-85, almost 60% was in respect of untied business. If Direct Call Off purchases are taken into account then almost 70% of purchases made under TCS contracts represent untied business. In 1984-85 TCS did business with over 300 new customers. We talked to 2 of TCS' major "optional" customers, British Rail who are one of the new customers and British Telecom who are a customer of long standing, about why they chose to use TCS. Both referred to the value for money in terms of the combination of price, quality and customer service they get from TCS relative to other suppliers. (We have already referred to British Telecom's furniture price comparisons at Annex H.)

b. the movement in its prices relative to prices elsewhere. Taking one year with another, TCS' prices have risen more slowly than the prices of comparable goods in the economy generally. Based on indices comparing TCS' prices for 60 representative items with a similarly weighted index of outside prices (constructed mainly from Central Statistical Office price indices) for similar ranges of goods, the relative price changes for commodities other than fuel purchased by TCS are:

	Percentage Increase, April to April				
	1976-7	1977-8	1978-9	1979-80	1980-81
TCS Prices	19.1	12.8	-1.1	17.4	16.7
Outside Prices	18.0	13.7	12.5	16.2	7.6
	1981-2	1982-3	1983-4	1984-85	1976-85
TCS Prices	0.5	2.3	1.4	8.7	106.3
Outside Prices	5.4	7.4	5.1	4.6	134.9

4.11 Such indicators suggest that the target for a privatised TCS would be to enhance the performance of a currently efficient organisation, rather than one which is manifestly inefficient. In themselves they offer no guidance on whether a privatised TCS would be more or less efficient than TCS as currently constituted. We have explored this further in relation to the two measures of efficiency identified in paragraph 4.9, keenness of the prices obtained from suppliers and economy of use of resources, and their impact on the prices paid by customers. We have assumed that a privatised TCS would be free to seek business from private sector customers in competition with existing private sector suppliers (some of whom supply to TCS itself).

4.12 We asked the 10 firms we visited who supply goods to TCS what effect privatisation of TCS would have on the prices they charge. Their unanimous response was that: they would not be able to sell more cheaply to a privatised TCS than they do now; the volumes purchased by TCS already give it the lowest prices offered by these suppliers; an increased volume of business as a result of a privatised TCS extending its activities into the private sector would not produce any further price reduction. (Indeed one firm expressed concern that the level of its existing business with TCS committed it more than it would like to a single purchaser.)

4.13 There was some suggestion from suppliers that a privatised TCS might receive worse prices than currently. Several suppliers emphasised the importance for their prices of confidence that TCS, being government, would pay up, and promptly; a lesser degree of confidence in a privatised concern would be reflected

in higher prices. Two suppliers said that they could justify giving TCS better prices than they gave other customers because TCS was government; that justification would disappear if TCS were privatised. The inference was that a privatised TCS free to pick up private sector customers would be perceived as a competitor either of the manufacturers themselves or of their wholesalers; fair dealing and longer-term self-interest would inhibit suppliers from offering preferential terms to a privatised TCS.

4.14 Allowing for the natural reaction of suppliers to say that they already cut their prices to the bone and for subjective judgments about the relative toughness of TCS buyers according to whether TCS is in the private or the public sector, the reaction from suppliers suggests that a privatised TCS is unlikely to secure significantly lower prices from its suppliers for goods of a given standard, and there is some risk that it will pay higher prices.

4.15 A privatised TCS may be more efficient in the sense of achieving a given level of turnover with fewer resources. TCS management have drawn to our attention a number of constraints on their deployment of resources stemming from their current status including:

- constraints on how TCS may buy goods, stemming from Government policies on competitive tendering and on support for small firms, firms in designated areas and sheltered employment workshops;
- constraints on capital investment stemming from procedures relating to the control of government borrowing;
- constraints on staffing and on staff remuneration stemming from the Civil Service status of staff.

Removal of these constraints as a result of privatisation might be expected to facilitate greater control by TCS over the conduct of their business and, with effective management, lead to greater efficiency.

4.16 Judgments of the relative future efficiency of TCS in the public and private sectors are necessarily subjective. With Government departments due to become untied from TCS by April 1987, TCS as currently constituted will have the incentive to be efficient in order to retain its market in competition with private sector suppliers. Untying should provide much of the stimulus to greater efficiency that privatisation would provide, though privatisation would go further in removing constraints on how TCS operates. The best judgment we can make is that there is no reason to suppose that a privatised TCS would be less efficient in its use of resources than TCS as currently constituted, and it might well be more efficient.

4.17 A more efficient TCS would not necessarily be reflected in lower prices to government. Apart from questions of the level of staff remuneration, a privatised TCS might well be looking for a higher return for its shareholders than the 5% return on assets (equivalent to 1% on turnover) stipulated currently for TCS. TCS might be expected to charge what the market will bear. We do not accept the argument put forward by the DOE/PSA Trade Union Side that the profit motive would necessarily lead to a higher general level of prices to government; competitive pressures should inhibit such an effect, though there would be scope for increasing the prices of some significant items manufactured to TCS' own designs, such as Whitley furniture, while remaining competitive. But so long as its prices to government are competitive with those of other suppliers, as the evidence suggests they currently are, TCS' own interests would point to its using the proceeds of greater efficiency to develop its business or increase the dividend to its shareholders rather than to reduce prices to government. This may have wider economic benefits but not benefits to government as a consumer of goods and services.

4.18 There is one group of products which government may be able to buy more cheaply after privatisation, not as a result of TCS' greater efficiency but by bypassing TCS. These are manufacturers' branded goods which TCS' customers can buy direct from manufacturers (on Direct Call Off) under TCS contracts. TCS receive a commission on such sales. Having set up their own purchasing branches, the larger departments at least may be able to obtain these from manufacturers at the price that TCS pays, thus saving TCS' commission. The potential saving to government departments is just over £0.5m and the saving to other public sector bodies just over £1m. This would in part offset the cost of additional staff in these organisations to operate purchasing.

SALE RECEIPTS

4.19 It should be feasible to transfer TCS to the private sector by selling it as a going business. Professional advice would be needed to value TCS as a business. The book value of its assets is £58 million, against which would need to be set accrued pension liabilities roughly estimated at £60 million. A market valuation would also take account, however, of TCS' trading prospects. There is no private sector organisation currently providing the type of service provided by TCS but TCS has an established trading record with its optional customers. The effect of untying government departments from April 1987 is a source of uncertainty in relation to the 40% of tied business, which might have a bearing on the valuation. If professional advisers considered that it had a significant bearing, options open to government would be to accept the lower valuation, to

defer privatisation until TCS had an established trading record as a wholly untied business, or to enter into a contract with the privatised TCS for an initial period of years to give it a monopoly position with government departments for that period (in effect deferring untying).

A STAKE FOR EMPLOYEES

4.20 Privatisation would create an opportunity for TCS employees to acquire a direct stake in the business. While we have detected no lack of motivation on the part of TCS management and staff, experience with other privatisations suggests that after initial concern and resistance, staff show readiness once privatisation proceeds to acquire such a stake, and that this increases their motivation and commitment.

WIDER SHARE OWNERSHIP

4.21 Unlike British Telecom or British Gas, TCS has very little impact on individuals outside central government. While the popularity with small investors of a TCS flotation would no doubt depend on the terms of the offer and the publicity given to it, the fact that TCS is relatively little known is likely to limit its appeal to a wider shareowning public. In any case, the modest scale of the flotation would limit the scope for making shares available widely.

TRANSPORT SERVICES

4.22 We have been advised that on security grounds the Government Car Service and its garaging and maintenance support would need to be controlled by government. If this could not be reconciled with privatisation with adequate safeguards, it would be possible to retain these Services in-house without affecting the balance of advantage in privatising the bulk of TCS.

CONCLUSION ON PRIVATISATION

4.23 While privatisation of TCS would produce a net reduction in the number of civil servants it is unlikely to reduce the role of government since the responsibility for securing value for money from government purchasing would pass to government departments. In consequence there would be an increase in the staffing of customer departments, at a net additional cost which might be of the order of £3.5-£5 million per annum, with further increases in other public sector bodies. This additional cost would be offset in part by potential savings totalling £1.5m in the public sector as a whole by bypassing TCS for the purchase direct from manufacturers of branded goods. Privatisation might well enhance the efficiency of TCS, though it is unlikely that such enhancement would be reflected in lower prices to government and therefore in lower public expenditure.

The benefits to government in terms of sale receipts, staff commitment and wider share ownership appear marginal. The balance of advantage in terms of the public interest, therefore, is in our judgment against privatisation.

RETAINING A CONTROLLING INTEREST

4.24 We have considered whether it would be possible to mitigate the disadvantages of privatising TCS while achieving some of the benefits by the government's retaining a controlling interest in TCS. Such an arrangement would have the following consequences:

- a. government would retain control over TCS' procurement policies and practices, over the direction of TCS' development and over its pricing policy;
- b. a company owned in this way would be classified to the public sector and its borrowing and financial arrangements would be subject to normal public sector controls if the controlling interest was a majority shareholding;
- c. the company would have flexibility in staffing and remuneration matters since its staff would cease to be civil servants;
- d. there would be an opportunity for TCS staff and others to acquire shares in the company.

4.25 To the extent that government used its control to ensure that TCS conformed to EC/GATT requirements and government industrial policies and to protect the value for money that government received from TCS' activities, the tendency for government departments to set up their own procurement agencies, and the associated costs, should be diminished. But there would be a tension between the interests of government in keeping down prices to government and the interests of minority shareholders in securing a return on their investment. Government appointed directors might face difficulty in discharging their Companies Act responsibilities to act in the interests of all the shareholders. Retention of control by government in order to secure its own interests might be expected in these circumstances to diminish the attractiveness of the company to potential investors. In the view of the review team, such an arrangement would probably prove impractical in the particular circumstances of TCS.

CHAPTER 5: CONTRACTING OUT THE CROWN SUPPLIERS' ACTIVITIES

5.1 While our judgement is that the balance of advantage in terms of the public interest is against privatisation, we nevertheless consider that there are significant TCS services which could be provided by the private sector through contracting out while leaving TCS in control of their value for money. We consider that contracting out rather than privatisation through the sale of the existing businesses is appropriate because there are several organisations already in existence who can provide these services. If none of these can provide better value for money than is currently provided by TCS, then the suspicion must be that privatising TCS' services by selling them as going concerns would result in paying more for the services.

5.2 In recent years TCS has contracted out the carriage of goods, the work formerly done by its furniture workshops (with the exception of that at the Palace of Westminster and one in Cardiff), and its overseas packing service.

5.3 Of the remaining functions, for reasons of responsibility and accountability similar to those which arise in relation to privatisation we do not see scope for contracting out TCS' procurement services, whose function is to obtain value for money from goods and services purchased by the government from the private sector. The customer services function is considered in paragraphs 6.2 to 6.5.

5.4 There remain several services provided in-house by TCS which are available from the private sector and could in principle be contracted out without unacceptable loss of accountability. These are:

- a. the Government Car Service;
- b. the Interdepartmental Despatch Service;
- c. the vehicle fleet hire service;
- d. the vehicle maintenance service;
- e. the stores service;
- f. the product design and interior design services;
- g. the Palace of Westminster workshop.

We have considered where the public interest lies in relation to contracting out each of these.

THE GOVERNMENT CAR SERVICE (GCS)

5.5 The GCS was the subject of an Efficiency Scrutiny carried out between November 1984 and March 1985. It found that:

- a. the cost to government users of GCS First Call Cars (chauffeur driven cars allocated to Ministers and senior officials) was 30% lower than the quotation for a long-term contract with Godfrey Davis;
- b. the cost to government users of the GCS Pool (whose primary function is to back up the First Call Service but whose services are hired to other users as available) could be undercut by private hire companies for some journeys.

The Scrutiny made recommendations designed to improve the efficiency of the GCS, including more use of hiring in to supplement a trimmed back Pool service.

5.6 We have made no attempt to replicate the work of the GCS Scrutiny officer. We did, however, discuss his report with him as well as with TCS' management. He told us that, apart from the cost considerations bearing on contracting out of the Government Car Service, the security services had advised him that they considered all First Call car users to be at risk and that consequently the service should continue to be provided in-house for security reasons.

5.7 The Government's security advisers have confirmed their view that in order to provide Ministers with an adequate level of protection control needs to be exercised over drivers, servicing and maintenance and garaging. This need not preclude contracting out, but the need to exercise control may have a bearing on the cost of a contracted out as against an in-house service.

5.8 In the light of the findings of the Efficiency Scrutiny on the relative cost of the GCS and private hire of chauffeur driven cars, we consider it unnecessary to pursue the security question further at this stage. Nevertheless, both cost relativities and security considerations change over time. Apart from questions of cost and security, we see no reason why the GCS should not be contracted out. We recommend that TCS should test by formal tender the cost of providing a predetermined level of service by the GCS and by private chauffeur driven services with adequate security safeguards. We suggest this is done in April 1988.

REC 1

THE INTERDEPARTMENTAL DESPATCH SERVICE (IDS)

5.9 The IDS provides a secure, same day parcel distribution service between government offices in London. It was the subject of the same Efficiency Scrutiny as the GCS. The report noted that a number of commercial carriers (including the Post Office who had recently contracted to provide such a service for the Inland Revenue) were willing and able to undertake the work on a secure basis. It recommended a reorganisation of the IDS prior to inviting competitive tenders for the service.

5.10 We have not attempted to second-guess the Scrutiny on the scope for improving the efficiency of the IDS. We have noted that in implementation of the Scrutiny recommendation, TCS' management propose a two-stage exercise;

- a. to establish current customer needs from the service; and
- b. to design a schedule for the service to fit those needs as economically as possible.

TCS argue that the second phase can only take place after the transfer of IDS headquarters to Nine Elms, scheduled for April 1986.

5.11 We accept that before either competitive tenders can be invited for the service or new schedules for an in-house service drawn up it is necessary to establish the customer requirement and express this in the form of a specification for the service. We consider that it would be reasonable, given the number of customers to be served, to expect TCS to establish the customer requirement and draw up the specification within 9 months. We are unconvinced that it is necessary to design a schedule for the service prior to inviting tenders (though we accept that it would be necessary to design a schedule before costing an in-house service and evaluating tenders). We recommend that TCS should establish the customer requirement for the IDS and draw up a specification as a basis for competitive tender by the end of June 1986, with a view to completing the evaluation of tenders by the end of September 1986.

REC 2

5.12 The Scrutiny report noted that commercial carriers (other than the Post Office) were currently excluded on security grounds, but that the security regulations were under review. We understand that this review has been completed. It should be feasible to assess its consequences for the IDS within the timescale for drawing up a specification for the service.

VEHICLE HIRE

5.13 TCS provides self drive cars and small vans on a weekly hire charge which includes provision for fuel and maintenance. More than 3,000 vehicles are on long term hire, some 80% to the PSA. Apart from vehicles hired from TCS, several departments own and operate their own vehicles. The Scrutiny of the Government Car Service identified more than 17,000 vehicles owned by departments.

5.14 A service similar to that provided by TCS is available from commercial leasing firms. We were told by TCS that commercial firms are more expensive than TCS. This judgement has not been subject to competitive tender but a report by consultants carried out in 1983 found that unit operating costs of the TCS vehicle fleet were 24% lower than the average of comparator fleets (commercial and in-house) and that overall TCS charges were competitive with those of the general market place. While primarily directing their attention to the GCS and IDS, a further report by consultants in February 1985 noted that, "it would appear that the self-drive rates could be increased significantly and still remain competitive with other contract hire organisations." We recommend that TCS should make an assessment, in consultation with their major customers, of the relative benefits of long-term hire by TCS as against ownership by departments of their own vehicles, as a basis for a decision by September 1986 on whether TCS should continue to provide a hire service. Subject to the outcome, TCS should draw up a specification for the hire service and seek competitive tenders by June 1987 as a check on the continuing competitiveness of TCS charges.

REC 3

VEHICLE MAINTENANCE

5.15 TCS operates 4 main vehicle workshops (serving Greater London, the South East and South, the West and South West, and the East and South Midlands) and 4 sub-workshops. Workshops serving the North of England and Scotland were closed in 1982 and their work contracted out. Apart from maintenance of TCS' own vehicles, the workshops provide a maintenance and modification service for vehicles owned by almost 100 central government and other public sector bodies, including 6 local authorities and 22 NHS hospitals and authorities.

These bodies are under no obligation to use TCS for maintenance, etc.

5.16 We have examined the scope for contracting out the work of the remaining vehicle workshops. TCS' management have advanced the following arguments against contracting out this work:

- a. workshop costs, including overheads and return on assets, are lower than the charges made by the private sector.
- b. it is difficult to find contractors who can provide a comparable quality and reliability of service;
- c. in London there is not the capacity to maintain fleets of the size of the GCS and IDS without dispersing maintenance, which has operational disadvantages in terms of managing the fleets;
- d. security considerations weigh against contracting out the maintenance of GCS cars, particularly those which are specially protected.

TCS have prepared the paper at Annex I in support of these arguments.

5.17 While we would not rule out the possibility of the market's responding to the lack of capacity if there was a real prospect of this work being contracted out, on the whole we regard these arguments as persuasive. The balance of advantage might be changed, however, by a decision to contract out any or all of the GCS, the IDS and the vehicle hire service. Such a decision might affect the cost of maintaining the remaining vehicles, and we should consider it wrong in principle for TCS to continue to provide a maintenance service primarily for the benefit of other public sector customers in circumstances where central government could not justify such a service for its own use. We recommend that TCS should review the future of the vehicle workshops in the light of decisions on contracting out the other TCS transport services.

REC 4

STORES

5.18 TCS provides the following kinds of storage service, a number of which are colocated:

- a. agency storage
- b. issuing stores
- c. clearance stores
- d. project stores

189 TCS staff, 136 industrials and 53 non-industrials, are employed in managing and operating the stores.

5.19 Agency storage is mainly of 2 kinds: stocks of medical supplies such as blood bottles and hearing aids held on behalf of the NHS; and stocks of items which would be required in the event of a national disaster or civil emergency, which are held on a longer term basis on behalf of DHSS. Agency stores are unrelated to TCS' main activities and a decision has already been taken by TCS' customers to withdraw from this activity as soon as they can take it over. We recommend that DHSS in consultation with TCS should make an assessment by December 1986 of the relative costs of their storage requirements being met by TCS, by contractors or by DHSS/NHS themselves.

REC 5

5.20 Issuing stores are maintained:

- a. to provide assured, prompt delivery to customers; and
- b. to enable advantage to be taken of bulk purchase.

5.21 In the past TCS has been criticised for slow delivery of goods, much of which was attributable to suppliers' lead times. A particular problem arises from reconciling a steady flow of production with a pattern of demand which shows a marked surge in the last 3 months in the financial year. TCS' response has been to maintain stocks. The breaking of bulk function relates largely to items such as cleaning materials, which TCS buy in bulk and break down into mixed packs for sale to customers.

5.22 There are two issues in relation to stores;

- a. what volume and types of commodities need to be stored in order to meet customers' demands within a reasonable time; and
- b. what is the most cost-effective way of storing and issuing those commodities.

5.23 Determination of the volume and types of commodities that need to be stored is not a function that can be contracted out; it calls for knowledge of suppliers and customers and is intrinsic to TCS' main functions of purchase and supply, though TCS may find specialist advice helpful and we understand that there are proposals for a review by the Cabinet Office's Management and Efficiency Division of TCS stockholding.

5.24 The function of holding and issuing stocks, is however, capable of being contracted out, just as transport of goods from store has been contracted out. We recommend that TCS:

a. review their stockholding policy by September 1986 with a view to determining the minimum stocks required consistent with providing a satisfactory service to customers; and

REC 6

b. compare by March 1987 the cost of maintaining their own stores with that of storage by contractors.

5.25 Clearance stores are used to assemble surplus furniture prior to disposal at auction. There are doubts about the cost-effectiveness of the disposal function. We recommend that TCS in conjunction with HM Treasury should re-assess by September 1986 whether the proceeds of disposal of surplus furniture by TCS warrant the resource input by TCS and by departments, or whether surplus furniture could more economically be disposed of by departments by less formal means.

REC 7

5.26 Project Stores are used to assemble commodities from diverse sources which are required for a particular project. Space in TCS' own stores may be used, or when this is not available storage space may be hired locally from the private sector. We recommend that the proposed review of TCS' stockholding policy (Rec 6) should also examine whether project stores are necessary.

REC 8

PRODUCT AND INTERIOR DESIGN

5.27 TCS employs 4 staff at headquarters, and 11 in the regions on interior design and a further 11 staff at headquarters on product design. Recent examples of interior design projects are the Queen Elizabeth II Law Courts, Liverpool, a DHSS public reception area, Powys, and design schemes for British Telecom in Dundee and Chester. The headquarters designers provide standards and basic schemes for use throughout the country for departments such as MOD and DHSS; the regional office designers deal with local projects.

5.28 It is common for commercial contract furnishers to provide an interior design service based on their products; TCS are emulating this practice. Interior design services are available commercially. We therefore tried to examine whether in-house interior design represents good value for money relative to contracting out design. Our impression is that in general TCS' customers are satisfied with the design service they receive, though the Department of the Environment was critical of TCS' performance on a particular open-plan office project. We were told by TCS that while the cost of engaging outside interior designers was broadly comparable with that of in-house design, the in-house effort needed to brief outside designers and to help

them through the process of familiarising themselves with government requirements tilted the balance significantly in favour of in-house capacity. We were shown no costings in support of this argument. While we find it plausible that any firm taking on government business for the first time would need to go through a familiarisation process, we were unconvinced that this problem could not be resolved by engaging a design firm on a period basis. We recommend that TCS should test the cost and quality of interior design obtainable from outside sources and the amount of supervision needed should be tested by putting out one or two typical government projects to competitive tender on a pilot basis. This should be done by September 1986.

REC 9

5.29 TCS design their own products where they think they can get better value than from trade ranges or where they are commissioning specialised items specific to government. The bulk of furniture and furnishing business is in items manufactured to TCS' designs or TCS' specifications, whereas the bulk of electrical and mechanical equipment purchased by TCS is manufacturers' own brands.

5.30 The issues posed in relation to product design are:

- a. does TCS need to design/specify so many products rather than buying manufacturers' own brands and
- b. does the design need to be done in-house.

5.31 A number of the products that TCS designs/specifies are for uses which are special to government. We were assured, for instance, that the particular wear and damage resistant qualities of the Benbow range of furnishings for use by the armed forces are not available from branded products designed for domestic or commercial use. It is less obvious that government needs to design its own office furniture and furnishings. Own design gives control over product continuity and simplifies standardisation but there are penalties in it too. We were told by carpet manufacturers that while TCS' technical specification for low loop carpet is good, the colour range (which was designed for TCS by Klein) is several years out of date; own design had not kept pace with trade developments. The justification for own design can only be that TCS design produces a better combination of price and quality than is available from branded items. This is not something that the Review Team was competent to judge; while the Whitley range of office furniture is cheaper, for instance, than branded alternatives, we heard criticism of its robustness, which TCS have taken steps to improve.

5.32 There can be no black and white assessment of whether it is right or wrong for TCS to design (or commission the design of) products to its own specification. A decision to opt for own

design needs to be justified by the cost and quality of the resulting product. We recommend that TCS should continue their policy of designing their own products only when a suitable product is not available at the right price as a branded item, or by modification by the supplier of a branded item, and that TCS should assess after the event, in the light of experience with a product, whether the benefits expected of own design have been realised, taking into account the costs of design and development.

REC 10

5.33 Where own-design is justified, there remains the question of whether the design should be done in-house by TCS or be contracted out. We see a distinction between interior design and product design. Whereas we are sceptical (subject to its being tested) of the view that government interior design needs are so special that there is a significant penalty in using outside designers on contract, we find it more plausible that where it is necessary to design products specifically for government needs, familiarity with those needs is a significant advantage.

5.34 TCS cited to us the following instances where product designs had been put out to contractors and had been unsuccessful;

- a. a design for a replacement for the Higher Administration range of furniture would have been 3 times as expensive as the current range (though this is indicative of inadequate internal supervision of the designer as well as of shortcomings by the designer);
- b. two designs for a 3 piece suite for MOD married quarters proved unsatisfactory to MOD, resulting in purchase of trade pattern items; a cheaper TCS design is now on trial;
- c. 6 firms submitted designs for an office swivel chair which were either too costly or unsatisfactory; the chair was subsequently designed in-house.

5.35 Current TCS policy is to use outside product designers where possible, while retaining in-house capacity to assess outside designs and provide back-up when outside designs fail. In view of the small number of TCS' staff engaged on product design and the mixed results from outside design we regard this policy as justified.

FURNITURE WORKSHOPS

5.36 TCS employs 22 staff in the Palace of Westminster workshop and 11 in the Cardiff workshop carrying out routine repair and

maintenance of furniture and furnishings. Contractors are engaged for major tasks. Elsewhere the work formerly carried out by TCS' workshops has been contracted out.

5.37 We recognise the security requirements and the constraints imposed by Parliament's working practices. But contractors are used on other functions in the Palace of Westminster. We recommend that TCS should examine by September 1986, in consultation, as necessary, with the users of the Cardiff and Palace of Westminster furniture workshops, whether the service currently provided by the workshops can be provided more cost-effectively by outside contractors.

REC 11

CHAPTER 6: RESTRICTING THE CROWN SUPPLIERS' SERVICE

6.1 Having concluded that a central purchasing organisation such as TCS should be retained in the public sector but that certain of its non-procurement services could be contracted out, subject to testing the market, we examined whether the procurement-related services offered by TCS could be trimmed, either by restricting the range of services provided or by restricting the range of customers supplied.

THE RANGE OF TCS' SERVICES

Direct Call Off

6.2 TCS employs 657 staff in the Sales and Marketing division on liaison with customers and suppliers on specific projects and orders. The task of these staff is to advise customers where necessary on what goods and services available from TCS would meet their needs, to assist with planning projects and estimating costs, to arrange interior design services where required, and to place orders and progress them through to delivery and installation. The cost of these services is usually recovered through the prices paid by customers for commodities and bought-in services, but is sometimes recovered through specific charges when significant TCS planning, design or supervision input is required.

6.3 As an alternative to using TCS in this way, customers have the option of acquiring certain goods and services direct from suppliers using a Direct Call Off (DCO) provision negotiated by TCS in a number of contracts. Customers pay a lower price than if they order through TCS. TCS receive a commission on sales from the supplier which reflects only the cost of setting up and running contracts. The responsibility for determining the goods and services they need, placing orders, bill paying and for carrying projects through to completion rests exclusively with the customer.

6.4 We have considered whether TCS should confine its procurement activities to providing a DCO service, reducing its customer services activity to letting local contracts for special requirements. There would be a potential saving of TCS staff of some 470 Sales and Marketing Division staff and a further 90 Finance Division staff. The apparent attractiveness of this solution is in our view, however, offset by the following considerations:

- a. TCS' customers value and are prepared to pay for the service that TCS provides and are not currently staffed up to provide it themselves; they would need additional staff and there would be a risk of error and consequent additional cost while these passed through the learning

stage; given that TCS provide a service to optional customers as well as government departments the net result might still be a reduction in civil service manpower, but probably an overall increase in public sector manpower with the loss of economies of scale in centralised provision.

b. There would be problems with TCS' own-design products which are not currently available on a DCO basis; these are available from more than one source and there would be difficulty in regulating demand on individual suppliers in the absence of central ordering.

c. One of the TCS facilities which would be lost is storage; subject to the outcome of the review of stockholding recommended in paragraph 5.24, (Rec 6) customers might face longer delivery lead times.

d. The withdrawal of TCS' services would probably result in the loss of some optional customers for commodities for whom the availability of a full customer service is a significant part of TCS' attractiveness.

6.5 We consider that a DCO option should be made available wherever possible, and we note that TCS are moving in this direction. We accept, however, that where departments do not consider that they have the staff, or the skills, to manage a complex procurement, it is valuable to them to be able to call on TCS' services rather than dealing direct with suppliers. It is important to efficient resource allocation, however, in TCS and in departments, that TCS' costs are accurately reflected in the prices paid by departments. We recommend that TCS should continue to offer customers the choice of placing orders through TCS, drawing on TCS' customer services, or of going direct to suppliers using contracts negotiated by TCS, provided that TCS' prices for categories of goods accurately reflect the costs of the two options. It may be appropriate for TCS to extend the range of services for which specific charges are made. Market mechanisms could then be left to control the use of TCS' services.

REC 12

6.6 While we have recommended that TCS should continue to make available a package of customer services in association with the supply of bought-in goods and services, there is a separate question as to whether these customer services should be available to the whole range of TCS' customers, or only to government departments. This is considered in paragraph 6.27.

Small Value Purchases

6.7 While we have concluded that to restrict TCS to making available goods and services only on a DCO basis would not be in the public interest, the arguments for the service provided by TCS relate primarily to substantial purchases. Some 56% of

invoices paid by TCS are for individual orders of less than £100. These account for 3.5% of the total value of purchases. We find it difficult to see that customers need TCS help in making purchases of this value, and processing such orders through an extra layer is wasteful of resources. We understand that TCS are considering applying a minimum charge for goods and services purchased through them, leaving customers to use a DCO option where this is available or to make their purchases by less formal means. We endorse this approach and recommend that TCS' consideration of the introduction of a minimum charge for TCS' goods and services, be completed by September 1986.

REC 13

TCS Discretion over the Services Provided

6.8 Quite apart from small value purchases, TCS' management drew our attention to services they are required to provide which in purely commercial terms are unattractive. They instanced some advisory services to PSA in connection with new developments and major works, the support given to sheltered workshops, and the effort put into communicating with small firms. We have considered whether, in the context of further untying of central government customers, TCS should be able to decline to provide services which it considers do not provide a commercial return.

6.9 Consistent with untying, we consider that assessments should be made of the cost-effectiveness of providing particular services centrally by TCS or locally from departments' own resources. We recommend that TCS should be required to provide services to government departments where it is the most cost effective source, but that the price it charges should reflect the cost of providing them.

REC 14

THE RANGE OF ORGANISATIONS SUPPLIED BY TCS

6.10 Currently TCS' services are available to government departments and to such other public sector bodies as choose to use them. It is TCS' objective to increase the volume of its business for other public sector customers, both absolutely and as a proportion of its total business. TCS' aim is to achieve this increased volume while containing resource costs, enabling it to reduce unit costs and therefore prices. We have examined whether this policy is in the public interest.

6.11 TCS' services are not currently available to private sector customers (other than British Telecom, whose position is discussed below). We consider that there are arguments of principle for confining TCS, for as long as it is constituted as a public sector body, to serving public sector customers. Government has a legitimate interest in the value for money achieved by public sector bodies from their purchasing,

particularly where the costs are met directly or indirectly from taxation. It has no similar interest in the relationship between private sector buyers and private sector sellers of furniture, furnishings, etc (beyond its interest in regulating monopolistic excesses and other restrictive trade practices). For TCS as a public sector body to sell to private sector customers in competition with private sector suppliers would be inconsistent with the Government's policy of confining the public sector to those activities which need to be carried out by the public sector.

British Telecom

6.12 For TCS to continue to use government purchasing power to the benefit of a privatised British Telecom is anomalous. While this arrangement is to British Telecom's advantage it is less obvious that it is in the public interest. We have examined this further.

6.13 The Chairman of British Telecom (BT) wrote to the Secretary of State for the Environment in December 1983 proposing that BT should continue after privatisation to use TCS (then PSA Supplies) on the same basis as before. The Secretary of State replied that the services of TCS would remain fully available to BT in the future.

6.14 BT is a long-standing and significant customer of TCS. In 1984-85, BT accounted for £28 million (11.5%) of TCS' sales and a £2.6 million contribution to TCS' operating costs and return on assets, made up as follows:

	Sales (£m)	Margin (£m)
Wooden and Metal Furniture	11	2.2
Furnishings & Floor Coverings	1	0.2
Domestic Equipment	1	0.2
Fuel	14	0.2
Services	1	0.2
	<u>28</u>	<u>3.0</u>

6.15 Were TCS to cease to supply BT, this revenue would be lost but would be partly offset by cost savings which TCS estimate as follows:

	Staff nos.	£m
Procurement	5	0.07
Sales	20	0.28
Marketing	1	0.02
Finance	4	0.03
	<u>30</u>	<u>0.40</u>

6.16 The loss of BT business would have two effects on TCS. First TCS' gross margin (which has to meet TCS' operating costs and provide a 5% return on assets) would be reduced by £2.6 million. This would have to be recovered from TCS' public sector customers and might add 3.5-4% on average to furniture prices and 1-1.5% to the prices of furnishings and floor coverings and of domestic equipment. Secondly, purchases of furniture under TCS contracts would be reduced by over 15% with the impact on the Whitley range more marked. The reduction in volume would tend to increase the buying-in prices of Whitley furniture, perhaps by 5-10%. Purchases of other commodities would be reduced by smaller margins (furnishings and floor coverings 3%, domestic equipment 4.5%, fuel 8%), probably with negligible effect on prices.

6.17 While, then, for TCS to continue to supply BT is anomalous, to withdraw TCS' services might increase TCS' furniture prices to central government and other customers by some 10-15% overall, with far less significant increases on other categories of commodities. The choice for Ministers is between tolerating the anomaly and adding perhaps £3.5million to public sector purchasing costs as a result of price increases.

6.18 We recommend:

a. if Ministers consider that, if TCS is to remain in the public sector, it is wrong in principle for TCS to continue to supply British Telecom, then BT should be given 3 years' notice of the change, to allow TCS time to seek offsetting growth in business within the public sector or otherwise to minimise the impact of losing BT;

b. if Ministers consider that the case in principle is secondary to cost considerations, the question should nevertheless be reviewed again in September 1988 when the balance of advantage might be changed either by intervening growth in TCS' business or by reduction in BT's purchases, either of which would reduce the impact of sales to BT on TCS' business as a whole.

REC 15

Other Public Sector Customers

6.19 While the anomaly of civil servants supplying a private sector company with furniture, furnishings, fuel, etc is most marked, we considered that TCS' role as a government department supplying other public sector organisations also merited examination.

6.20 TCS' services are used by some 1000 public sector organisations, including museums, hospitals and local authorities. We considered the consequences of TCS' ceasing to supply these bodies and confining its services to central government. (Any costs or savings would be in addition to the costs of losing BT business).

6.21 Other public sector business in 1984-85 accounted for £180m (43%) of sales under TCS' contracts and made a £5.5m contribution to TCS' operating costs and return on assets, made up as follows:

	Through TCS		Direct Call Off	
	Sales £m	Margin £m	Sales £m	Commission £m
Furniture	2.1	0.4	10.9	(
Furnishings and Floorcoverings	2.2	0.1	9.6	(
Domestic Equipment	2.2	0.4	6.7	(1.1
Electrical and Mechanical Equipment	0.4	-	8.4	(
Building Materials	0.2	-	7.3	(
Fuel	20.4	0.3	100.2	(
Transport Services	2.2	1.6	-	(
Bought in Services	6.8	1.6	-	(
	<u>36.5</u>	<u>4.4</u>	<u>143.1</u>	(<u>1.1</u>

6.22 Were TCS to cease to supply other public sector customers, this revenue would be lost but would be partly offset by cost savings which TCS estimate as follows:

	Staff		Accommodation £m	Other £m	Total £m
	No.	£m			
Procurement	20	0.2			
Transport	-	-		0.9	
Sales	67	0.7			
Marketing	19	0.2			
Finance	21	0.2			
	---	---	---	---	---
	127	1.3	0.4	0.9	2.6

6.23 The net effect on TCS would be a reduction in the contribution to its costs and return on assets of £2.9m, which would have to be recovered through higher prices to central government customers. The effect on prices would be of the order of 1-2% for commodities, the main effect being felt on services where the price of bought-in services would rise by 4% and the price of certain transport services by up to 20%.

6.24 There would also be an effect on the prices negotiated by TCS with suppliers as a result of a 30% reduction in the volume of commodities purchased under TCS' contracts and a 75% reduction in fuel purchases. The effect of this is more difficult to estimate than in the case of British Telecom because of the diverse nature of the purchases made; some contracts are for commodities which are supplied exclusively or predominantly to non-central government customers, such as the museums; others are for commodities used by both government departments and other public sector bodies. Much would depend on whether customers denied access to TCS' contracts continued to use TCS' suppliers, minimising the impact on their production and hence on their prices. A crude assessment is that prices to TCS from its suppliers might rise by 5% overall, at an additional cost of £6½ million.

6.25 Apart from the effect on TCS and its central government customers, there is the effect on the other public sector customers to consider. As a result of losing access to TCS' services they would need additional staff to provide those services themselves. We should not expect their additional staffing needs to fall short in total of TCS' staff savings and they might well be higher. They might also pay higher prices by being denied access to TCS; the results of an Audit Commission survey of local government purchasing, for instance, suggested that TCS' buying-in prices compared favourably with those of most local authorities who purchased independently.

6.26 Unless Ministers attach a high priority to reducing civil service numbers, even with offsetting increases in other public service numbers, the cost penalty of some £9 million which would be paid by government departments as a result of TCS' confining itself to supplying central government makes this option unattractive.

6.27 Given the high proportion of purchases by other public sector organisations, which are made on a DCO basis (£143 million out of £170 million of total commodity purchases by these bodies, we considered whether savings in TCS' numbers might be made by obliging other public sector organisations to switch to DCO for all their purchases of commodities and bought-in services. This would save 60 TCS staff and £0.75m in staff and accommodation costs but would reduce net TCS revenue by

£2½ million. Assuming even a modest increase in the staff of other public sector organisations in consequence again this does not look an attractive option

6.28 If, however, a deliberate policy of TCS' shedding other public sector customers does not look attractive, it does not follow that a policy of deliberate expansion in the wider public sector, which is the course on which TCS are currently set, will be cost effective. Attracting new business inevitably requires some commitment of resources, though our discussions with TCS suggest that this commitment is currently modest, no more than 6 man-years per annum at a cost of £0.35m. Furthermore a policy of expansion might conflict with the government's overall aims and objectives, for example in controlling public sector borrowing. We should not expect the additional volume of business generated to have significant effect on TCS' prices from suppliers; TCS' existing volume appears already to get them the highest level of discount available from suppliers of most commodities. There would be some gain in further spreading of overheads provided the net value of the business gained outweighed the cost of the resources diverted to gaining it.

6.29 We recommend that TCS should continue to offer goods and services to other public sector organisations and to seek new business in the public sector:

REC 16

- a. unless Ministers attach a higher priority to reducing civil service numbers (currently by about 130 posts) than to the cost penalty which would be paid by government departments (about £9m a year) if TCS were confined to supplying central government; and
- b. provided the provision of such services does not conflict with the Government's wider policy objectives, for example in controlling public sector borrowing.

However TCS should monitor the costs and benefits of providing goods and services to other public sector organisations. In particular the resources devoted to winning new public sector business and the value of the business gained should be separately identified as a basis for assessing whether the efforts involved are justified. The results should be reported to Ministers each year (with TCS' annual report) starting in 1986.

Overseas Business

6.30 We are particularly concerned at TCS' attempts to expand in the direction of supplying overseas governments. Currently their efforts in this direction are modest, involving the commitment of 5 staff and expenditure of £0.1m. So far £0.2m

of business has been secured, together with long term agreements signed which TCS expect to result in sales of up to £1m per annum. In addition, tenders for specific projects valued at some £10m have been submitted. TCS' management have argued that they are peculiarly well fitted to win such business for British suppliers. Our concern is that this policy implies a shift of emphasis in TCS' role from securing value for money for purchasers to selling actively in competition with commercial (currently overseas) suppliers. We doubt whether this is a proper role for TCS. The Foreign and Commonwealth Office is currently reviewing its use of TCS services overseas. If it was to make less use of these, it would be even more questionable whether TCS should be committing effort overseas for other governments. We recommend that TCS' involvement in contracts for overseas governments be reviewed by March 1987 taking account of the outcome of the FCO study.

REC 17

CHAPTER 7: STATUS OF THE CROWN SUPPLIERS

7.1 We have considered whether a change of status within the public sector would assist TCS in meeting its objectives. We have identified 3 possibilities:

- a. further distancing of TCS from the Property Services Agency (PSA);
- b. merger with HMSO to form a larger purchasing agency; and
- c. hiving off to form a non-departmental public body.

DISTANCING FROM PSA

7.2 TCS and the PSA share an Accounting Officer, to whom the Chief Executive of TCS reports. Below Accounting officer level the two are operationally distinct though the staff of TCS have common citizenship with those of the DOE/DTP, including PSA. PSA also provides common services in the areas of personnel and office services. A charge for these common services is made by the PSA.

7.3 TCS' management have raised with us 2 issues:

- a. whether it is conducive to the efficiency of PSA and TCS for them to share an Accounting Officer; and
- b. whether it is conducive to the efficient management of TCS for it to be dependent on PSA for common services.

We have also examined the merits of the common citizenship arrangements.

Accounting Arrangements

7.4 PSA and TCS have quite separate funding arrangements. PSA is a major customer for TCS' services but its relationship to TCS is not different in kind from that of other TCS' customers, and one purpose of the relaunch of TCS in 1984 was to establish its identity as distinct from that of PSA. We see no operational reason for PSA and TCS to share an Accounting Officer and while we have no reason to suppose that the joint accounting arrangement has acted to TCS' or PSA's detriment we consider that it would help to clarify the customer-supplier relationship if TCS' Chief Executive were to become its Accounting Officer. We recommend that TCS' Chief Executive should be its Accounting Officer.

REC 18

Common Citizenship

7.5 The common citizenship arrangements allow staff to be posted between the Department of the Environment, the Department of Transport, the Property Services Agency and The Crown Suppliers. This provides opportunities for staff to acquire more diverse work experience and opens up wider promotion opportunities. So far as TCS' staff are concerned, these benefits are largely confined to their 500 Administration Group staff; the skills of their technical specialists are largely specific to TCS within the DOE/Tp group.

7.6 We detected some ambivalence on the part of TCS' management about the merits of common citizenship. While they see advantage in common citizenship in attracting staff to a relatively small organisation, common citizenship tends to weaken staff's identification with TCS. TCS' management also feel that they are last in the queue when it comes to allocating staff because unlike DOE, DTp and PSA they do not have a direct voice in promotion and recruitment arrangements but are regarded as part of PSA.

7.7 The Cabinet Office's Review of Government Purchasing noted that few departments have procurement organisations large enough to provide a career path for buyers. It recommended that a functional specialism for purchasing and supply be developed to provide career development opportunities in purchasing and supply across departmental boundaries. The development of such a functional specialism may have implications for common citizenship, though there may still be staff at more junior levels in TCS outside the functional specialism for whom common citizenship will continue to be attractive.

7.8 We recommend that the merits of common citizenship be reassessed in the light of progress with developing a procurement functional specialism, and that in the meantime PSA and TCS examine by June 1986 whether, consistent with common citizenship, it would be cost-effective to delegate to TCS more responsibility for staff management and for recruitment of junior grades.

REC 19

Common Services

7.9 Whether PSA and TCS share common services seems to us a matter of mutual convenience and cost-effectiveness. We regard it as important that the current common services arrangements should be seen by both sides to be of mutual benefit; if they are not so regarded we should regard it as unjustified for them to be imposed on either party.

7.10 If common services arrangements are to continue, however, we consider it important that the charges for these services levied by PSA should be more clearly related to the use that TCS makes of these services. At present a number of charges are allocated pro rata to staff in post. This arrangement may result in TCS' customers subsidising or being subsidised by PSA, and provides no incentive to TCS to economise in the use of these services.

7.11 We recommend that PSA and TCS jointly examine by June 1986 whether there are economies in the present common service arrangements, whether these arrangements adequately support TCS' operational needs and whether the charges levied by PSA could more accurately reflect TCS' use of the common services.

REC 20

MERGER WITH HMSO

7.12 HMSO and TCS have in common that they are procurement agencies serving a similar range of customers and both operate as trading funds. Their areas of purchasing are quite distinct with HMSO purchasing print, office machines and consumables such as stationery, pens and 'desk top' supplies. HMSO is rather larger than TCS, employing some 3,460 staff.

7.13 Both organisations employ staff engaged in procurement. We would see benefit in both forming part of a wider purchasing functional specialism, benefitting from interchange and wider opportunities for career development. But, whether merged or not, efficiency considerations would point to their operating as separate businesses just as each at present comprises separate businesses. There may be economies of scale from a merged organisation sharing common services, though the fact that HMSO is currently based in Norwich and TCS in London would mean substantial upheaval in order to achieve benefits which would at best be marginal. In volume terms both TCS, with a turnover of £240m, and HMSO, with a turnover of around £300m, are viable as businesses. While, starting with a clean sheet, a single procurement agency covering the responsibilities of TCS and HMSO might make good sense, we see no great organisational benefit from their merger now which would offset the disruption of organisational change.

HIVING OFF

7.14 Government policy is to set up new non-departmental public bodies only when the functions they are to carry out are essential and need to be in the public sector and when it is clear that a non-departmental public body is the most suitable and cost-effective machinery. The earlier chapters of our report

set out our reasons for concluding that TCS' functions are essential and need to be in the public sector. The issue here is whether a non-departmental public body would be a more suitable instrument than a government department for carrying out these functions.

7.15 Reasons for conferring functions on a non-departmental public body in preference to a government department include:

- a. distancing activities from direct ministerial responsibility;
- b. involving outside interests in a representative capacity;
- c. freeing quasi-commercial or entrepreneurial decisions from the traditional Civil Service framework.

7.16 Whether constituted as a government department or as a non-departmental public body, TCS' objectives and policies would be set by Ministers. The distinction between the two organisational forms would lie in the extent of Ministerial responsibility and accountability for day to day decisions. Constituting TCS as a non-departmental public body would imply a reduction in answerability to Ministers and to Parliament for individual purchasing decisions, provided these were carried out in accordance with the policies set by Ministers.

7.17 We see no particular need to involve outside interests in a representative capacity in the management of TCS; customer interests are adequately protected by the normal customer - supplier relationship and will be all the more so when government departments are fully untied. Outside experience is available to TCS through the PSA Advisory Board and if TCS need this in an executive capacity they are free to seek it on the open market.

7.18 The trading fund already provides TCS with a commercial framework within which to operate. The annuality of public expenditure arrangements gives rise to problems associated with demand from customers peaking in the last 3 months of the financial year, but these problems arise primarily from the funding arrangements of TCS' customers rather than from TCS' own financial arrangements. Constraints on TCS' investment arising from public expenditure control arrangements would apply whether TCS was a government department or a non-departmental public body. Non-departmental public body status would, however, take TCS' staff outside the Civil Service pay and grading regime, allowing more flexibility in responding to a commercial environment. TCS have not, however, suggested to us that major recruitment or retention difficulties arise from being constrained by Civil Service pay scales, and loss of Civil Service status would entail a reduction in flexibility to move staff between TCS and other government departments, which would

be a step away from creation of a purchasing functional specialism. (TCS have drawn to our attention difficulties in recruiting one or two key professionals at Civil Service pay rates, but these should be capable of solution within the flexibility to pay market rates to such people.)

7.19 Overall, we see no particular advantages to TCS' efficiency in hiving off to a non-departmental public body. There would be a reduction in Civil service numbers in consequence, but there would also be a loss of detailed Ministerial accountability for a significant area of government purchasing. On balance, we consider that this would be disadvantageous. We could see the balance changing if TCS were to lose significant central government business as a consequence of untying and to pick up more business from other public sector bodies. But we regard this as unlikely. If TCS' goods and services are attractive to other public sector bodies, then they should be no less attractive to government departments.

CONCLUSION ON STATUS

7.20 If TCS is to remain within the public sector, we consider that a change in status would not significantly enhance its ability to meet its objectives and would entail a degree of disruption in the short term. We regard it as more important for TCS to adapt to untying and to assess the cost-effectiveness of contracting out the various services discussed in chapter 5.

**THE FUTURE
OF
THE CROWN SUPPLIERS**

Report by a Review Team

September 1985

Volume II
Annexes

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ANNEX A

ORGANISATIONS CONSULTED DURING THE REVIEW

Chief Executive, Property Services Agency
Chairman and one member, PSA Advisory Board
Her Majesty's Stationery Office
Cabinet Office Security Adviser
Central Unit on Purchasing
HM Treasury divisions responsible for Privatisation policy,
Public Purchasing, and Expenditure Control
The Crown Suppliers
DOE/PSA Departmental Whitley Council Trade Union Side
DOE/PSA Joint Consultative Committee Trade Union Side

Suppliers to the Crown Suppliers

Shell UK
Vickers Furniture
Dalescraft
Remploy
Mann Egerton
Metalliform
Project Furniture
Carpets International
Firth Carpets
Thorn EMI

Customers of the Crown Suppliers

British Rail
British Telecom
Ministry of Defence - Civil Accommodation
Ministry of Defence - Defence Accommodation Stores
Department of the Environment
Department of Health and Social Services
Inland Revenue
Lord Chancellor's Department
Manpower Services Commission
Property Services Agency, London Region

Other Purchasing Organisations

Abbey National Building Society
National Westminster Bank
Prudential Assurance

ANNEX B

DISCUSSIONS WITH SUPPLIERS

Ten suppliers were visited during the review. These are listed in Annex A.

2. One firm (Project) supplies own brand office furniture only. The other five furniture suppliers produce predominately to TCS' own designs. The two carpet manufacturers sell both trade and TCS specified carpet. Thorn EMI provide own brand electrical goods. Shell UK supply heating and motor fuel.

Dealings with TCS

3. Generally firms had a high opinion of the professional and technical expertise of TCS staff and considered that the best price possible was obtained on behalf of Government. (but see below)

4. There was evidence from a number of firms that TCS specifications and quality requirement were higher than usual in the trade. This was generally considered to be a good thing as it tended to raise quality levels but there were some cases where goods were over specified and, in the view of certain firms, government would obtain better value for money by buying a lower standard of item.

5. There was some criticism of TCS design although the reasons were fairly diverse ranging from the aesthetics of carpet design to weaknesses in the Whitley range. There was some feeling that where firms put forward suggestions for improvements they were either ignored or not implemented quickly enough.

6. The major criticism of TCS was that its procedures were too rigid and took too long. Comments from the majority of firms suggested that by insisting on a 'first past the post' tendering operation at regular intervals there was a danger that apparent short term advantages concealed the longer term benefits which could be gained from more flexible long term arrangements with suppliers.

Effect of Volume on Price

7. All of the suppliers indicated that there would be no significant change in the price paid by TCS if volumes were increased or decreased by 10-20%. A number stated that the prices charged were 'marginal' prices and that even significant volume increases would not enable prices to be reduced substantially; there was however some indication that increases, together with longer term guaranteed requirements, could lead to increased capital investment and ultimately lower prices.

Effect of Other Factors on Price

8. All suppliers indicated that prices charged included the minimum acceptable profit levels, but a number suggested ways in which the price could be reduced as a result of more efficient manufacture. This would require better long term planning of requirements, guarantees of production quantities and flexibility of lead times.

9. Provided guarantees of total purchase quantities could be given, some suppliers would be prepared to manufacture and hold stocks to meet peaks in demand although in this case reduced manufacturing costs would be offset by stock holding costs.

10. It was considered by most suppliers that these factors should be discussed during post tender negotiations so that manufacturers' and TCS' costs and risks can be balanced to provide the lowest overall cost and benefits for both suppliers and TCS (and therefore TCS' customers).

Privatisation

11. There was no support for privatisation as a goal in its own right. It was however considered that there could be advantages in terms of relaxation of rigid procurement procedures and in increased volume due to expansion into new markets.

12. There was concern that a privatised TCS would not pay bills as promptly as at present (which would lead to higher prices) and that any expansion would be at the expense of business already being undertaken direct with private sector customers at higher margins.

13. In particular, two firms indicated that they supplied TCS at prices significantly below those charged to other customers. They could justify this because of TCS' position within government and the fact that it gave a stable base of sales on which to build other business. In the event of privatisation they said that they would not be able to continue with this preferential treatment and one of the suppliers indicated that a price increase of some 25% could be expected.

Abolition

14. All but one of the suppliers would be prepared to deal with individual government departments direct, but indicated that prices would increase. In the case of those suppliers who currently manufacture TCS designed furniture they would wish to continue to do so after abolition.

15. The one exception was Remploy (who are a priority supplier). They would be able to deal with major departments only and would not wish to deal piecemeal with a large number of small customers.

Direct Call off

16. Reactions were similar to those to abolition; although bulk contract prices would be negotiated, experience had shown that individual departments would not all pay as promptly as TCS and this, together with an increase in administrative effort would lead eventually to higher prices.

Conclusion

17. The overall view of suppliers was in favour of maintaining the status quo, whilst seeking to improve administrative and contactural procedures in order to increase efficiency.

ANNEX C

DISCUSSIONS WITH CUSTOMERS

1. During the course of the review, the team visited eleven of TCS' customers. These are listed at Annex A.
2. Apart from PSA, six of the customers are PRS customers. the others represent a traditional repayment customer (MOD-DASO), a Non-Departmental Public Body (MSC), a Nationalised Industry (British Rail) and a body no longer in the public sector. (British Telecom).
3. British Rail are a new customer and as such were not able to comment on TCS' current performance. They did however tell us the advantages they expected to gain as a result of their decision to use TCS to supply office furniture and their comments are noted separately.

Dealing with TCS

4. The general impression was that customers are broadly satisfied with TCS and a number of customers indicated that alongside the new image promoted by TCS since its relaunch there had been improvements in the service.
5. Customers were particularly complimentary about the service provided on special projects ranging from product design and production planning to interior design and control of projects such as removals.
6. Despite the improvement already evident since the relaunch there is still a need for improvement in terms of delivery and information on deliveries, invoicing and increased flexibility in terms of a commercial approach to business (eg quantity discounts.) There was also a certain degree of criticism of the quality of the Whitley range (although other customers, including British Rail and British Telecom were very pleased with it).

Untying

7. Customers were aware of the proposal in the Cabinet Office report on Government purchasing that all departments should be untied from TCS by 1 April 1987. There was a general degree of uncertainty over how this would operate in practice.
8. All departments considered that they would have an obligation to test the market to ensure that they were getting value for money. However it was considered by several that there would be a continuing need for standards to be set centrally.

Most departments would buy centrally if it was decided not to use TCS and there would be comparatively little delegation to local management.

9. MOD-DASO are currently undertaking an exercise to compare the costs of buying themselves rather than through TCS. Although the results are not yet available, MOD are including in the costs the staff effort involved in specifying, contracting, ordering and bill paying. Other departments had not considered the likely staff implications but recognised that some extra staff would be required.

10. DOE had negotiated a range of contracts for protective clothing at considerably better prices than that offered by TCS. However, no allowance had been made for the staff costs involved in this exercise and it is unclear whether the items are to the same specification.

Privatisation

11. Again, there was some confusion about what privatisation would mean. Unless special rules were drawn up permitting some form of special relationship between TCS plc and departments it was assumed that the relationship between TCS plc and departments would be subject to Government rules on procurement and that competitive tendering would be required. On this basis Privatisation was generally considered to have the same effects as abolition from the customers' view point.

12. The only benefit to arise as a result of privatisation would be a more commercial approach. It was considered that any benefits arising from increased efficiency or from the ability to attract a wider range of customers would result in higher profits rather than reduced prices.

13. Departments felt they would no longer be able to rely on TCS for impartial advice on technical aspects. This was particularly important in the case of DASO as TCS staff are involved in MOD committees and on long term planning and DASO would probably be unable to involve TCS plc at as early a stage in their procedures.

Abolition

14. All departments recognised that without TCS (or with TCS in the private sector) they would need additional staff resources and some considered that they would need to 'reinvent' TCS either within their own department or by linking with a number of other departments to provide both technical and contractual skills; no estimates of the numbers involved had been made. There would also be a continuing need for central guidance on standards and such matters as Health and Safety.

15. The smaller departments in particular considered that they would have to pay more for goods and services if they let their own contacts.

Direct Call off contracts only

16. The reaction to this option was mixed. Generally departments would need extra staff but some considered that it would lead to lower prices. Departments would still wish to have access to services such as design and there would be a continuing need for standards.

British Rail

17. British Rail had decided to use TCS in place of its previous policy of designing its own furniture and contracting for manufacture. TCS was chosen because of its position in government which meant that it could be regarded as impartial and relied on to undertake functions such as quality assurance on British Rail's behalf.

18. British Rail satisfied themselves that TCS prices were reasonable by comparing them with prices currently paid for their own range of furniture and with prices of manufacturers' own brand ranges (less the discount they would expect to attract).

19. British Rail would not be happy with TCS acting as contracting agency only as this would result in more complicated procedures for local ordering officers. In the event of privatisation BR would not be able to continue with the present arrangements and would need to make other arrangements to ensure quality and value for money.

PROCUREMENT PRACTICES OF OTHER ORGANISATIONS

1. The review team selected three major private sector white collar organisations as the closest analogues to Central Government in order to determine whether there are any lessons to be learnt by government, and to assess both the likely approach of individual departments to dealing with their own procurement and the extent to which TCS might find a wider market in the private sector.

2. In addition to these organisations (which are listed in Annex A) the practices of British Rail and British Telecom were considered during wider discussions with them as customers of TCS; the PSA Advisory Board member was a former Director of Supply for Food (Europe) and his experience was drawn upon; the Head of the Central Unit on Purchasing was able to provide some information on Shell (UK) procurement; and details of Marks and Spencers practice were provided by the MPO Purchasing review team.

Procurement Practice

3. In all cases, the purchasing function was centralised with varying degrees of local delegation for small value items. Typically, 10-15 purchasing staff were employed buying £10m-15m of supplies per annum. The responsibility for specifying requirements and 'style' was generally held by works or architects departments.

4. There was little evidence of formal tendering procedures for standard requirements; contacts were normally let as a result of a survey of available trade pattern ranges, and by informal quotations and negotiation. There was a large measure of delegation of responsibility to individual buyers although some organisations had a 'buy British' policy and the bank bought only from manufacturers who were customers of the bank.

5. Most organisations were wary of relying on a single source of supply and therefore arranged dual sourcing wherever possible.

Accounting

6. None of the organisations consulted operated their procurement function on a "trading fund" basis. The overheads of the procurement divisions were invariably treated as a central overhead of the organisation, but approximately half passed on the cost of items to individual cost centres; one of these (National Westminster Bank) was now considering charging all

costs centrally and measuring individual cost centre managers' performance on their banking function only.

Opportunities for TCS

7. If TCS were free to trade within the private sector, there was no evidence that significant extra business could be obtained. All organisations would wish to retain central control of purchasing and although TCS may be able to win contracts for specific items, it is unlikely that any organisation would wish to use TCS as a factor for its full range of services. Most organisations have a policy of dealing with manufacturers direct, although TCS could be regarded as the manufacturer where its own design items are produced by sub contractors.

Effectiveness of TCS

8. No direct conclusions could be drawn from these discussions on the effectiveness of TCS compared with the private sector purchasers. One firm did provide TCS with its contract prices for trade pattern desks which, for a similar level of demand, was equivalent to TCS contract price.

9. TCS employs some 270 staff on the procurement function which places contracts to a value of some £340m. The remainder of TCS staff are employed on tasks either performed elsewhere in the organisations consulted or not undertaken at all. Given the difference in size it would appear that TCS is broadly in line with commercial organisation in terms of resources employed.

REVIEW OF THE CROWN SUPPLIERS

DEPARTMENT OF THE ENVIRONMENT / PROPERTY SERVICES AGENCY

TRADE UNION SIDE RESPONSE

11th July 1985

CPSA/CSU/FDA/IPCS/SCPS

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Appendix 'A' - Extract from
Efficiency Scrutiny of The Government Car Service
and the Inter-departmental Despatch Service.
Study Officer B.J. Barrow (The Crown Suppliers),
March 1985

Appendix 'B' - Sources Used

List of Abbreviations Used

BSI	British Standards Institute
DHSS	Department of Health and Social Security
FCO	Foreign and Commonwealth Office
FIRA	Furniture Industry Research Association
FRS	Fire Research Station
GCS	Government Car Service
IDS	Inter-departmental Despatch Service
MOD	Ministry of Defence
MPO	Management and Personnel Office
NHS	National Health Service
PSA	Property Services Agency
R&D	Research and Development
RAPRA	Rubber and Plastics Research Association
UK	United Kingdom

DEPARTMENT OF THE ENVIRONMENT / PROPERTY SERVICES AGENCY
TRADE UNION SIDE SUBMISSION ON THE CROWN SUPPLIERS REVIEW

INTRODUCTION

1. On 27 March 1985 the Secretary of State for the Environment announced in a Written Answer that a review was to take place into the future of The Crown Suppliers.
2. The Terms of Reference were as follows:

"to consider the future of The Crown Suppliers and, in particular, whether it would be in the public interest to transfer to the private sector the activities, or part thereof, at present undertaken by that organisation; if so, how this might be achieved during the life of the present Parliament; if not, to recommend whether any change of status within the public sector would assist The Crown Suppliers in meeting their objectives."
3. The general aim of The Crown Suppliers is to provide furniture, furnishings, equipment, materials, heating fuels and selected services. This range is related to the domestic and operational needs of government departments and other public sector bodies. They are mandated to provide these services more efficiently, economically and speedily than any other organisation.
4. The Crown Suppliers is also required to act in a way which will help industry improve its standards of design and operate more efficiently. They are further required to promote the exploitation of new materials and technologies.
5. Their customers, as stated, include Government Departments, Local Authorities and nationalised industries (eg British Rail) plus other public sector bodies such as hospitals, museums and galleries, and the Post Office.
6. Amongst their provision of goods, they supply not only furniture and furnishings but also floor coverings, domestic appliances, electrical mechanical and laboratory equipment. They supply building materials and a wide range of design and technical services, including the design and manufacture of 'one off' items of furniture and goods. The Crown Suppliers also provides a transport service including self drive hire vehicles and operates the GCS and the IDS.

7. The Crown Suppliers operates as a Trading Fund set up under the Government Trading Funds Act 1973 (SI 1976 No 508). As such they compete for business on a fully commercial basis and are self financing.

THE TRADE UNION SIDE APPROACH TO TERMS OF REFERENCE

8. The Trade Union Side approached the review by noting that the Terms of Reference fell into three distinct parts:

- One: whether all or parts of The Crown Suppliers should be transferred to the private sector;
- Two: if so, how?
- Three: if not, whether any change of status within the public sector should occur.

9. The Trade Union Side's initial submission is addressed to part one of the Terms of Reference. We reserve the right to comment separately on parts two and three if necessary.

10. In preparing our paper we have considered privatisation under the following headings:-

- a) Pricing Policy
- b) Technical and Design Standards
 - i Quality Assurance
 - ii Improved Standards
 - iii Specialist Services and Technical Skills
 - iv Design Team Involvement in PSA New Buildings and Uplift Programmes
- c) Procurement Policy
- d) The Crown Suppliers as an Efficient Organisation.

PRICING POLICY

11. The Crown Suppliers' pricing policy is directed towards producing maximum benefit for its customers through the provision of high quality services allied with competitive prices.
12. The Crown Suppliers is required by the Trading Funds Act 1973 to sell its goods at prices which ensure an adequate return on investment in accordance with Government accounting procedures.

13. The Crown Suppliers pricing policy is designed to ensure that charges are not just a reflection of purchase prices and resource costs. The accounting system incorporates a comparison of external prices for similar commodities.
14. This pricing policy has been pursued with considerable success. As the MPO Report on Government Purchasing notes in referring to The Crown Suppliers, "evidence suggests that the combination of prices charged and quality of services delivered is good" (para 9).
15. There is compelling evidence for this contention.
16. The Crown Suppliers' Annual Report 1983-84 notes that for the third year running The Crown Suppliers has been able to restrict its prices to less than those for comparable products from other sources (page 8). More specifically, statistics prepared by The Crown Suppliers using methods recommended by independent consultants indicate that while prices rose by 12.8% in outside industry between 1 April 1982 and 1 April 1984, the increase for comparable goods provided by The Crown Suppliers to its public sector customers over the same period was only 3.8% (The Crown Suppliers Action Document in response to the Recommendations of the MPO Report on Government Purchasing - para 9).
17. The value provided by specific Crown Suppliers' services - the Government Car Service and the Inter-departmental Despatch Service - is stressed in the Efficiency Scrutiny Report recently completed by Mr B.J. Barrow. Indeed, it is this value for money which leads Mr Barrow to come down firmly against the privatisation of these services (Section 9 of the Barrow Report is attached as Appendix 'A').
18. The Crown Suppliers' intention to maintain this pricing policy is made clear in the Corporate Plan 1984-88:

"We shall continue to monitor our prices against those charged by competitors in the private and public sectors to ensure that our customers continue to enjoy significant benefits from using our services

"Where it is considered that the products available on the open market are unsuitable or of inadequate value, designs will be produced by The Crown Suppliers themselves, the aim being to minimise the cost of each while maintaining or enhancing the other components of value" - (para 5.1.2).
19. The Trade Union Side is convinced that privatisation would undermine the present pricing policy. For a privatised Crown Suppliers, maximum return on financial assets would be the determining factor in price fixing - rather than the maximum benefit to customers.

20. In short, profit would govern The Crown Suppliers' pricing policy rather than meeting the needs of the customer.

TECHNICAL AND DESIGN STANDARDS

Quality Assurance

21. All products offered by The Crown Suppliers are required to conform to appropriate British, European and International Standards.

22. As the 1983-84 Annual Report notes, all products:

"must be technically sound, fit for their purpose and be robustly constructed for long life" - (page 11).

The emphasis placed by The Crown Suppliers on quality assurance ensures that only high standard goods are provided.

23. The Corporate Plan 1984-88 stresses that:

"Those tendering (for manufacturing contracts) are required to state the measures they are taking to ensure consistently high quality (and) are being advised that increasing emphasis will be placed on this factor when evaluating tenders" - (para 5.1.7[3]).

24. Not only does The Crown Suppliers seek to assure quality but to maintain that quality as is evidenced by their major involvement in the BSI. The expert Crown Suppliers workforce is able to respond to customers needs and maintain the product provided to the necessary standards.

25. The Trade Union Side is convinced that the quality of products and services provided by The Crown Suppliers would be threatened by privatisation.

26. Departure from the high standard of Crown Suppliers' goods and services would affect value for money in a general sense in that it would cost the taxpayer more and have serious implications for health and safety. For example, the flame retardency of goods provided by The Crown Suppliers is crucial to safety.

27. The Crown Suppliers has direct experience of the poor quality of privately provided services. Contracting out of The Crown Suppliers Commercial Fleet to private haulage firms in March 1982 led to a level of service below that considered acceptable. The contracts were terminated (Corporate Plan 1984-88 - para 2.5.1).

28. In the case of GCS and IDS, the Barrow Report stated that the quality of service required could not be provided by a private organisation. Barrow stressed the high level of security provided for passengers by the GCS, the fact that IDS dealt with secure documents and that such work should not be entrusted to a private organisation.

Improved Standards

29. The Crown Suppliers vigorously pursues the Government's stated objective of encouraging UK manufacturers and suppliers to improve the design and quality of their goods and services.
30. The following list of work in progress gives an indication of the wide ranging efforts being made in this direction:
- the development of fire retardent materials (eg mattresses and upholstery for use in confined residential premises), new extinguishers and fire fighting apparatus;
 - development work on laboratory furniture and equipment;
 - the application of standard office furniture to accommodate requirements of modern technology;
 - in conjunction with industry, MOD and the Post Office, the development of new national security equipment and locks;
 - studies in collaboration with MOD and DHSS into the design of carpets, floor coverings and furniture for MOD residential premises (resulting in the 'Benbow' range of fixed Barrack Room furniture) and NHS establishments;
 - the design and development of specialised furniture and wall cladding for Home Office psychiatric hospitals to Common Market standards which has led to its extension to the NHS Hospital Service and local government, eg Residential Care Centres.
31. Research work is carried out in association with such organisations as BSI, FRS and RAPRA.
32. The results of this research are used to the benefit of the customer, the community and UK Industry.
33. Examples of the benefits to UK Industry are shown by the following:
- a research project involving The Crown Suppliers, FIRA and a private company should break the monopoly currently held by two West German companies thus benefitting the whole UK furniture industry;
 - the research carried out with the FRS and RAPRA has led to the development of British Standards for domestic and contract

furniture and has produced fire specifications covering both accidental and deliberate ignition of mattresses and bedcovers.

34. The Trade Union Side is convinced that:

- work on improving design and technical standards would be threatened by privatisation;
- a privatised Crown Suppliers would judge the improvement of technical and design standards from a purely commercial viewpoint;
- the interests of the customer and community would become contingent on commerciality and many benefits would be lost.

35. Though there has now been a change of attitude in the private sector to fire retardent materials following The Crown Suppliers initial research, the private sector was originally unwilling to undertake this life saving research.

36. The private sector record emphasises the need for public sector organisations committed to R&D. Between 1967 and 1975 the UK was the only major country to show a clear decline in privately funded R&D. The slump in demand, uncertainty about whether an economic recovery was on the way coupled with industry's large excess capacity have led to a reluctance on the part of industry to invest in new plant and machinery. By 1981 there was a fall in net investment of £1,410m and a further fall of £1,830m in 1982.

Specialist Services and Technical Skills

37. The Crown Suppliers provides a range of specialist services designed to meet customers' needs.

38. The Crown Suppliers provides a full interior design service. The Museum and Palaces Group designs equipment and furnishes exhibition areas in national museums and galleries. The Group supplies and maintains furnishing schemes for State Apartments, historic interiors and plays a major role in the equipping of many state ceremonial occasions. The Crown Suppliers provide a comprehensive design service for all FCO accommodation abroad to maintain the high standards required to promote UK goods overseas.

39. The provision of these specialised services necessitates the considerable technical expertise of Crown Suppliers staff to meet the requirements of the customer during the initial design and implementation stages, and for subsequent back-up and maintenance.

Design Team Involvement in PSA New Buildings and Uplift Programmes

40. As a full member of the PSA Design Teams engaged on New Buildings and Uplift Programmes, The Crown Suppliers provides the interior design and furnishing expertise covering the planning and execution stages of the project. An example of The Crown Suppliers involvement in this work is the national Crown Courts programme.
41. The Trade Union Side is convinced that:
- judged from a purely commercial perspective, it would not be in the interests of The Crown Suppliers to perform these specialist services;
 - such services would have to be performed by client departments without the technical expertise presently available.
42. As a consequence, quality and services would suffer.

PROCUREMENT POLICIES

43. Treasury Guidelines on Public Purchasing do not specify a policy of 'buying British' regardless. The Crown Suppliers aim of furthering the long term interests of UK industry results in 95% of orders being placed with UK firms. This is achieved without prejudicing its objectives of obtaining value for money for its customers and of improving the design and quality of UK products.
44. The furniture trade is one area in which The Crown Suppliers provides a lead and a stimulus to UK industry. One example is that The Crown Suppliers specifications are designed to encourage UK firms to produce goods for markets other than the public sector. Another example is the planned programme of competitions to obtain the most cost effective results whilst at the same time improving overall design standards within the industry, encouraging both established and emergent designers. Our competitors view of UK manufacturers' design and quality standards is apparent from the furniture industry's balance of trade figures. UK imports increased in 1984 by 20% whilst exports rose by only 9%, resulting in an overall deficit of £310m.
45. Not only does The Crown Suppliers stimulate industry but it actively provides support to three specific areas:-
- Small Businesses: as the 1983-84 Annual Report notes, about a third of Crown Suppliers' business is placed with companies employing 100 staff or less. (It is interesting to note that the official definition of a 'small business' is given by the "Bolton Committee" as one employing 200 people or less);

— Development Areas: The Crown Suppliers participates fully in the Government's contract preference scheme, and contracts are regularly awarded to firms in Government Designated Development Areas;

— Priority Suppliers/Sheltered Workshops: it is Government policy that central government procurement agencies should award part of public sector work to designated priority suppliers, such as charities and sheltered workshops. The Crown Suppliers actively supports this initiative. This is shown by the fact that over 17 contracts worth some £6.25m were placed with suppliers/workshops. Amongst these suppliers were 'REMPLOY' and the 'National Association of Institutes for the Blind';

— The Crown Suppliers are recognised as paying bills promptly, helping small businesses with their cash flow.

46. Centralised purchasing is welcomed by manufacturers and suppliers. In offering period contracts, some as long as 5 years, The Crown Suppliers are able to provide industry with the confidence it needs to invest in new plant and machinery helping to provide stability of employment.

47. The Trade Union Side is convinced that:

— the effects of privatisation would be contrary to the Government's declared objective of encouraging small businesses;

— jeopardise support for disabled workshops;

— reduce UK employment opportunities;

— influence the UK's balance of payments adversely.

48. By sustaining Government purchasing agencies (such as The Crown Suppliers) as effective forces in the market place, maximum benefit is obtained for the customer, the Exchequer and ultimately, the taxpayer:

— centralised impartial purchasing provides benefits in terms of lower unit costs;

— provides consistency and quality of supply;

— detailed knowledge of customers needs ensures that specifications can be met;

— integrity and impartiality of the procurement function is assured within the public sector.

THE CROWN SUPPLIERS AS AN EFFICIENT ORGANISATION

49. The Crown Suppliers is an efficient organisation; it has achieved a greater return on net assets than required in every year since the Trading Fund was set up in 1976. The figures for 1983-84 (the last available) show a surplus over objective of £5.4m (Corporate Plan 1984-88 - para 2.3.1).
50. This does not mean that the organisation is complacent. The Crown Suppliers Corporate Plan identifies further improvements within the organisation which are being implemented. The introduction of an information technology strategy is an example of the commitment to improved efficiency.
51. For The Crown Suppliers to function effectively it has to make the best use of its prime asset - the expertise of its staff. This can only be achieved if a balanced career structure, embracing the diverse activities undertaken by The Crown Suppliers, continues to be pursued.
52. The Crown Suppliers has monitored its prices since the Trading Fund was established in 1976. The results show that Crown Suppliers' customers consistently paid less than they would have had to pay elsewhere. Before the inception of the Trading Fund, a 10 year programme was drawn up under which The Crown Suppliers prices for approximately 100 representative items would be compared with those of other suppliers.
53. The Crown Suppliers' prices have been found to be lower in 84% of the comparisons made. During 1983-84 the Furniture Industry Research Association conducted comparisons. In each case The Crown Suppliers price was lower than that of the comparators (Annual Report and Accounts 1983-84 - page 9).
54. The Secretary of State for the Environment, Patrick Jenkin, when launching The Crown Suppliers on 18 January 1984, stated:-

"This (The Crown Suppliers) trading success does not involve any increase in total public spending. It represents an improved market share, reflecting a more efficient and economical way of meeting existing demand."
55. The Trade Union Side is convinced this is still the case.

SUMMARY

56. It is the Government's policy to transfer work out of government departments whenever this is "commensurate with sound management

and good value for money for the taxpayer" (see the Prime Minister's statement, 13 May 1980, Official Report Cols 1052-53).

57. No case exists for the privatisation of The Crown Suppliers using the above criteria.

58. The Trade Union Side is convinced that The Crown Suppliers does provide "sound management and good value for money" :-

- It provides maximum benefit to its customers through the provision of high quality services allied to competitive prices (the Barrow Report in arguing against the privatisation of the GCS and IDS confirmed that this was certainly the case);
(paras 11 & 14)
- Products are provided to and maintained at British, European and International Standards and The Crown Suppliers is actively involved in BSI;
(paras 21 & 24)
- The Crown Suppliers pursues vigorously the objective of encouraging UK manufacturers and suppliers to improve the design and quality of their goods and services;
(paras 29 & 30)
- The Crown Suppliers is in the forefront of research thus improving the quality and safety of goods and services benefitting the customer, the community and industry;
(paras 31 & 32)
- The Crown Suppliers provides essential specialist services in the form of advice, design and equipment to meet customers diverse and particular needs and has a workforce well able to respond to this;
(paras 37-39)
- The Crown Suppliers provides a full interior design and furnishing service as part of the PSA Design Teams;
(para 40)
- It encourages UK Industry by placing 95% of its orders with UK firms;
(para 43)
- The Crown Suppliers specifications are designed to encourage UK firms to produce goods for markets other than the public sector;
(para 44)
- It encourages the development of small businesses by placing one third of its orders with companies employing 100 people or less;
(para 45)
- In keeping with the Government's procurement policy, The Crown Suppliers has placed work with priority suppliers (eg sheltered workshops);
(para 45)

- The Crown Suppliers regularly awards contracts to firms in Government Designated Development Areas; (para 45)
- With centralised purchasing giving value for money and by offering period contracts, The Crown Suppliers is able to provide industry with the confidence it needs to invest in new plant and machinery thus helping to provide stability of employment; (para 46)
- The Crown Suppliers by the issue of its Corporate Plan successfully addresses itself to improving its own efficiency; (para 50)
- The Crown Suppliers trading success does not involve any increase in total public spending; (para 54).

59. The Trade Union Side is convinced that if maximum returns on financial assets became the sole factor determining Crown Suppliers' policies and objectives, the following adverse effects would be generated:-

- prices would no longer be primarily designed to maximise customer benefit and would be increased significantly; (paras 19 & 20)
- lack of expertise would reduce technical and design standards; (para 34)
- lack of economic certainty in the private sector would prejudice vital R&D work; (para 36)
- increased prices would be charged for the specialised services of The Crown Suppliers; (para 41)
- support for small firms, development areas and sheltered workshops would be withdrawn; (para 45)
- lack of procurement expertise in client departments would affect prices, quality and service; (para 48)
- the integrity of the procurement function would be compromised; (para 48).

CONCLUSION

60. The Trade Union Side is convinced that no benefit to the taxpayer would accrue from privatisation of The Crown Suppliers.
61. We oppose, therefore, privatisation of any part of The Crown Suppliers.

Extract from the Efficiency Scrutiny
of The Government Car Service and the
Inter-departmental Despatch Service:

Section 9:

PRIVATISATION

- 9.1 I considered whether it would be beneficial to privatise all or part of the GCS and IDS primarily in value for money terms but I also took account of the security requirements which I have mentioned in Chapter 8. Both these factors argue against privatisation.

GCS

- 9.2 The comparisons made on long term chauffeur hire indicate that commercial analogues (eg Godfrey Davis) are significantly more expensive than GCS First Call cars. We found no evidence to suggest that privatisation would increase value for money.
- 9.3 From the security point of view it would not acceptable for the majority of First Call customers to have either their allocated driver or car provided by a private contractor. (The Pool is different because of the random nature of hirings).
- 9.4 Our brief survey of how transport is provided for Government Ministers in five EEC countries and the USA (Appendix V) showed that in every case this service is operated by the Governments concerned.
- 9.5 Although GCS Pool rates appear to be higher than private hire companies rates, the recommendation in paragraph 5.7 for achieving maximum utilisation of GCS vehicles and drivers and hiring from outside to resource the peaks should enable the Pool to operate at an hourly price that is cheaper than can be obtained outside.
- 9.6 I have recommended the Despatch Service being transferred to the IDS.

IDS

- 9.7 The IDS appears to be more expensive than commercial carriers but this study has demonstrated scope for the IDS to be run very much more economically, to reduce its charges and to increase its business. I have recommended that the restructuring of the IDS (para 6.10) is pursued first to avoid ending up with a privatised version of the current service which would actually be more expensive than a restructured IDS.
- 9.8 As explained in para 8.3 the security rules governing the IDS are under review and might be relaxed but at present would not permit privatisation.

Study Officer: B.J. Barrow (TCS)
March 1985

Sources Used

Department of Environment, Report by Working Party on
Accountable Management for Supplies Division

Efficiency Scrutiny of the Government Car Service and
Inter-Departmental Despatch Service - B.J. Barrow, March 1985

MPO Report on Government Purchasing, December 1984

Priority Suppliers Directory, Summer 1984

The Crown Suppliers Action Document in Response to the
MPO Report on Government Purchasing, April 1985

The Crown Suppliers Annual Report and Accounts, 1983-84

The Crown Suppliers Corporate Plan 1984-88, November 1984

Trading Funds Act 1973 (SI 1976 No 508)

Treasury Guidelines on Public Purchasing

THE CROWN SUPPLIERS ACTIVITIES AND ORGANISATION

1. The Crown Suppliers provides a wide range of goods and services to central government departments, including the Ministry of Defence, and a number of other customers within the public sector. It also continues to supply British Telecom.
2. The Crown suppliers operates as a Trading Fund and sells goods and services to its customers at prices which recover the full costs of supply including current cost adjustments (to take account of the effects of inflation) and the financial objective of 5% of net assets employed, averaged over an agreed 3 year period.
3. The Crown Suppliers does not receive any voted funds; customers pay for the goods and services they require and TCS meets its day to day operating costs out of this revenue. Subject to PES restrictions, TCS may borrow funds from the National Loans Funds when required; TCS current PES allocation is zero.

TRADING

4. Table 1 shows a summary of 1984/85 trading results analysed by the various categories of goods and services provided. Sales represent the price (excluding VAT) of those goods and services, Cost of Sales is the direct cost of purchase of goods and services for resale from the private sector and Operating Costs are the overheads of TCS directly attributable to the various functions plus the General Administrative overheads of the organisation. Each of the functions is expected to make a contribution towards those overheads and the table shows a shortfall against the financial objective of £2370000 (see Annex G; Summary of results 1981-85). The range of goods and services supplied in each category are described below .
5. Wooden Furniture includes predominately the main ranges of office desking, laboratory benching, MOD 'Benbow' furniture and other domestic furniture but also museum showcases and a range of items designed primarily for British Telecom but available to other customers.
6. Metal Furniture includes office filing cabinets and cupboards, office chairs, security equipment and also shelving and racking and mechanical filing systems.
7. Furniture and Floorcoverings comprises mainly carpets, other floorcoverings, curtains and upholstery.

8. Domestic Equipment includes bedding and mattresses, cleaning materials, tableware, kitchenware and hardware and protective clothing and uniforms.

9. Electrical and Mechanical Equipment includes industrial catering equipment, domestic equipment (cooker, refridgerators etc), diesel generators, machine tools (lathes etc), firefighting equipment and various other items of electrical and mechanical plant.

10. Building Materials - a range of general building materials is supplied.

11. Vehicles. Historically few vehicles have been purchased other than for The Crown Suppliers' Transport Services and Vehicle Hire fleets (not included in Vehicle Sales). Vehicles are purchased predominately through contracts arranged by MOD and in future TCS will be ordering vehicles on behalf of other customers previously supplied by MOD direct.

12. Heating Fuel is predominately fuel oil, but also includes a coal, coke and other fuels.

13. Agency Storage and Distribution The storage of customers goods and equipment on an agency basis; predominately medical issues and civil defence stores but also includes items such as conference stocks held on behalf of PSA.

14. Transport Services comprises the First Call car service which provides an allocated car and driver service to ministers and certain senior government officials; a taxi service which provides chauffeur driven cars on an ad hoc basis to other authorised users including government officials (and also provides a back up for the first call service); the Interdepartmental Despatch Services which provides a same day delivery service between government offices in central London and to certain locations in the provinces and a despatch service transporting important papers (such as red boxes).

15. Vehicle hire A range of self drive vehicles are hired to customers at a rate inclusive of fuel and maintenance.

16. Vehicle Repair and Maintenance The workshops prime function is the maintenance of TCS own vehicles (not included in sales) but a repair and maintenance service for customers own vehicles is also provided.

17. Customer Service UK comprises a range of services provided to customers in the United Kingdom and MOD Germany. The services include furniture renovation, floorlaying, project storage, removals and portorage; supply of low value (under £10000) goods to meet special customer requirements; and special product design, interior design and supervision of contractors.

18. Customer Service Overseas provides a complete furnishing service for the PCO estate and supply of goods and services to other customers overseas including MOD and foreign and Commonwealth governments; a packing and freight service for the shipping of goods overseas is also provided.

19. Secondhand furniture. TCS operates a disposals service for customers, selling surplus furniture and equipment at auction.

SALES

20. Table 2 analyses sales by main customer groups; of the total Post Office/British Telecom sales some £28m is sold to British Telecom and sales to 'others' include, inter alia, £28m to central government and £7m to non-departmental public bodies.

21. In addition to sales direct to customers, a range of trade pattern goods is available on TCS contracts for customers to purchase direct from suppliers. The commission earned on these sales is also shown on Table 2, and Table 3 shows the total value of these purchases analysed to major customers.

OPERATING COSTS

22. The Crown Suppliers does not consist of a number of discrete operations, but is an integrated business where each division of the organisation relies to some extent on the others. This affords maximum flexibility and minimises overhead costs.

23. The costs of the various divisions are shown on Table 4 analysed by type of expense. Accommodation costs are collected centrally initially but are allocated to divisions by building and usage.

24. The costs of each division are attributed to particular categories of goods and services wherever possible but those functions which relate to the general running of the organisation are treated as General Administrative Overheads. The attribution of overheads is shown in Table 5. The functions and responsibilities of each division are detailed below.

25. Procurement are responsible for the placing and maintenance of all contracts for goods or services with a total individual annual value in excess of £10000. This responsibility covers the preparation of detailed tender specifications, selection of suppliers for invitation to tender, technical and financial evaluation of tenders, contact letting and negotiation of periodic price reviews.

Procurement also determines factors such as whether an item should be purchased from more than a single source, whether (and

at what level) goods should be provided to customers through T stores or by direct delivery from suppliers and whether the item is suitable for supply by Direct Call Off.

Where goods are held in stock, procurement determines the appropriate stock levels; order goods for stock replenishment and monitor demand and stock levels to determine whether the parameters for supply from store should be amended from time to time, to ensure continuity of supply and service levels and to maintain the correct stock levels.

Procurement division is organised into a number of sections each of which is responsible for a specific range of goods and services.

26. Stores are responsible for the day to day management of the stores operation including the distribution of goods (which is contracted out). There are ten stores of which two (at Milton and Burtonwood) are predominately for the storage of goods for resale. In addition to this function stores undertake Agency Storage of customers goods (see para 13) on a long term basis , the short term storage of customers goods (Project Stores; see para 17) when surplus space is available and Clearing Stores (see para 19) for the collection of goods prior to disposal.

27. Sales are responsible for all contact with customers on specific customer requirements although for specialised services such as transport and fuel they would refer the customer to the appropriate division. They provide technical advice to the customer on the suitability of goods and services for the customers requirement, cost estimates and arrange for the supply of goods and services, either by call off from centrally negotiated contracts or by arranging contracts for lower value, special requirements locally.

In addition to goods and services purchased on behalf of customers from the private sector, the division provides design and supervisory services on a fee basis and operates two workshops for the renovation of furniture, one dedicated to the Houses of Parliament and a small workshop in Cardiff for the day to day handling of furniture and furnishings and repairs, and to carry out minor renovation work.

The sales organisation comprises the regional sales organisation, which is largely co-located with PSA regional offices and is responsible for all liaison with individual accomodation officers and customers within geographic areas; and the Special Services Group which provides services to Museums, Palaces and official residences including 10 Downing Street and the Houses of Parliament, the FCO and MOD residences abroad, and overseas governments.

28. Marketing are responsible for liaison with customers at a headquarters level to determine likely levels of demand for TCS main ranges and to identify opportunities for rationalisation of demand and special requirements. They decide whether demand can be met from existing ranges or available trade pattern ranges and if not whether a new item should be designed to extend the Crown Suppliers range. This information is passed to the Design Group or Procurement as appropriate.

Marketing are also responsible for the production of all publicity material including the Catalogue, price lists and brochures for individual product ranges and for mounting special publicity campaigns.

29. Design Services consists of three groups. Product Design produces designs for new ranges of standard items (in accordance with briefs provided by marketing); prepares and amends contract drawings and supervises the work of design sub contractors; Interior Design prepare standard design schemes for major programmes such as Law Courts and Job Centres and the group also includes Quality Assurance responsible for ensuring that suppliers operate suitable quality assurance procedures. In addition, the Design Director has a functional responsibility for all design activities in the regional sales organisation.

30. Vehicle Workshops (four major and four sub workshops) are operated to maintain TCS' vehicles and to offer a maintenance service on customers own vehicles. In addition to the day to day maintenance of vehicles in the immediate vicinity of the workshops they also prepare new vehicles for service (including minor modifications) and arrange for disposal of old or redundant vehicles; TCS vehicles may be brought from a wide area for periodic checks on general condition and mechanical soundness.

31. The Transport division manages TCS' hire fleet ensuring that vehicles are maintained and replaced when necessary. It also operates the Government Car Service and Interdepartmental despatch service.

32. Support Services. The various operational divisions are supported by the Finance, Computing and Establishments divisions who provide Accounting and Financial advice and operations including bill paying and customer invoicing; liaison with PSA Com on new and existing computer services (computing services themselves being provided on an agency basis by PSA) and staff management and common services (but see 33 below).

33. Central Costs and Financial Charges includes charges made by PSA for staff management and common services provided by PSA, a range of other charges from PSA for functions such as the Chief Executive's office and ministerial private offices and the financial costs of the trading fund including the financial objective, interest received and discounts allowed and received.

THE CROWN SUPPLIERS
ANALYSIS OF SALES AND COSTS 1984/85

SUMMARY £000's

	SALES	COST OF SALES	OPERATING COSTS	CONTRIBUTION [PROFIT/LOSS]
WOODEN FURNITURE	29,693	24,675	2,676	2,342
METAL FURNITURE	27,782	23,276	2,789	1,717
FURNITURE & FLOORCOVERINGS	18,912	17,083	689	1,140
DOMESTIC EQUIPMENT	14,991	12,691	1,205	1,095
ELECTRICAL & MECHANICAL	19,783	17,787	727	1,306
BUILDING MATERIALS & SUPPLIES	2,946	2,570	61	315
VEHICLES	151	148	10	(7)
	114,295	98,230	8,157	7,908
HEATING FUEL	62,181	61,312	495	374
AGENCY STORAGE & DISTRIBUTION	2,125	-	1,874	251
TRANSPORT SERVICES	6,046	44	5,817	185
VEHICLE HIRE	8,039	257	6,633	1,149
VEHICLE REPAIR & MAINTENANCE	1,746	494	1,403	(151)
	17,956	795	15,727	1,434
CUSTOMER SERVICE UK	39,286	31,334	5,401	2,551
CUSTOMER SERVICES O/S	6,009	3,474	1,629	906
SECONDHAND FURNITURE	588	49	579	(40)
	45,883	34,857	7,609	3,417
TOTALS	240,315	195,194	31,988	13,133
GENERAL ADMINISTRATIVE EXPENSES			15,503	(15,503)
	240,315	195,194	47,491	(2,370)

ANALYSIS OF SALES BY CUSTOMER 1984/85

E'000's

	PSA-PRS*	MOO	PO/BT	HOEP	O'NEAS	DIRECT CALL OFF COMMISSION	TOTAL
<u>COMMODITIES</u>							
WOODEN FURNITURE	15,863	5,325	5,105	29	3,178	193	29,693
METAL FURNITURE AND OFFICE EQUIPMENTS	14,242	5,875	5,347	20	2,065	232	27,782
FURNISHINGS AND FLOORCOVERINGS	11,394	3,445	1,510	9	2,242	312	18,912
DOMESTIC EQUIPMENT	1,914	9,039	1,752	16	2,075	195	14,991
ELECTRICAL & MECHANICAL	12,231	6,435	103	3	393	655	19,820
BUILDING MATERIALS AND SUPPLIES	2,223	368	33	1	185	136	2,946
VEHICLES	151						151
	<u>58,018</u>	<u>30,487</u>	<u>13,850</u>	<u>78</u>	<u>10,139</u>	<u>1,721</u>	<u>114,295</u>
<u>FUEL</u>							
HEATING FUEL	19,410	5,123	15,672	705	21,225	46	62,181
<u>OPERATIONAL SERVICES</u>							
AGENCY STORAGE AND DISTRIBUTION	26		20	1,810	269		2,125
TRANSPORT SERVICES	5,785		2		259		6,046
VEHICLE HIRE	6,934	1	2	147	955		8,039
VEHICLE REPAIR AND MAINTENANCE	524	94		158	970		1,746
	<u>13,269</u>	<u>95</u>	<u>24</u>	<u>2,115</u>	<u>2,453</u>		<u>17,956</u>
<u>CUSTOMER SERVICES</u>							
CUSTOMER SERVICE- UK	26,553	5,534	4,353	112	2,788	(54)	39,285
CUSTOMER SERVICE - O'NEAS	1,488	39	1		4,481		6,009
SECONDHAND FURNITURE AND EQUIPMENT	507	8	25		48		588
	<u>28,548</u>	<u>5,581</u>	<u>4,379</u>	<u>112</u>	<u>7,317</u>	<u>(54)</u>	<u>45,883</u>
<u>TOTAL ALL ACCOUNTS</u>	<u>119,245</u>	<u>41,286</u>	<u>33,925</u>	<u>3,010</u>	<u>41,134</u>	<u>1,715</u>	<u>240,315</u>

*PRS Customers previously supplied with goods and services through PSA on an allied service basis now supplied direct under Property Repayment Services

DIRECT CALL OFF SALES 1984-85
£'000

	Central Government	Hospitals	Local Authorities	Universities	Others	Total	COMMISSION IN TOTAL
Wooden Furniture	6	5262	1119	435	25	6847	193
Metal Furniture	2	3415	156	63	526	4162	232
Furnishings & Floor-coverings	4760	6598	1897	524	582	14361	312
Domestic Equipment	263	5443	682	84	560	7032	195
Electrical & Mechanical Equipment	18417	4579	1744	398	1697	26835	655
Building Material	5839	3416	795	250	2791	13091	136
	29287	28713	6393	1754	6181	72328	1723
Fuel	7962	33869	37911	13085	15337	108164	46
	37249	62582	44304	14839	21518	180492	1769

ANALYSIS OF OPERATING COSTS BY TOP AND DIVISION 1994/95

(\$000's)

	DMO	STAFF NON-DMO	ACCOMMODATION	RENT/RATES SERVICES	HOUSE- HOLDING SERVICES	SERVICES BY OGD	DEPRECIATION	CURRENT COST	FINANCIAL OBJECTIVE	OTHERS	TOTAL
RECRUITMENT		3175	600		90	302				(257)	3710
STAFF	1357	703	2576		1805		39			597	7077
SALES	398	7434	1136		920					125	10013
MARKETING		627	159		265					5	1056
DESIGN	17	542	125		43						727
V. MEMBERS	1369	277	687		705		50				2864
TRANSPORT	2715	588	1164		3079		2621		474	667	11308
FINANCE/COMPUTERS OFFICE SERVICES		2766	648		1106	1705	5				6230
GENERAL COSTS AND FINANCIAL CHARGES			87		(75)	2808		1541	1616	(1617)	4206
ACCOMMODATION			(6782)	5906			279		597		-
TOTAL	21948		-	5906	7934	4815	2994	1541	2687	(354)	47491

ANALYSIS OF OPERATING COSTS BY DIVISION AND TRADING AREA 1984/85

000's

	PROCESSEMENT	STORES	SALES	MARKETING	DESIGN	VEHICLE WORKSHOPS	TRANSPORT	FINANCE COMPUTERS OFFICE SERVICES	GENERAL COSTS/FINANCE CHARGES	TOTAL
WOODEN FURNITURE	700	1540	60		134				342	2676
METAL FURNITURE	632	1514			101				542	2789
FURNISHING AND FLOORCOVERINGS	251	480			11				(53)	689
DOMESTIC EQUIPMENT	638	391			145				31	1205
ELECTRICAL AND MECHANICAL	752	26							(51)	727
BUILDING MATERIALS	64	1			5				(9)	61
VEHICLES							10			10
HEATING FUEL	495									495
AGENCY STORAGE		1874								1874
TRANSPORT SERVICES	2					139	5476			5617
VEHICLE HIRE						1134	5499			6633
VEHICLE REPAIR AND MAINTENANCE						1410	(30)		23	1403
CUSTOMER SERVICE UK	156	470	4809		60				(94)	5601
CUSTOMER SERVICE O/S	4	20	1626						(11)	1629
OUTSOURCED FURNITURE		579								579
										31983
GENERAL ADMINISTRATIVE EXPENSES	16	192	3518	1056	771	(19)	353	6230	3886	15503
	3710	7077	10013	1056	777	1864	11308	6230	4506	47491

ANNEX G

THE CROWN SUPPLIERS - SUMMARY OF TRADING RESULTS 1981-1985

	31.3.81	31.3.82	31.3.83	31.3.84	31.3.85
RESOURCES					
Staff in post:	3007	2134	1981	1980	1933
	£m	£m	£m	£m	£m
Assets Employed:					
Fixed assets	19.0	17.3	16.5	13.5	32.1
Stocks	12.7	7.8	8.9	8.0	9.4
Other current Assets	4.2	13.2	21.1	28.1	16.4
	---	---	---	---	---
	35/9	38.3	46.5	49.6	57.9
	---	---	---	---	---
	1981/82	1982/83	1983/84	1984/85	
TRADING RESULTS					
	£m	£m	£m	£m	
Sales	205.1	221.0	228.3	240.3	
Costs:					
Goods and Services for resale	154.9	170.8	177.3	195.2	
Payroll	24.8	20.2	21.1	21.9	
Other Costs	21.1	18.4	22.0	22.9	
Current Cost Profit before Interest	4.3	11.6	7.9	0.3	
Financial Objective	1.9	2.1	2.4	2.7	
Over/(Under) achievement of Objective	2.4	9.5	5.5	(2.4)	

THE CROWN SUPPLIERS WHITLEY RANGE OF OFF ICE FURNITURE VERSUS FURNITURE SUPPLIED BY MANUFACTURERS/DISTRIBUTORS -
SUMMARY OF COMPARATIVE COSTS PREPARED BY BRITISH TELECOM, MARCH 1985

	THE CROWN SUPPLIERS PRICE AFTER DEDUCTING 2% DISCOUNT		SUPPLIER A ASSUMING MAXIMUM DISCOUNT £	SUPPLIER B ASSUMING MAXIMUM DISCOUNT £	SUPPLIER C ASSUMING MAXIMUM DISCOUNT £	SUPPLIER D ASSUMING MAXIMUM DISCOUNT £
	BEIGE/BROWN £	OAK/CHROME £				
Single Pedestal (Suspended) Desk	<u>114.53</u>	162.18*	192.77	229.65	216.45	205.00
Single Pedestal (2-Drawer Mobile) Desk	<u>135.59</u>	179.73*	221.16	271.40	221.00	239.00
Double Pedestal (Suspended) Desk	<u>160.89</u>	237.10*	258.82	296.92	312.00	311.00
Double Pedestal (2-Drawer Mobile) Desk	<u>207.41</u>	251.51*	324.47	384.43	343.20	372.00
Adjustable Chair (Gas Operated)	<u>50.86</u>	74.95	91.72	120.39	58.50*	67.00
4-Drawer Metal Filing Cabinet or Equivalent	<u>59.31</u>	N/A	N/A	163.71*	N/A	196.00
Committee Table	<u>83.13</u>	125.13	131.48	192.52	153.40	115.00*
Typist Table	<u>57.40</u>	N/A	105.05*	140.94	105.95	140.00

NOTES:

- 1 All prices relate to March 1985 list prices and are exclusive of VAT. The Crown Suppliers prices are inclusive of all 'on-costs'.
- 2 The maximum discounts quoted for the manufacturers/distributors would in most cases apply only to orders for large quantities. The Crown Suppliers have indicated that they would be prepared to offer further discounts where large quantities are ordered.
- 3 Lowest price for each item is underlined. Second lowest price is asterisked.

CABINET OFFICE REVIEW TEAM - STUDY OF THE CROWN SUPPLIERS

PAPER ON WORKSHOP COSTS BY THE CROWN SUPPLIERS TRANSPORT BRANCH

This paper sets out the position of The Vehicle Workshops within the overall Transport Operation of The Crown Suppliers and highlights the limitations of the alternative trade facilities. Problems of getting work done by the trade, security and specialist work are dealt with as well as comparisons of rates and job costs. The workshops have been retained in The Crown Suppliers because they not only provide unique support services and a training ground for future non-industrial engineering staff, and a basis for realistic assessment of the trade but also because they are truly cost effective in themselves. This is evident from the amount of work which they do for customers other than the in-house fleets (See Appendix A for list of Workshop Customers). Management recognises that more can be done and action is in hand to further reduce costs in London by transferring the Peckham Workshop to a new purpose built site, and at other locations by reducing the accommodation costs. These initiatives are on-going.

Workshops which as indicated above exist in their own right also provide services as an integral part of The Crown Suppliers transport operations. These include the allocated , GCS and IDS fleets. The allocated fleet is widely dispersed throughout the UK on hire at competitive rates to a wide range of customers. These customers are free to obtain their services elsewhere but choose to come to The Crown Suppliers because of the nature of the service which we provide. The position in London with the GCS and IDS fleets must be looked at as a special case. Outside London all but a few ^{allocated Fleet} customers such as those at dockyards and some USAAF basis hold their vehicles in small numbers at any one location (typically 4-10 units).

No contractor exists who can give a countrywide service on maintenance and our experience in trying to let contracts for back-up services in certain areas shows how difficult it is to find contractors who can do the work economically and consistently on a proper contractual basis.

COST COMPARISONS

Comparisons usually suffer from the inherent difficulty in isolating and defining pieces of work and arriving at a true cost. In the motor industry this is in some ways less difficult because both hourly rates and manufacturers job times for many repetitive jobs are available. What is more difficult to deal with is the verification that the work done was needed or in some cases that the work paid for was done. The Office of Fair Trading Report of September 1983 on Car Servicing Repairs illustrates this in some depth (Appendix B).

The hourly rates charged by garages in those areas where we need support are listed at Appendix C and these are compared with rates charged at our nearest workshop. No selectivity was used in obtaining these rates other than to some extent we concentrate on Main Dealers which we have to use wherever available to protect our warranty position on claims. Appendices D and E show comparisons of jobs which have been done on the trade with the cost of doing the same job in-house, and jobs which have been done in-house with the assessed cost of doing the same work on the trade, using the manufacturers times and typical local trade rates. On both rates and job costs our competitive position is clear. To complete the picture an illustration of whole life vehicle cost, comparing in-house with the trade would be decisive. This is not however available at the present time because of systems limitations but if need be a special survey could and perhaps should be mounted.

DOWN TIME

Planning of work to minimise time off the road is again difficult to cost, but a very important element. Appendix C shows the lead time for booking services at trade garages on the basis of information they have currently supplied. It is true that trade garages may be more willing to fit vehicles in quickly if the work is sizeable but here the availability, or rather the non-availability, of spares often prevents a speedy completion and return to the road. Work schedules at our Workshops can be re-organised quickly to meet particular needs and of course spares are held for popular lines.

SPARES

The value for money on spares incorporated in repairs on vehicles compares favourably with the trade - which for small annual values of work tends to charge out spares at retail prices which include a very hefty mark up. The in-house spares are charged at the bought in price with a surcharge to cover stocking costs etc and this produces a benefit to the customer. Spares and materials account for about 30% of the cost of Repair and Maintenance so such savings are worthwhile.

FACILITIES IN THE NORTH

We closed our in-house workshops in the North of England and Scotland in 1982. It is not possible to quantify the overall condition of this fleet compared with that in the South, but serious concern has been expressed by our VMOs about our ability to keep the vehicles on the road for 5 or 8 years (in the case of heavies). They are mechanically sound but what we cannot achieve with the trade is satisfactory body upkeep and maintenance to ensure that the vehicles are user acceptable over such long periods. Closure of all our workshops would require us to carry out a fundamental review of vehicle retention policy but because of the low annual mileages of the bulk of the vehicles in the fleet, any move to earlier replacement would, it has been shown, be more expensive in terms of cost per mile.

LONDON

Special considerations apply to London. The security element within the GCS and IDS (Appendix F) are self evident, but what is less obvious is that repair facilities in the London area are inadequate and there is little likelihood of finding contractors who could do the work and turn the vehicles round quickly enough.

A brief summary of the services, and locations of the workshops is listed as Appendix G.

The workshops therefore are an integral part of Transport operations. They provide an economical and secure service but in addition they are a centre of expertise for repair and maintenance of vehicles and plant and provide a very specialist service to the public sector. Their existence is fundamental to the secure, economic and safe operation of the allocated, GCS and IDS fleets. It is even now for serious consideration whether some facilities for in-house maintenance should be reintroduced in the North. It is recommended that before any decisions on workshops are taken, that a comparative study of whole life vehicle cost be set up and following that study, recommendations made about the future of workshops.

Transport Branch
The Crown Suppliers

NB: None of these customers are tied

WORKSHOP CUSTOMERS

Agriculture, Fisheries and Food
Attorney Generals Chambers
Bedfordshire County Library
Royal Botanic Gardens Kew
Central Office of Information
Customs and Excise

Crown Estate Commissioners

Director of Public Prosecutions
Downham Community Workshop
Defence - Air
Defence - Army QAD
Defence - Navy Deptford
Dover District Council
Chelsea Hospital
Education and Science
Department of Employment
Energy
English Heritage
Foreign and Commonwealth Office
G.C.H.Q.
DHSS
Home Office
Inland Revenue - Valuation Office

LC1AHH

Home Office - Immigration
Home Office - Prison Department
Institute Geological Science
Imperial War Museum
Kent County Council
Northern Ireland Cabinet Office
Pest Research
Ordnance Survey
Public Health Lab Service (PHLS)
Industry - NPS Teddington
Industry - Trade
Imperial College of Science and Technology
National Maritime Museum
Nature Conservancy Council
Population Office Census & Surveys
Royal Commission of Historical Monuments
Secretary of State for Northern Ireland
Shepway District Council
Stationery Office
Department of Transport
Victoria and Albert Museum
Management and Personnel Office
(Cabinet Office) Security Modification to VIPs family cars
Metropolitan Police
Brent (London Borough)
Lewisham (London Borough)

Department of Transport, Ruislip
Home Office Immigration Building 2A
Tropical Development Research
Southwark (London Borough)
GLC Supplies - Dept M/T Division
London Dockland
HM Coastguards
Royal Naval College

HOSPITALS AND HEALTH AUTHORITIES

Greenwich Health District
Guy's and New Cross Hospital
Barnet AHA (Maintenance)
Barnet AHA (Garden Equipment)
(St Stephen's Hospital)
Bexley Hospital
Charing Cross Hospital
Greenwich & Bexley AHA
Hampshire Health Authority
Kingston & Richmond AHA
Leybourne Grange
Lewisham Health District
Maidstone Health Authority
Napsbury Hospital
North Warks Ambulance Authority
Northwich Park Hospital
Royal Marsden - Fulham
St Bernard's Hospital - Ealing Health District

LC1AHH

St Pancras Hospital
South East Kent Health Authority
Tunbridge Wells Health Authority
Victoria Health Authority
Edgware Hospital

ROYAL PARKS AND GARDENS

Osterley Park
Buckingham Palace - Royal Mews
Audley End
Brompton Cemetary
Buckingham Palace Gardens
Bushy Park
Chohole Nurseries
Eltham Palace and Grounds
Greenwich Park
Ham House Gardens
Hampton Court Gardens
Hyde Park
HQ Royal Parks
Royal Parks Police
Kensington Gardens
Regents Park
Richmond Park
Windsor Great Park
St James Park

LC1AHH

Teddington NPL

Tower of London

PSA/District Works Office

RECENT CLIENTS

Building Research Garston

Planning Board for Ocean Shipping

Guy's Medical and Dental School

Greater London Planning

Port of London Authority

RESUME OF REPORTS OF POOR SERVICING AND REPAIR BY TRADE COMPILED FROM VARIOUS TRANSPORT AND COMMERCIAL JOURNALS

1. WHICH? CAR SERVICING 1984

The most common fault was failing to adjust the carburettor to achieve the correct exhaust emissions. Over two-thirds of garages and Mobile tuners failed to achieve the correct carburettor settings.

The next most common problem was failing to adjust valve clearances, over half of the garages failed to carry this out.

Other items of the service that were not carried out or carried out incorrectly were as follows:-

30% set ignition timing incorrectly;

1 in 5 replaced spark plugs unnecessarily;

20% neglected to service the air cleaner;

Many other minor items that should have been carried out were not;

And of all 40 cars professionally tuned and retested, every one of them was out of tune in one way or another.

2. MOTOR AUGUST 3 1985

AND "CAR SERVICING AND REPAIRS". A REPORT BY THE OFFICE OF FAIR TRADING

Sir Gordon Borrie, Director of the Office of Fair Trading stated in the above magazine; "That the motor trade had to improve its act" and that 1 in 10 motorists had grounds to complain after visiting a garage.

Most complaints were about garages not completing all the work needed or not doing it properly and also high labour costs.

3. Garages and trade facilities leave much to be desired. It is important to have an in-house technical base (ie WORKSHOPS) to enable us to keep up with technical developments and the technical knowledge gained by having workshops assists us in monitoring trade practices.

UBM Ford Ltd (Ford)	£14.28	2 days
Patchway Cars (Vauxhall)	£13.50	3 days

BATH AREA

Hartwells (Austin/Rover)	£15.00	1 week
Hinton Garage (Vauxhall)	£15.25	4 days
Kingshead Motors (Ford)	£14.00 £15.00 commercials	4 days

PORTSMOUTH WORKSHOP RATE £11.50

PORTSMOUTH AREA

United Services Garages (Bedford)	£14.90	2 days
Hendy-Lennox (Ford)	£14.00	3 days
Wadham Stringer Waterlooville (Austin/Rover)	£16.50	3 days

SHORNCLIFFE WORKSHOP RATE £11.50

FOLKESTONE

Martin Walter (Vauxhall/Bedford)	£13.00	1-2 days
Henlys Folkestone (Austin/Rover)	£12.75 Austin £13.75 Rover £14.25 Jaguar	1 week
Peacocks of South Kent (Ford)	£13.50	3 days

PECKHAM WORKSHOP RATE £14.50

Frys of Lewisham (Ford)	£18.00 car £18.50 commercial	1 day
Penfold Motors (Vauxhall)	£16.00	1 week
Henleys Austin/Rover	£16.50 A/Rover 213 & 216 £17.50 Rover £18.50 Jaguar	3 days
Man Egerton RR-Lotus etc	£22.00 RR etc	3 days
Man Egerton A/Rover	£18.75 Austin Vehicle £19.75 Rovers £23.00 L/Rover	1 week
Man Egerton Jaguar	£19.00 Austin/Rover £22.00 Jag Daimler	4 days
Stratstones Ltd	£22.00 Jaguar	1 week
Follet Jaguar	£23.00 Jaguar	1 week

COMPARISON OF TRADE INVOICES (LABOUR COSTS) AGAINST CROWN SUPPLIERS
 WORKSHOP (LABOUR COSTS) USING MANUFACTURERS TIMES AND WORKSHOP LABOUR
 RATES. (EXCLUDING VAT)

WORK DETAIL CARRIED OUT	TRADE GARAGE CARRYING OUT REPAIRS AND COST		ESTIMATED CROWN SUPPLIERS WORKSHOP COSTS
Invoice No 13044 Intermediate service and repairs	Gorden Curtis Motors Dunfermline	£67.20	£54.67
Invoice No 018039 Intermediate service and repairs	Auty & Lees Bury, Lancs	£79.80	£60.88
Invoice No 013029 Intermediate Service and minor repairs	Gorden Curtis Motors Dunfermline	£60.80	£47.92
Invoice No 122710 Recovery of vehicle from St Keverne Cornwall to London	National Breakdown Recovery Ltd	£406.89	£313.20
Invoice No M155397 Repair shock absorber Rectify knock from exhaust	Patrick Motors Malvern Worcestershire	£24.40	£17.55
Invoice No None. Major Service + MOT	Pack Lane Garage Basingstoke	£65.70	£51.70

All relevant documents, including Job Cards and invoices in support of these figures are held in Transport Branch and these can be verified.

COMPARISON OF WORKSHOP COSTS FOR SPECIFIC JOBS AGAINST LOCAL
DEALER TRADE COSTS USING MANUFACTURERS STANDARD TIMES AND
CURRENT LABOUR RATES

Work Detail Carried out	Actual Crown Suppliers Workshop cost	Estimated Local Dealer Trade Cost
Job No 021753 Intermediate Service	£21.00	CY0706V £22.52 CY0700V £25.41 (Actual Costs from invoices)
Job No. 020483 12,000 mile service plus minor repairs	£57.40	£81.90
Job No. 020068 36,000 mile service plus repairs	£57.18	£86.47
Job No. 020232 Intermediate service	£22.43	£29.90
Job No. 021731 Intermediate service	£15.07	£18.20
Job No. 011627 "A" service + MOT and repairs	£110.50	£159.06

All relevant documents, including Job Cards and invoices in support of these figures are held in Transport Branch and these can be verified.

HIGH SECURITY CARS WITHIN THE GOVERNMENT CAR SERVICE

There is an increasing requirement for especially protected vehicles for the use of Cabinet Ministers. The advances made in this field and the development and improvement of these vehicles over those available six years ago is largely due to the work of our professional staff within the secure environment of our workshops. The armouring of these cars is a basic protection to which is added sophisticated electronic systems of communication, safety devices, tamper detection and numerous other protection systems. The engineering of the car is substantially different from production vehicles and a detailed technical knowledge is essential in their design and maintenance. It is essential that these cars are maintained on secure premises and for immediate action to be taken should there be a malfunction of the car in any of its various systems.

It would be unacceptable to the Security Service for these vehicles to be maintained in trade garages. Special problems arise on body repairs where no facilities are available in-house. It is necessary for a member of our workshop staff to accompany such vehicles when sent out to the trade and to stay with it whilst repairs are carried out. The vehicle is returned to the workshops at the end of each working day until work is complete. A secure area of the London workshop is set aside for these cars.

SUMMARY OF THE SERVICES CARRIED OUT BY THE CROWN SUPPLIERS' TRANSPORT VEHICLE AND PLANT WORKSHOPS

The general purpose of The Crown Suppliers' vehicle and plant workshops is the receiving and preparation of new vehicles for use. They therefore form an integral part of our hiring business, provide a training ground for the Vehicle Maintenance Officers, and help us to develop specifications and control the work on the trade. They also provide the following general services which are essential to our overall business.

1. Adaptation, modification and equipping of vehicles to customers' specialist requirements. This includes the conversion of vans to passenger/cargo vehicles which is cheaper than buying factory options. This work is becoming increasingly important as it forms part of many of our package deals for tendering for vehicle supply.
2. Major servicing and repairs, the carrying out of the annual MOT inspections for light vehicles (within the workshops) and the preparation of heavy goods vehicles for their annual tests and plating at DTP testing stations. This work contributes to the Chief Transport Officer's obligations to ensure that vehicles conform to safety standards under the Road Traffic Acts.
3. Providing a well-equipped technical back-up centre and expertise for TCS operations in the zone (a zone usually consists of two PSA Regions).
4. Repairing and maintaining plant, agricultural and horticultural machinery on a repayment basis. This work can be difficult, time-consuming to carry out and is not attractive to the trade. It often also means that our mobile workshops have to visit prisons and other secure areas with problems of access and location.

The following specialist services are provided:

(i) The Shorncliffe workshop acts as a centre for the receipt of vehicles for despatch overseas and carries out extensive renovation of secondhand vehicles for third world countries. The workshop at Shorncliffe also provides a comprehensive service to the HM Coastguard vehicle fleet. This includes preparation/conversion of new vehicles to be issued and provides a technical back-up and inspection service throughout the country. There are no outside bodies which are equipped to provide national services of this kind. The Biggleswade workshop is responsible for the procurement of spares for overseas stations, and for the sorting, packing and despatch arrangements; sales last year were in excess of £65,000 and £165,000 the year before.

These functions could not be done effectively and economically on the trade.

(ii) The workshops also act as centres for assessing and despatching vehicles for disposal and re-sale. This capacity is usually not available on the trade as the garages do not have space available.

(iii) Workshops are also involved in, and the provision of, services concerned with pollution control around the UK coastline. The Burnett workshop acts as a centre for storage and maintenance of oil pollution dispersent equipment. Workshop personnel attend pollution incidents and train local authority staff in the operation of pollution control equipment.

THE LOCATION OF THE CROWN SUPPLIERS' WORKSHOPS

Peckham London SE15	Serving the Greater London Area Sub-workshops at Harmondsworth (Heathrow) and Lambeth (IDS)
Shorncliffe-Folkestone	Serving South East and Southern England. Sub-workshop at Portsmouth
Burnett, Keynsham	Serving the West and South-West of England Sub-workshop at Cardiff serving Wales
Biggleswade - Bedfordshire	Serving Eastern England and South Midlands. Some services to Northern Regions such as new vehicle preparation. Sub Workshop at Cambridge .

Workshops at York, Burtonwood and Edinburgh were closed in 1982. This has brought about operational difficulties and a steady deterioration in the condition of the fleet.



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service
Sir Robert Armstrong GCB CVO

Ref. A085/842

19 March 1985

Dear Gordon,

Leak Enquiry: Minute from the Secretary of State
for the Environment to the Prime Minister

Thank you for your letter of 7 March and for the copy of Mr Tuite's report on the leak of a "Management in Confidence" minute concerning The Crown Suppliers.

It is, of course, unusual to carry out a leak investigation in such depth and not to interview the person who emerges as the most likely suspect.

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I have also noted Henry Steel's confirmation that there is no justification for involving the police.

I am copying this letter to Peter Lazarus, Terry Heiser, Robin Butler, Peter Middleton, Brian Cubbon, Antony Duff and Henry Steel.

*Yours ever
Robert*

A G Manzie Esq CB



10 DOWNING STREET

From the Private Secretary

19 March 1985

THE FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 14 March.

The Prime Minister is content with the revised terms of reference which your Secretary of State proposes, and that the announcement should be made by way of an arranged Question and Written Answer this week.

I am copying this letter to Richard Broadbent (Chief Secretary's Office, HM Treasury), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), and to Sir Robin Ibbs and Richard Hatfield (Cabinet Office).

(Mark Addison)

Andrew Allberry, Esq.,
Department of the Environment.

CONFIDENTIAL

BT
CCVO
①



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

14 March 1985

Dear Mark,

THE FUTURE OF THE CROWN SUPPLIERS

Thank you for your letter of 11 March recording the Prime Minister's agreement that the proposed review of The Crown Suppliers should go ahead under Cabinet Office chairmanship but with rather wider terms of reference.

My Secretary of State is concerned that at this stage any explicit reference to the possible abolition of The Crown Suppliers, however speculative, would have a detrimental effect on the present high level of morale within that organisation and undermine the good work they are doing. He therefore proposes to widen the terms of reference in a general way and to ensure that the review team is directed to take full account of the views expressed by the Prime Minister and the Financial Secretary when considering the options open to Ministers.

With the Prime Minister's agreement he proposes to announce the review by way of an arranged Question and Written Answer in the House next week on the lines of the attached draft.

in this week

I am copying this letter to the recipients of yours.

Yours ever,

Prime Minister.

Andrew

A C ALLBERRY
Private Secretary

You were keen that the review should consider the question of abolition, as well as privatisation. The widened term of reference permit both issues to be addressed. The Policy Unit are happy.

Consent?

MEA 1P/3

Yes

Mr Mark Addison

DRAFT PARLIAMENTARY QUESTION AND WRITTEN ANSWER

Question

To ask the Secretary of State for the Environment whether he has any plans for the future of The Crown Suppliers.

Written Answer

A review is about to be undertaken with the following terms of reference:

"To consider the future of The Crown Suppliers and in particular whether it would be in the public interest to transfer to the private sector the activities, or part thereof, at present undertaken by that organisation; if so, how this might be achieved during the life of the present Government; if not, to recommend whether any change of status within the public sector would assist The Crown Suppliers in meeting their objectives."

The review team will be led by an official from the Cabinet Office with representatives from the Treasury and The Crown Suppliers. Advice from a merchant bank will be sought as and when necessary.

The decision about the future of the organisation will take account of the views of the staff and their union representatives who will be fully consulted during the course of the review.

Cart MACH: Crown Supplies

Sept 83

14 JUN 1983

11 12 13 14 15
16 17 18 19 20
21 22 23 24 25



10 DOWNING STREET

Mick Over ~~contact~~

I hope you saw a copy of
my letter to DoE setting out the
PM's reactions to PJ's proposals.

The latest DoE proposal
is, I should have thought, just
OK. Any news? The ~~Chief~~
Financial Sec may have
something to chip in too.

MMA 14/3

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NBPM



H. STEEL, CMG OBE
LEGAL SECRETARY

LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

11 March, 1985

Our Ref: LEAK 15/84

Sir Robert.

LEAK INQUIRY: MINUTE FROM SECRETARY OF STATE FOR THE ENVIRONMENT TO THE PRIME MINISTER

I have seen a copy of Gordon Manzie's letter to you of 7 March. I agree that the facts elicited by Mr. Tuite's inquiry do not point sufficiently clearly to a particular suspect to justify putting the police in. I do not therefore need to pursue the question whether this might be a case, if the evidence were available, in which the Attorney-General would wish to consider proceedings under the Official Secrets Acts.

I am copying this letter to Gordon Manzie and to Peter Lazarus, Terry Heiser, Robin Butler, John Jones, Peter Middleton and Brian Cybbon.

H STEEL

Sir Robert Armstrong GCB CVO
Secretary of the Cabinet
Cabinet Office
70 Whitehall
London SW1

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File NFJ



10 DOWNING STREET

From the Private Secretary

11 March 1985

The Future of the Crown Suppliers

The Prime Minister has seen your Secretary of State's minute of 21 February.

She agrees that a review of the Crown Suppliers is the right course, and that this, as your Secretary of State suggests, should be led by Cabinet Office. She has also seen the Financial Secretary's minute of 8 March, and agrees with him that the proposed terms of reference for the review need widening somewhat. She would like them to be drawn so as to ensure that the general question of the future of the Crown Suppliers will be looked at, as well as the particular question of whether they should be in the public or private sector (if it is concluded that the Crown Suppliers should continue in existence).

I am copying this letter to Richard Broadbent (Chief Secretary's Office), Paul Thomas (Chancellor of the Duchy of Lancaster's office), Sir Robin Ibbes and Richard Hatfield (Cabinet Office).

Mark Addison

John Ballard Esq
Department of the Environment

B

cc 2/5



FROM: FINANCIAL SECRETARY
DATE: 8 March 1985

PRIME MINISTER

THE FUTURE OF THE CROWN SUPPLIERS

I have seen Patrick Jenkin's minute of 21 February, proposing a review of the future of The Crown Suppliers.

I agree that it makes sense to review the future of The Crown Suppliers now, and my officials will take part and give all the help they can. I hope that the review will be carried out quickly. The arguments for and against privatising The Crown Suppliers may prove, as Patrick has said, to be finely balanced. That makes it doubly important for the review to be approached with an entirely open mind. It must be a fundamental one looking carefully and objectively at the advantages and disadvantages of the various alternatives taking account of the public interest as a whole.

I am broadly content with the proposed terms of reference, but would like them to be redrafted to allow the team to consider also the possibility of closure or transfer. That is a further option on which we need advice. I also think the Revenue should look at private sector practices in reaching its conclusions.

I agree that an announcement should be made as soon as we are ready to start. There is nothing to be gained from being secretive about this.

I am copying this to Patrick Jenkin, Grey Gowrie, Sir Robert Armstrong and Sir Robin Ibbs.

A handwritten signature in blue ink, appearing to be "Jm.", written over the typed name.

JOHN MOORE

Govt Machinery : KA 9/83



- 8 MAR 1985 -

GOVERNMENT

SECRET

Future of the Crown Suppliers (previously PSA Suppliers)

The Secretary of State for the Environment's minute (Flag A) proposes a review of the future of the Crown Suppliers so that the question of privatisation can be considered. He suggests the arguments for and against privatisation may turn out to be finely balanced. The review would be led by Cabinet Office, and would be publicly announced. Sir Robert Armstrong agrees the proposal.

The Financial Secretary (Flag B) supports the idea of a review but believes the terms of reference should be wider, so that the possibility of closure or transfer can be considered.

The Policy Unit (Flag C) also agree a review is necessary, but argue that if this is Cabinet Office led it is likely to end up recommending the status quo. They propose the Environment Secretary should take the lead and make up his own mind, if necessary with help from an inter-departmental group of officials.

If you agree that a review is the right course do you

(i) think this should be led by Cabinet Office or by the Environment Secretary himself?

(ii) accept the Financial Secretary's advice that the terms of reference for the review should be wider?

Mark Addison
(Mark Addison)

8 March 1985

① Prefer the Cabinet Office to DOE
② Terms of Reference

To consider the future of Crown Suppliers whether in the public or private sector.
ms



Department of the Environment

PSA

Property Services Agency

Chief Executive A. G. Manzie, CB

2 Marsham Street London SW1P 3EB

Telephone 01-212 7651

Telex 22221

NBPM

7 March 1985

Sir Robert Armstrong GCB VCO
70 Whitehall
LONDON
SW1A 2AS

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Dear Robert,

LEAK INQUIRY: MINUTE FROM SECRETARY OF STATE FOR THE ENVIRONMENT
TO THE PRIME MINISTER

I am enclosing with this letter a copy of the report of the MPO Panel Investigator, Mr Tuite, into the leak of a minute dated 20 September 1983 and marked 'Management in Confidence', from the Secretary of State for the Environment to the Prime Minister about the launch of The Crown Suppliers.

I am satisfied that Mr Tuite has done a thorough job, despite having very little to go on. He did come to some valuable, if negative, conclusions which I accept:

- (a) the leak was from within DOE and not from one of the recipient Departments;
- (b) there is no reason to suspect any of those who had substantive dealings with the policy of being implicated in the leak;
- (c) the leak was contemporary with the issue of the document; and
- (d) the leak was initially made to Departmental trade union representatives and only subsequently, and probably by them, to the press.

Mr Tuite advances two possible explanations to account for the leak:

- (a) the copy of the minute addressed to Mr Pinfold (a Grade 5 officer in the Crown Suppliers) did not reach him and has never been accounted for. It seems possible that by accident or design this copy fell into the hands of local trade union representatives. This appears a less likely explanation than:-

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Little harm has been done by the publication of the minute. The main practical effect has been to enable the journal of the DOE/DTP Section of the SCPS to refer to the minute in publishing an inflammatory article on the subject in a recent issue, I enclose a copy. No doubt this accounts for the leak of the minute to the Press many months after it had apparently been leaked to the trade union side.

Subject to your agreement I would propose to let the matter rest on our files

I am copying this letter and its enclosures to Peter Lazarus, Terry Heiser, Robin Butler, John Jones and Henry Steel, and also (without the enclosures) to Peter Middleton and Brian Cubbon.

Manzie
Manzie

A G MANZIE

Mr Bendon

CROWN SUPPLIERS: LEAK: POSSIBILITY OF PRIVATISATION

You asked me to investigate this leak of a minute dated 20 September 1983 from Patrick Jenkin addressed to the Prime Minister. The minute sought approval for a new name for PSA Supplies - "The Crown Suppliers" - but in passing, mentioned possible future privatisation.

ORIGINS

Parts of the actual document were shown on BBC "London Plus" on 31 October 1984. The reporter was Wesley Kerr and there were interviews with Ms Kate Bennett, said to be speaking for the Southwark Trades Council and with Keith Ainsworth on behalf of the CPSA. On the following day reports appeared in "New Society" (David Thomas), The Guardian (Richard Norton-Taylor) and the "Morning Star". The "Morning Star" referred to a report in the "Southwark Trade Union News". An example of that publication has not been obtainable.

There had been previous intimations of the leak. David Thomas had telephoned Vic Shroot (Press Office) about 2 weeks earlier and asked about possible privatisation of the PSA, and he had been particularly active on 25 and 26 October in obtaining a copy from the Crown Suppliers office of their latest annual report. He had then asked Mr Hennah whether he had heard anything about privatisation and had been told nothing. On 31 October Wesley Kerr had telephoned Mr Shroot saying that he had the document and was obviously fishing for some quotable comment. Mr Shroot had also received a call from Norton-Taylor saying that he did not yet have the document but was getting a copy from "New Society".

It seems clear that the Southwark Trades Union Council was the channel for the leak. Mr Shroot thinks that possibly they had first approached "New Society" and that that magazine decided to give TV the first bite at the cherry in order to increase the impact of its own coverage.

DISTRIBUTION OF THE DOCUMENT

Despite a limited circulation 40 copies are believed to have been made:

DOE (8) Mr Dole - fair copy from his draft in Temporary Folder. Still in existence on P80 15480/83

Mr Gow - copy held in Private Office: now on MM5826/15

Sir G Young - receipt not recorded would have been destroyed after 3mths.

Sir G Moseley - record of destruction 3.10.83

Chief Executive - copy held on file; now on MM5826/15.

Mr Ennals - record book for period (and presumably document) now destroyed.

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Mr Pinfold - no record or recollection of receipt

PSO - copy for their file (held on file as folio 22)

PM (1) Original - no copies.

Home Office (16) - 7 copies made on receipt.

original destroyed after 2 months

5 copies destroyed or "possibly destroyed"

2 copies in existence - both seen

8 further copies made in one division.

1 sent to another division and "possibly destroyed" - remaining 7 seen.

Treasury (12) - 11 copies made; only 2 copies remain;
all others reported as destroyed.

Cabinet Office - Sir R Armstrong's copy retained - seen.

2 other copies; 1 destroyed in M G Registry
remaining copy with Mr J Parker - seen.

Thus, of the 40 copies made, only 18 remain and 8 of these are on one file in the Home Office. So if the leak occurred recently from one of the still extant papers it could only have come from a copy in one of the following 11 places:-

1. Mr Dole's copy: most unlikely as this is the bottom paper on PSO 15480/83 kept in his personal press.
2. Mr Gow's copy: this was found on file, in sequence and most unlikely it has been copied.
3. Chief Executive's copy: as for Mr Gow.
4. Home Office: copy held by Mr Caines - found on file - unlikely to have been copied.
5. " " - 8 copies still on file in Mr S W Bennett's office - no sign that they had been interfered with.
6. Treasury: Sir Peter Middleton's copy - not inspected.
7. Treasury: Divisional copy - not inspected.
8. Cabinet Office: Sir Robert Armstrong's copy - seen.
9. Cabinet Office: one other copy - seen.
10. No 10: original - seen.
11. PSO file copy: no evidence that it has been disturbed since filing (still in numbered sequence).

I looked carefully at the Home Office copies. The two divisions concerned are Prisons and Procurement and Supplies. Their main interest in Crown Suppliers was as a source of supplies and thus in the change of name. In Mr Bennett's division the numerous copies had all been made for the attention of SEOs and HEOs with this narrow interest and all copies had been returned to the file. There was nothing to suggest that they had been interfered with since. The same applies to the Prisons Department copy. All the Home Office copies had been made from the original photocopy after it had been marked - very heavily - with a circulation list which would have been very difficult to erase before the paper was displayed on TV.

There is nothing to suggest recent photocopying of an existing document and I have ruled this out.

WHEN WAS THE DOCUMENT LEAKED?

The document was probably leaked many months ago. Mr Dole told me that in an off the record conversation several months ago - he cannot now remember exactly when - the Union Side said that they understood there was a 'piece of paper' about privatisation. Reserving the position for the future he told them that there was no document and that in any case nothing could happen within two years.

To support the idea that the Union Side knew something many months ago the minute of a management/union meeting at Southbridge House on 16.12.83 show the union arguing about, and expressing opposition to, "complete separation" or "total untying".

Could the leaked document be one of the 22 copies said to have been destroyed? It is conceivable that would-be leakers might read and remove interesting material at the point of destruction. Looking at the circulation list it seems unlikely in this case although any one of the Home Office copies could be a candidate; against this is the fact that the Home Office copy would need 'doctoring' before it could be displayed publicly on TV.

However the main argument against the possibility that one of the 'destroyed' copies is the origin is that superficially the document is uninteresting. The first two pages are all in justification of the proposed name change and privatisation is only brought in at the end; and the low security classification would hardly prompt anyone to read it all through. Thus, although possible, I think it unlikely that a 'destroyed' document is the source.

MOST LIKELY SOURCE

In my opinion the most likely source is one of the original copies, either when they were prepared or soon after distribution. This would account for the Trade Union Side appearing to have some knowledge of it several months ago but not for the fact that it is so recently leaked.

There have, however, now been several leaks of 'old' documents which, if they were passed on at about the time they were first prepared suggests opportunism in deciding when to release the documents combined with a general strategy of letting the trail go cold if possible. In this case the forthcoming privatisation of BT probably provided enough contemporary interest to suggest an opportunity.

As the leak apparently came through Union channels it suggested either high level indiscretion or comparatively low level theft.

NO HIGH LEVEL INDISCRETION

A high level indiscretion could really only come from Crown Suppliers where there has been contact with the Unions and some discussion of the subject matter. However, having spoken to Mr Dole, Mr Pinfold and Mr Pollington I am satisfied about that area. Prior to the official launch in January 1984 they were all concerned to keep the proposed new name under wraps and although classified 'Management in Confidence' the document and the name it disclosed were effectively regarded and treated as secret. Subsequently, Mr Dole tells me, the file PSO 15480/83, has not been out of his custody because of sensitivity on the privatisation point: he has kept the file in a locked press.

LOW LEVEL THEFT

So we are driven back to the original photocopying and distribution.

There is a slight mystery about the original distribution. Mr Backhouse tells me that Mr Pinfold was on the original distribution list - I have seen this - so he should have been sent a separate copy. But Mr Pinfold says very firmly that he has no record or recollection of having received a copy. On the face of it his copy is missing. However, there is a copy - the first paper - on PSO 15480/83 - which was clearly put there after that file was created on 4.10.83. So it must have been loose earlier. It could have been Mr Pinfold's copy but that appears to leave a copy missing on the temporary folder which bore Mr Dole's original draft. Again Mr Backhouse tells me that it is normal to place a copy on the temporary folder when it goes back to Division and the transit sheet on the temporary folder suggests that that would have been done - however this transit sheet is left completely blank!

To add to the mystery the temporary folder is marked back to Mr Dole on 19 September 1983 although the minute emanating from it to the PM is dated 20 September.

Whichever way the matter is viewed it seems that there should be two photocopies in Crown Suppliers and there is only one.

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I now come to the actual despatch of the minute of 20 September. Unusually, this has the date '20' entered in manuscript. Mr Backhouse tells me that if there is some uncertainty about the date of despatch the typist does not put in the date: the despatcher in PSO does this. This could account for the different dates marking out the temporary folder (apparently put on by the Private Office) and the date on the minute put on by the PSA despatcher.

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CONCLUSION

What are we left with? The possibilities are:

1. Copy made from document still extant - most unlikely.
2. "Destroyed" copy abstracted - possible but seems unlikely.
3. High level indiscretion - dismissed.
4. Illegal copy made on receipt in another department - possible but unlikely as paper not immediately interesting.
5. 'Pinfold' copy abstracted - possible.
6. 'Pinfold' copy went astray and fell into wrong hands - possible but a long shot.
7. Additional copy made at or near point of origin - probable - could have been Jones.

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CONCLUSION

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6. 'Pinfold' copy went astray and fell into wrong hands - possible but a long shot.
7. Additional copy made at or near point of origin - probable

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RECOMMENDATION

As a first step I suggested that, if possible, the handwriting on the various documents be verified. The most important of these is, of course, the document under investigation where the only item to be checked is the entry of the date '20'.

... I attach at Appendix 1 the handwriting entries
... to be verified; and at Appendix 2 a copy of the Forensic Service
Laboratory report dated 12.12.84.

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7 2 5

T W M Tuite

// January 1985

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MANAGEMENT IN CONFIDENCE

Prime Minister

This minute seeks your agreement to a change of name for part of the Property Services Agency.

PSA Supplies provides furniture, furnishings, domestic items, heating fuel, transport services and a wide range of accommodation services for Government Departments, the Armed Forces and a number of other public sector clients.

Although part of the PSA, it has operated successfully since 1976 as a self-supporting Trading Fund under the terms of the 1973 Trading Funds Act. Its turnover exceeds £210.M. a year. Every year it has made a surplus over and above the financial objectives set for it in agreement with the Treasury. Since 1976 it has reduced its staff from 4,100 to under 2,000, holding down resource costs and remaining highly competitive.

Because of its concentrated purchasing power and centralised expertise it is able to provide commodities at lower prices than Departments and other organisations are able to negotiate for themselves. Major bodies like British Telecom and the Post Office continue to use Supplies' services on a large scale although they are free to go elsewhere.

This form of centralised purchasing benefits Departmental spending and the efficiency of British industry. Supplies manufacture nothing themselves. Over 95% of their purchases are from British firms and they have, as one of their objectives, to encourage those firms to operate more efficiently and to promote successful new designs, materials and technologies.

MANAGEMENT IN CONFIDENCE



Supplies are now facing the challenge of Property Repayment Services. Departments have their own funds to spend on accommodation services and, although still expected to purchase their main commodities through Supplies in order to ensure standardisation, they are free to go elsewhere for a wide range of services. As a result of this, and their existing business with optional clients like BT, Supplies estimate that over 50% of their sales this year will be untied business. Their Five Year Plan anticipates that this proportion will continue and could increase in future.

The more business they can attract, the better the discounts and the more they can spread their fixed overheads there will be reduced unit prices for all. Their strategy is to secure a larger share of the optional untied business from new and existing public sector customers. (This does not create new demand but seeks to meet existing demand more economically.) This should be welcome to industry which finds it more efficient to handle large contracts than a series of smaller ones from a variety of customers. It should also help other public sector organisations to limit the size of their own procurement staff.

To achieve this objective Supplies need to market and sell their services more positively than ever before. As part of this process they wish to create a new and more attractive corporate identity and trade under the new title of "The Crown Suppliers". This, I understand, can be done without legislation provided that, for accounting purposes, they retain the name Property Services Agency Supplies Trading Fund as in the 1975 Order which established the Fund. They would remain part of the PSA but would be given as much autonomy as possible to take commercial decisions while preserving public accountability.

MANAGEMENT IN CONFIDENCE



Sir Robert Armstrong sees no objections to this proposal in machinery of government terms and neither do I. But it raises the question whether Supplies is a potential candidate for further privatisation. (Their commercial fleet and some other functions have already been transferred to the private sector). The answer must be 'Yes' but they are not, in my view, quite ready yet. They need time to adapt to the cut and thrust of competition and the new entrepreneurial role they must now adopt. They are embarked upon a radical review of their internal systems and are determined to offer an effective and attractive service. We should, in my view, support this initiative and allow them to develop their new approach and identity over the next two years or so and then consider the practicality of transferring all or part of the operation to the private sector. The changes they propose to make are a desirable precondition for such a transfer.

I am copying this minute to Leon Brittan, Peter Rees and Sir Robert Armstrong.

PJ

PJ

20 September 1983

PRIVATISATION

Jenkin's Crown jewel

A confidential minute to Margaret Thatcher from the Environment Secretary, Patrick Jenkin—newly leaked—throws light on how ministers plan the privatisation programme. It also shows that the government is ready to mislead those workers who will be affected by privatisation.

The minute discusses the future of the Crown Suppliers, an offshoot of the Property Services Agency. Crown Suppliers buys goods from the private sector and distributes them to government departments. With customers like the armed forces, the diplomatic service and the health service, it is big business. Last year, it supplied enough seats to fill 50 Albert Halls, enough carpet to stretch from London to Moscow and enough fuel to fill a line of tankers from London to Leeds. It earned £11.6 million profit on sales of £221 million.

Recently, Crown Suppliers' management has taken steps to sharpen up the organisation. Vehicle, furniture and engineering workshops have been closed, and the workforce was cut by 7 per cent last year. Patrick Jenkin's minute asked the Prime Minister's permission to take this commercialising process further by giving Crown Suppliers "a new and more attractive corporate identity."

As a result, it was relaunched earlier this year at a razzmatazz reception when Jenkin spoke of its bright future. There was "a new determination to succeed," Jenkin said, now that Crown Suppliers had a "new marketing strategy," though the implications of the new identity "go far deeper."

But Jenkin didn't mention the deepest of all the implications. His minute to the Prime Minister had asked whether Crown Suppliers was a "potential candidate" for privatisation. "The answer must be 'Yes'," Jenkin wrote in answer to his own query.

What's more, the Environment Secretary's thoughts were definite enough to propose a time-scale: "We should," he wrote, "allow them to develop their new approach and identity over the next two years or so." Once the

organisation had settled down, the government should consider "transferring all or part of the operation to the private sector."

In the past week, spokesmen for both the Department of the Environment and Crown Suppliers have denied that there is any intention of privatising the organisation. National officials responsible for Crown Suppliers in the civil service unions have been told nothing of the plans.

The government's intention to privatise Crown Suppliers, revealed by Jenkin's minute, will be strongly opposed by the civil service unions, and not just because of the way their members have been misled about the real significance of the organisation's new strategy. Crown Suppliers earns profits that are almost guaranteed, and has been consistently praised by ministers for its "outstanding performance."

So why privatise it? On past precedent Mrs Thatcher, who found time to visit the organisation five weeks ago, won't be deterred by such questions.

David Thomas

THE GUARDIAN Thursday November 1 1984 5

Jenkin plans to sell off Crown Suppliers service

By Richard Norton-Taylor

Mr Patrick Jenkin, the Environment Secretary, has told the Prime Minister in a confidential minute that the Crown Suppliers, the Government's central purchasing agency which has more than 5,000 individual contracts, is a candidate for privatisation.

The minute, sent to Mrs Thatcher last year but quoted for the first time in today's issue of New Society magazine, records that Mr Jenkin suggested that the organisation should be allowed a period to develop its new identity as a high-profile commercial trading fund. Then, he said, the Government should consider "transferring all or part of the operation to the private sector."

The Crown Suppliers, part of the Department of Environment's Property Services Agency, made an £11.6 million profit last year on sales of

£221 million. With a workforce of about 1,900 it supplies equipment, furniture, transport and fuel to Government departments, the armed forces, local authorities and other public bodies.

A Property Services Agency spokesman said yesterday that though privatisation, remained an option it was far too early to talk about a Government decision.

Mr Chris Johnson, national officer of the Institute of Professional Civil Servants, yesterday said that privatisation would be "a typical example of how the Government responds to an organisation being run efficiently and bringing in money to the Exchequer."

If the Government went ahead, he said, it would lose the goodwill of the staff who had played an important part in making the Crown Suppliers a success in recent years.

Property Services Agency

Chief Executive A. G. Manzie, CB

2 Marsham Street London SW1P 3EB

Telephone 01-212 7851

Telex 22221

2 November 1984

Mr Evans
[Signature]
Mrs Smith 4.

Department of the Environment

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
London SW1

Dear Robert,

I am writing about the unauthorised disclosure of a minute (copy attached) from the Secretary of State for the Environment to the Prime Minister about the launch of the Crown Suppliers. The minute, which was dated 20 September 1983, bore the privacy marking "Management in Confidence". It touched upon the longer term possibility of privatisation. There were 8 internal copies and copies were sent to the Home Secretary, the Chief Secretary and to you.

The minute was quoted verbatim in an article in the 1 November issue of "New Society" and in an article in the "Guardian" by Mr Norton-Taylor of the same date. Copies of both articles are attached.

Although the minute was not classified and little or no harm has been done, I think it would be appropriate to mount an inter-departmental leak inquiry because the limited circulation of the document suggests that we might have a better than usual chance of finding the culprit. If you agree I would like to appoint an MPO investigator to undertake the inquiry.

I am copying this letter and its enclosures to John Jones, Henry Steel and Robin Butler, and to Peter Middleton, Brian Cubbon and George Moseley.

[Signature]

[Signature]

A G MANZIE

HCC: Mr. C. Bendon. ✓

98/312

Mr. Gordon Balfour

CONFIDENTIAL



SECRET

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/2985

7 November 1984

S/11

Dear Gordon,

Thank you for your letter of 2 November 1984 about the leak on the Crown Suppliers to New Society and The Guardian.

Although the leaked document is by now somewhat ancient, I can see that its limited circulation could, nevertheless, improve the chances of identifying the leaker. I agree that we should not let the opportunity pass of investigating the incident if there is a chance of tracking down the culprit.

I understand that Mr Tuite, a member of the MPO's Central Panel, who is already known to Gareth Bendon for his work on another leak in DOE earlier this year, would be willing to take on this investigation. Mr Tuite is available immediately and has been told to expect an approach directly from Bendon.

In the meantime, I will arrange for steps to be taken to establish the movement and present whereabouts of the copy of the minute which came to me on 20 September 1983. Brian Cubbon and Peter Middleton will, no doubt, be happy to provide you with similar information about the copies that were sent to the Home Secretary and the Chief Secretary.

I am copying this letter to John Jones, Henry Steel, Robin Butler, Peter Middleton, Brian Cubbon and George Moseley.

Yours ever
Robert

ROBERT ARMSTRONG

A G Manzie Esq CB

198/11
e/B/350

CONFIDENTIAL

CONFIDENTIAL

Mr. Benson 839/xi



H. STEEL, CMG CBE
LEGAL SECRETARY

LAW OFFICERS' DEPARTMENT
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

8/4

6 November, 1984

Dear Robert,

I have seen Gordon Manzie's letter to you of 2 November about the leak of the Environment Secretary's minute of 20 September 1983 concerning PSA Supplies.

In view of the fact that the minute had no security classification and of Manzie's assessment that little or no harm has been done by the leak, I think it very improbable that the Attorney General would wish to prosecute the culprit under s.2 of the Official Secrets Act if he can be identified and sufficient evidence is available. But, as I have had to say to you in other similar contexts recently, I am not sure what the relevant criteria now are and it is possible that, if the facts showed a deliberate leaking by a responsible civil servant for wholly improper motives, the Attorney General might think it right to invoke the criminal law rather than leave it to be handled by disciplinary proceedings.

I would therefore suggest that the investigator should be asked to report back if and when he thinks he has identified the likely culprit, so that I then have a chance to take the Attorney General's views on the basis of facts rather than speculation. The investigator will of course be careful, in the meantime, not to do or say anything to a potential suspect (e.g. by way of promising that he will not be prosecuted or otherwise holding out some threat or inducement to talk) which could queer the pitch for a subsequent police investigation.

I am copying this letter to Gordon Manzie and to John Jones, Peter Middleton, Brian Cubbon, George Moseley and Robin Butler.

H Steel

H STEEL

Sir Robert Armstrong GCB CVO
Cabinet Office
70 Whitehall
London SW1

- 839/xi

CONFIDENTIAL

6/11. 9B/349

CONFIDENTIAL



HOME OFFICE

Whittington House,
19-30 Alfred Place, LONDON, WC1E 7EJ

Telex: Telephone: 01-637 2355, ext. 110

Our reference:


Your reference:

G N Bendon Esq
Departmental Security Officer
DOE
Lambeth Bridge House
Albert Embankment
London SE1 75B

18 November 1984

LEAK ABOUT CROWN SUPPLIERS

Following up Sir Robert Armstrong's letter of 7 November to Mr Manzie, I attach a schedule showing the distribution and copying within the Home Office of the document in question. Should you or Mr Tuite need any further help, we are at your disposal.


P G SPURGEON
Departmental Security Officer

ENC

98/429

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LEAKS IN THE "NEW SOCIETY" AND "GUARDIAN"

1 NOVEMBER 1984 RE "CROWN SUPPLIERS"

DOCUMENT: "MANAGEMENT IN CONFIDENCE" MINUTE DATED 20.9.83 FROM THE S OF S ENVIRONMENT TO THE PM ABOUT THE LAUNCH OF THE CROWN SUPPLIERS

ONE COPY TO HOME SECRETARY

NAME OF RECIPIENT	IN PS's POST BOOK	COPY SEEN DURING THIS CHECK	NO OF COPIES MADE	REMARKS
Home Secretary's copy	No	No	7* (See below)	Original held on a holding file then destroyed after two months.
*Mr Shuffrey DUSS Post now held by Mr M J Moriarty Queen Anne's Gate Room 703 213 4151	No	No	None	One copy from Mr Bennett - both probably destroyed.
*Mr Chilcot AUSS Post now held by Mr E Caines Eccleston Square Room 411 828 9848 Ext 209	No	Yes	None	Held on file by PS.
*Miss M A Clayton AUSS Whittington House Room 416 637 2355 Ext 197	Yes	No	None	Probably destroyed.
*Mr S W Bennett Sen Prin Queen Anne's Gate Room 1015 213 6074	No	Yes	8	1 copy sent to Mr Shuffrey (see above). 7 copies held on file and seen by all SEOs and HEOs in ED1.
*Mr R Harris Adv to Home Secretary Room 854 213 5508	No	No	None	Probably destroyed.

CONFIDENTIAL

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NAME OF RECIPIENT	IN PS's POST BOOK	COPY SEEN DURING THIS CHECK	NO OF COPIES MADE	REMARKS
*Mr B Caffarey Prin Post now held by Mr H Webber Room 757 213 6060	Yes	No	None	Held on holding file then destroyed after two months. -
*Mr De Denev AUSS Post now held by Mr M Head Queen Anne's Gate Room 741 213 4006	Yes	No	None	Probably destroyed.

SEO's and HEO's in ED1 at the time:-

SEO's: E Fryer
A Mantle
E Sprunt

HEO's: S Legg
H Harkness
F Perrin
R E Smith
B Shington

Chief Executive to see.



E: 300
19 NOV 1984
Office

H. Tuite

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-233 3000
Direct Dialling 01-233 3620

Mr. Bardon, B21/K1
for action as appropriate. I have acknowledged receipt.

Sir Peter Middleton KCB
Permanent Secretary

CONFIDENTIAL

John Cunliffe Esq
PS/A G Manzie Esq, CB
Property Services Agency
2 Marsham Street
LONDON
SW1

J. Penck
19/11

16 November 1984

19/11

Dear John

CROWN SUPPLIERS: UNAUTHORISED DISCLOSURE OF A MINUTE

Sir Peter Middleton has seen Mr Manzie's letter of 2 November to Sir Robert Armstrong and Sir Robert's reply of 7 November, about the unauthorised disclosure of a minute dated 20 September 1983 from the Secretary of State for the Environment to the Prime Minister. Sir Peter Middleton has asked me to send you a list of the officials in the Treasury who had access to this minute.

Eleven copies were made of the one sent to the Chief Secretary. Only two copies have been retained; one in this office and one on the divisional file. The other copies are all reported destroyed. It is not Treasury practice to record the destruction of papers with a classification below secret but there is no reason to doubt the statements by officials that the other copies were in fact destroyed.

... The individuals who had access to the paper in September 1983 are shown on the attached list A. The names shown in brackets are staff changes since September 1983. Some of these individuals may have had access to the minute as the precise dates of destruction are not known. The individuals who had access to the two extant copies in September/October 1984 are given in list B.
...

Yours sincerely

Douglas Board

D R H BOARD
Private Secretary

4B/448

432/11

CHANCELLOR

J KERR (NOW D PERETZ)
MS M O'MARA
MS J SIMPSON
MS D YOUNG
D BAILLIE
M VISCONTI (NOW MS M HENSON)
N LAWRENCE
MS M COLLINS
MS C MANKELOW (NOW MS J VARAILLON)

CHIEF SECRETARY

E GIEVE
MS J SWIFT (NOW P PEGLER)
F LOPEZ (NOW S KOSKY)
MS K POTHECARY (NOW MS K JONES)
MS T SPENCER

FINANCIAL SECRETARY

A HUDSON (NOW MS H GOODMAN)
MS F BOGAN
G D'SOUZA
(NOV 83 - MS C MANKELOW)
MS P ELLISON
MS S HARRIS

ECONOMIC SECRETARY

S KWIECINSKI (NOW A ELLIS)
T STUBBINGTON
A MUNDAY
T NORMINGTON
MS D GORING

MINISTER OF STATE

M CORCORAN (NOW NORGROVE)
MS D McCAMBRIDGE
J MURRAY (NOW J MURPHY)
MS K BULLOCK
MS V DODD

SIR P MIDDLETON

J WILLIAMS (NOW D BOARD)
MS E CLARKE
S NEWBURY
MS J TODD

A BAILEY
MS F VERLANDER
MS L KELLY

R WILDING (NOW J ANSON)
MS J JONES (NOW MS B COOKNEY)

P MOUNTFIELD (NOW M SCHOLAR)
MS E DAVIES (NOW MS J THOMPSON)

R LORD
MS N CLARK (NOW MS G BATEMAN)

J PESTELL (NOW J JAMESON)
MS C MAIN

G HOPKINSON (NOW C ALLAN)
MS S HOWIESON (NOW MS A MOLLOY)

R MEADOWS
D FOWLER
A MAZIER (NOW D RHODES)

LIST B

SIR P MIDDLETON

D BOARD

MS E CLARKE

S NEWBURY

MS J TODD

J JAMESON

MS C MAIN

C ALLAN

MS A MOLLOY

R MEADOWS

D FOWLER

D RHODES

MS J MOORE

MS S GREENLAND



Jenkin Plans To Privatise The Crown Suppliers



Just when you thought it was safe to go back into the Property Services Agency. . . the shark of privatisation has been spotted again. This time our alter ego "New Society" has exposed a confidential minute from Patrick Jenkin to Margaret Thatcher which shows how ministers plan to privatise the Crown Suppliers. This comes only one week after spokesmen for both DOE and the Crown Suppliers went to great pains to deny that there was any intention of privatising the organisation.

Words of the Siren

The first two stages in the plan are now complete. Last year the workforce was slashed by 7 per cent and vehicle, furniture and engineering workshops were closed. Then the commercialising process was taken further by attempting a razzmatazz reception relaunch to give the Crown Suppliers, in Jenkin's words "a new and more attractive corporate identity". While speaking of "a bright future" for the Crown Suppliers at the reception, Jenkin did not mention that he had already written to Thatcher advising that, "we allow them to develop their new approach and identity over the

next two years or so. . . then transfer all or part of the operation to the private sector.

£11.6 million Profit

The plan was completed when the Crown Suppliers turned in a profit of £11.6 million. This would be too rich a picking for Jenkin's friends in the private sector to resist, what with £221 million of sales in a controlled marketplace. There can be no other reason for privatising an organisation which has been consistently praised by ministers for its "outstanding performance".

We have seen it all before, the deceit, the dogma, the Civil Service numbers game and the transfer of profit from the public sector to private individuals. Well, we put an end to Monty Alfred's PSA Restructuring Proposals, we put an end to Norman Fowler's attempt to privatise the Heavy Goods Vehicle Testing Stations and we are going to put an end to Patrick Jenkin's attempt to privatise the Crown Suppliers.

ic 100
A

PRIME MINISTER

THE FUTURE OF THE CROWN SUPPLIERS

In October 1983 you agreed with my proposal to re-launch PSA Supplies as The Crown Suppliers with a more commercial approach within the public sector. I announced the change in January last year. Since then, The Crown Suppliers have made encouraging progress in streamlining their procedures and adopting a much more thrusting and competitive attitude to their business. They are winning new public sector customers and have managed to increase the volume of untied business they handle in response to the challenge of the Property Repayment Services arrangements introduced in April 1983.

When I proposed the new strategy I suggested that, after two years or so, we should consider whether it would be appropriate to transfer all or part of The Crown Suppliers' undertaking to the private sector. They have made such good progress during the last 12 months that I now believe it would be timely to review their future without further delay. There has already been public speculation about the Government's intentions in this area and it is desirable to take firm decisions about the future of the organisation before uncertainty begins to damage the high staff morale which exists at present.

The arguments for and against privatising The Crown Suppliers may prove to be finely balanced. As a Government Trading Fund, their present aims are to make an adequate return [?] to on the assets they employ while maximising benefits for all their customers. It is not, therefore, self-evident that it would be in the public interest to transfer them to the private sector where the profit motive could predominate. ! We may decide that a less radical change would offer better prospects.

I therefore propose that we should set up a small review team with the following terms of reference:-



"To consider whether it would be in the public interest to transfer to the private sector the activities, or part thereof, at present undertaken by the Crown Suppliers; if so, how this might be achieved during the life of the present Government; if not, to recommend whether any change of status within the public sector would assist The Crown Suppliers in meeting their objectives."

The review should, I suggest, be led by the Cabinet Office (since the decision will effect all Departments) with representation from the Treasury and The Crown Suppliers themselves and with advice from a merchant bank chosen in competition. I understand that Robert Armstrong has agreed to provide a member of his staff to undertake the task.

The team will need to consult fairly widely within The Crown Supplies and elsewhere and there are bound to be objections in principle from the Trade Unions to any suggestion of privatisation (although the attitude of the staff within The Crown Suppliers is much more evenly balanced). To scotch undesirable rumours and avoid misunderstanding, I would like to make a formal announcement about the basis of the review as soon as we are ready to go ahead, making it clear that no decisions will be taken without the fullest consultation with the staff.

If you agree, I will set this in hand in cooperation with The Chief Secretary and Sir Robert ^{Lapin} Armstrong, who receive copies of this minute. I am also sending copies to Grey Gowrie and Sir Robin Ibbs.

PJ

P J

21 February 1985

CONF - MACH: Gross Supplies 2/1/25

1 ..



CONFIDENTIAL

PRIME MINISTER

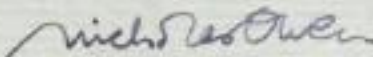
8 February 1985

THE FUTURE OF THE CROWN SUPPLIERS

Patrick Jenkin proposes that the Cabinet Office should lead a review of the privatisation of the Crown suppliers.

This proposal may prove to be a recipe for inaction. Official committees are ideal instruments for probing weaknesses and indentifying difficulties in proposals. They are less adept at making decisive proposals. In this case, Departments are quite likely to find difficulties. If the Crown Suppliers were privatised, Departments which buy from them will also need to become more commercial in their purchasing arrangements. This would, in itself, be a desirable development but Departments may not welcome it. This sentiment may dominate the Group's deliberations.

We suggest that Patrick Jenkin should make up his own mind whether he wants to privatise the Crown Suppliers. If he needs an interdepartmental group to help him make up his mind, it should be led by the DoE and be given a firmer steer by Patrick Jenkin than is provided by the terms of reference proposed in his note.


NICHOLAS OWEN

NOTE FOR THE FILE

On 16 November Mr Tuite telephoned to say he was investigating a leak from a minute dated 20 September 1983 from Patrick Jenkin to the Prime Minister. The actual leak was whether ^{Suppes} ~~Sappes~~ was a potential candidate for further privatisation. Tuite would like to examine the original and perhaps take it away for forensic tests.

I said he could see the document but could not take it away until he submitted a formal written request. It was arranged that he should visit No 10 on 19 November when Cameron Taylor would show him the minute.

Because there were many manuscript annotations on the minute I was reluctant that it should leave the office. Robin Butler agreed unless it was absolutely necessary. He left me to make that decision.

Subsequently I agreed with Bendon, DSO, DOB that we would release page 3, which had no annotations and was the only page Bendon and Tuite wished to submit to forensic tests.

P.S. Joce
P S JOCE

26 November 1984



10 DOWNING STREET

27th November 1984

Will you please refer to your letter dated 21 November; to our telephone conversation on 22 November and to your Personal Assistant's telephone conversation with me this afternoon.

As agreed I attach page 3 of the original minuted dated 20 September 1983 from Patrick Jenkin to the Prime Minister. I should be grateful if you would return it to me as soon as possible.


P S JOCE

G N Bendon, Esq.
Departmental Security Officer
Department of Environment and Transport



Department of the Environment

RESTRICTED

PSA

Property Services Agency
Directorate of Establishments

Room 520
Lambeth Bridge House, London SE1 7SB
Telephone 01-211 6242 7133

Mr Joce
No.10 Downing Street

21 November 1984

New to Joce file

Mr T W M Tuite an MPO panel investigator called upon Mr Cameron-Taylor on Monday 19 November to examine the original of a minute from Patrick Jenkin to the Prime Minister dated 20.9.83 on the subject of a change of name (and possible privatisation) of what was then PSA Supplies to "The Crown Suppliers".

This document has been leaked and an investigation is in progress.

Mr Tuite has asked for the original minute to be made available for forensic tests and I should be grateful if it could be sent to me as soon as possible.

Yours sincerely,

Gaultie Bendon

G N BENDON
Departmental Security Officer
Department of Environment and Transport

22/11/84

Spoke Bendon who will ascertain whether whole minute or only p.3. required

BJ 22/11

26/11/84 Bendon's PA telephoned to say p.3. would suffice

BJ 26/11

BF 20.11.84.

Mr ~~Jace~~ - ^{Thank you} ^{21/11/84} **GOVT MACHINERY:**
PSA name change 9/83.

Mr Tuite came to see the leaked minute of 20th September 1983 at 9.30 today. He stayed for 5 minutes and took no notes.

I explained how the minute was handled when it arrived at No. 10, and he examined it. He said that the Dept. of Environment Security Officer would probably request the minute in due course for forensic tests. I asked that any such request be channelled through you.

Mr Tuite is an investigator attached to the Cabinet Office, and has in fact been to No 10 before on another leak investigation. I remembered him from that time but verified his identity from a Dept. Environment pass.

CST
19/11/84.

.. Security: leak to
New Society 9/83



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

cc Press Office
To note.

My ref:

Your ref:

13 January 1984

Doc David

Sub
13/

You wrote on 24 October confirming that the Prime Minister was content for my Secretary of State to announce in the New Year the new corporate identity for PSA Supplies and a new title, 'The Crown Suppliers'.

You may wish to know that the Secretary of State will be making this announcement at a reception at Lancaster House at 10.30 on Wednesday, 18 January. In addition to the press, the audience will include senior officials and representatives of most Government Departments and other public bodies who at present use PSA Supplies' services or who may be interested to do so in future.

We are also arranging for a Written Answer to be given in the House on the same day.

Yours sincerely

John Ball
for LUCY ROBINSON
Private Secretary

David Barclay Esq

For. Mem
PS 4 to be used
"Growth Suppliers"
Sep 83

15 JAN 1984



CONCEPT



10 DOWNING STREET

From the Private Secretary

24 October, 1983

Thank you for your letter of 20 October about a change of name for PSA Supplies. The Prime Minister has noted that your Secretary of State has given further consideration to the possibility of confusion with suppliers who trade "By Appointment". In the light of his conclusion that such confusion can be avoided, the Prime Minister is content for the new corporate identity to be announced in the New Year, with the title "The Crown Suppliers".

DAVID BARCLAY

Ms. L. Robinson,
Department of the Environment

Ry



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: PSO/15480/83

Your ref:

20 October 1983

Dear David

Thank you for your letter of 3 October about a change of name for PSA Supplies.

My Secretary of State has considered carefully whether the use of the proposed title 'The Crown Suppliers' might lead to confusion with suppliers who trade 'By Appointment' with the Queen. He is satisfied that the form of presentation proposed will avoid such confusion and hopes that the Prime Minister may agree to his announcing the new corporate identity in the New Year.

Yours sincerely
Lucy Robinson

MS L ROBINSON
Private Secretary

Must not

Prime Minister

Do you wish to maintain your objection?

(The Queen has been consulted and is content)

—

DMS
21/10

David Barclay Esq

PSA
GOV MACH : (Name change : Sept 83



21 OCT 1983



38

10 DOWNING STREET

From the Private Secretary

3 October 1983

MANAGEMENT IN CONFIDENCE

The Prime Minister was grateful for your Secretary of State's minute of 20 September seeking her agreement to a change in the name of part of the Property Services Agency.

She has some doubts about the proposed title of "The Crown Suppliers", which she feels might cause some confusion with suppliers who trade "By Appointment" to The Queen. She would be grateful if your Secretary of State could consider this aspect of his proposals further.

I am sending copies of this letter to Michael Gillespie (Home Office), John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

(DAVID BARCLAY)

Roger Bright, Esq.,
Department of the Environment.

285



BALMORAL CASTLE

26th September, 1983.

Dear Robin,

Thank you for your letter of 22nd September 1983 about the proposal that part of the Property Services Agency, the PSA Supplies, should be allowed to trade under the name "The Crown Suppliers".

I have laid your letter before The Queen who has no objection to this proposal.

I am sending a copy of this letter to Robert Armstrong.

Yours ever,

Philip Glom

Robin Butler, Esq.

Good Man PSA
supplies Sept 83

DELIVERED

29 SEP 1983

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CCO

He

10 DOWNING STREET

From the Principal Private Secretary

22 September 1983

A proposal has been put to the Prime Minister that part of the Property Services Agency, PSA Supplies, should be allowed to trade under the name "The Crown Suppliers", and I am writing to ask if you see any objection to this.

PSA Supplies provides furniture, furnishings, domestic items, heating fuel, transport services and a wide range of accommodation services for Government Departments, the Armed Forces and a number of other public sector clients. Although part of the PSA, it has operated since 1976 as a self-supporting Trading Fund under the terms of the 1973 Trading Funds Act.

Although PSA Supplies manufactures nothing itself, its concentrated purchasing power and centralised expertise enables it to provide commodities at lower prices than Departments and other organisations are able to negotiate for themselves.

To help market and sell its services more positively, PSA Supplies wish to create a new and more attractive corporate identity and to trade under the new title "The Crown Suppliers". I understand that this can be done without legislation provided that, for accounting purposes, it retains the name Property Services Agency Supplies Trading Fund as in the Order which established the Fund. It would remain part of the PSA but would be given as much autonomy as possible to take commercial decisions while preserving public accountability. This change would no doubt be helpful if privatisation of PSA Supplies were ever considered.

Perhaps you could let me know if you see any objection to what is proposed.

I am copying this letter to Sir Robert Armstrong.

E. E. R. BUTLER

HU


Ref.A083/2670

MR BUTLER

PM's box

The Secretary of State for the Environment minuted the Prime Minister on 20 September about his proposal to change the name of PSA Supplies to "The Crown Suppliers". You might like just to check informally with the Palace about the use of the word "Crown".

2. I understand that the Home Office have advised that a formal submission to the Palace is not required in this case. Her Majesty's formal approval is customarily sought only for the use of royal names and titles or for the use of the word "Crown" in a context where there are clear royal associations. But this is just the sort of point which might easily come up at one of the Prime Minister's weekly audiences with The Queen, if there had been no consultation or audience notice. Informal consultation with the Palace now would be courteous, and would avoid any possible difficulty.



ROBERT ARMSTRONG

21 September 1983

Mr P.S. Joyce

Received 16.1.85

PSA



Department of the Environment

Property Services Agency
Lambeth Bridge House
Albert Embankment
London SE1 7SB
Direct Line 01-211 5836
Switchboard 01-211 3000

With Compliments

M. D. HOLGATE

Done 16.1.85
PJ

A call from your Secretary to acknowledge receipt would be appreciated.

LW.

I think it may be confused with "Supplies" Prime Minister to The Queen.



Content for PSA Supplies to trade under the name.

"The Crown Supplies"? Among other things Mr Jenkins sees this as a step towards privatisation

This minute seeks your agreement to a change of name for part of the Property Services Agency.

The Queen is content with the new name

*LW
27/9*

PSA Supplies provides furniture, furnishings, domestic items, heating fuel, transport services and a wide range of accommodation services for Government Departments, the Armed Forces and a number of other public sector clients.

Although part of the PSA, it has operated successfully since 1976 as a self-supporting Trading Fund under the terms of the 1973 Trading Funds Act. Its turnover exceeds £210.M. a year. Every year it has made a surplus over and above the financial objectives set for it in agreement with the Treasury. Since 1976 it has reduced its staff from 4,100 to under 2,000, holding down resource costs and remaining highly competitive.

Because of its concentrated purchasing power and centralised expertise it is able to provide commodities at lower prices than Departments and other organisations are able to negotiate for themselves. Major bodies like British Telecom and the Post Office continue to use Supplies' services on a large scale although they are free to go elsewhere.

This form of centralised purchasing benefits Departmental spending and the efficiency of British industry. Supplies manufacture nothing themselves. Over 95% of their purchases are from British firms and they have, as one of their objectives, to encourage those firms to operate more efficiently and to promote successful new designs, materials and technologies.

perhaps thought to confuse the public

PSA minister for you will write of co for only to suggest the change the name of part of the PSA to The Crown Supplies. She has no doubt about this letter, which she feels might be confused with some confusion with supplies. The letter is by appointment to the Queen, as would be a letter to the Queen.



Supplies are now facing the challenge of Property Repayment Services. Departments have their own funds to spend on accommodation services and, although still expected to purchase their main commodities through Supplies in order to ensure standardisation, they are free to go elsewhere for a wide range of services. As a result of this, and their existing business with optional clients like BT, Supplies estimate that over 50% of their sales this year will be untied business. Their Five Year Plan anticipates that this proportion will continue and could increase in future.

The more business they can attract, the better the discounts and the more they can spread their fixed overheads there will be reduced unit prices for all. Their strategy is to secure a larger share of the optional untied business from new and existing public sector customers. (This does not create new demand but seeks to meet existing demand more economically.) This should be welcome to industry which finds it more efficient to handle large contracts than a series of smaller ones from a variety of customers. It should also help other public sector organisations to limit the size of their own procurement staff.

To achieve this objective Supplies need to market and sell their services more positively than ever before. As part of this process they wish to create a new and more attractive corporate identity and trade under the new title of "The Crown Suppliers". This, I understand, can be done without legislation provided that, for accounting purposes, they retain the name Property Services Agency Supplies Trading Fund as in the 1976 Order which established the Fund. They would remain part of the PSA but would be given as much autonomy as possible to take commercial decisions while preserving public accountability.



Sir Robert Armstrong sees no objections to this proposal in machinery of government terms and neither do I. But it raises the question whether Supplies is a potential candidate for further privatisation. (Their commercial fleet and some other functions have already been transferred to the private sector). The answer must be 'Yes' but they are not, in my view, quite ready yet. They need time to adapt to the cut and thrust of competition and the new entrepreneurial role they must now adopt. They are embarked upon a radical review of their internal systems and are determined to offer an effective and attractive service. We should, in my view, support this initiative and allow them to develop their new approach and identity over the next two years or so and then consider the practicality of transferring all or part of the operation to the private sector. The changes they propose to make are a desirable precondition for such a transfer.

I am copying this minute to Leon Brittan, Peter Rees and Sir Robert Armstrong.

PJ

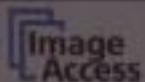
PJ

20 September 1983



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