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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC PURCHASING POLICY

Memorandum by the Secretary of State for Industry

Background

1 E(80)7th agreed to use public purchasing vigorously to strengthen and promote the international competitiveness of British industry whilst remaining within our international obligations. The Government's overriding intention is to achieve a real shift in our present practice. I was invited to take the lead and, in conjunction with the Chancellor of the Exchequer and the Central Policy Review Staff, to report back to the Committee. Action has been twofold: to ensure first that public sector purchasers were implementing the policy and secondly that companies took it into account in their product development.

Public Sector

2 Following E(80)7th, I wrote to Ministers outlining ways in which existing Departmental expertise could be developed. A seminar on the policy for senior Whitehall officials was held on 22 July. Follow-up meetings have been held by Department of Industry officials with key procurement officials

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in most purchasing Departments. The Government's policy was discussed at the National Economic Development Council on 2 July. It was welcomed by both the CBI and TUC, and a further report will be made to the Council early in 1981. On local authorities, whose purchasing power is often split into small and less sophisticated units, the Secretary of State for the Environment and I are planning a joint approach to the Chairmen of the English and Welsh Local Authority Associations to explain the new policy. Similar work is in hand on the Scottish local authorities and in Northern Ireland separate steps have been taken.

3 Ministers have written to the public bodies for which they are responsible. The responses indicate a varying level of commitment to the Government's objective. A complementary initiative has been taken by the Chairman of the National Coal Board with his colleagues in the Nationalised Industries Chairmen's Group. This involves the preparation of a programme of action to improve the competitive position of British suppliers with regular monitoring and a periodic report back on the success of the measures taken. This is welcome and those of us responsible for nationalised industries need to be seen to be fully in support. Sir Derek Ezra and Mr Brunton (Thomson Organisation) are organising a similar initiative in the private sector involving both manufacturers and retailers.

4 The NCB's own achievement is remarkable. Their policy is to ensure, as far as possible, that supplies are obtained from UK sources on a competitive basis. Where the UK product is technically inferior or there is a substantial price differential and they make initial purchases from abroad, they discuss with UK suppliers improvements in the product and in production facilities. NCB success is demonstrated by exports of British mining equipment of £182m in 1979 (compared with £26m in 1974) and purchases abroad of £21m out of a total expenditure on goods of £900m (2.4 per cent). They intend to build on this achievement by ensuring that their standards and specifications take account of the marketability abroad of the equipment concerned. The NCB's methods will be taken into account in the further work which the Government has to do on standards and specifications and secondly in the Government's response to the ACARD Report on R&D in the public sector.

Private Industry

5 The Department of Industry has taken steps to make the policy widely known and this action will continue. To date they have discussed the policy with over 80 British

manufacturers and retailers. They have invited the manufacturers to suggest both products and sensible amendments to purchasing procedures so that public purchasing can help develop their international competitiveness. Already some 20 companies have put forward 50 products, especially in areas of high technology. The Department has had successes and much action is in hand. Industry have welcomed this initiative but where they fail to perform they must be told. For small companies generally the Department of Industry will publish in December a guide on tendering for government contracts. A complementary initiative involving a number of major retailers will enable the Department of Industry to develop a systematic approach encouraging them to secure British products which are of equal value to comparable imports. Where public purchasing is used to develop a British product the Department of Industry is examining whether they should emulate other Governments who stipulate exports of the product as a condition of their public purchasing contract and who can provide the firm with a guarantee of a market big enough to enable them to start manufacturing at an internationally competitive price. These ideas are not a bid for additional funds but will be considered together with other measures of R&D support to enable companies to bring forward new products and processes within the increased provision for industrial support which has recently been agreed.

6 On the question of defining what is a "British company", I suggest that the standard should be to maximise the amount of research, development, production and export that is done in the UK. In deciding whether a company is "British" we should judge it against that standard. Thus, whilst it would be easier for firms manufacturing here who are British owned to qualify, multinational firms would also qualify on those goods they produce or are prepared to produce here.

Further Action Proposed

7 To date, within the public sector the discussions held and the evidence of cases followed up show a highly variable degree of enthusiasm for and commitment to what we are seeking to achieve given the tradition of equality of treatment for firms and a more narrowly drawn interpretation of best value for money. Whilst E concluded that the "best value for money" criterion was sufficiently flexible to incorporate the new policy, there is a real concern amongst purchasing officers that they will open themselves and their Departments to criticism from the PAC or under the GATT and EEC obligations on public purchasing if they depart from their present practices. I accept that we need to steer a way through the restraints, both real and imagined, of public expenditure,

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international obligations and value for money on each purchasing decision. But attitude and will are the crucial factors. I ask colleagues to assure officials that they are following Government policy in implementing this initiative and that decisions can be defended on those terms before the PAC. The value for money criterion permits close and continuing collaboration with suppliers. In value terms it permits acceptance of tenders with higher initial costs in order to promote (through this short term acceptance of additional cost) the long term international competitiveness of suppliers through lower costs for longer runs and improved value for money for the purchaser. It also permits the acceptance of higher risks than normal through, for example, the purchase of equipment embodying new technology or to a new improved performance specification.

8 The main recent Parliamentary interest in an individual case was by the Select Committee on Trade and Industry, which regretted the placing of a CAA radar contract with a Dutch firm and made constructive criticism on how matters should be dealt with in future on lines completely acceptable under our own policy. Department of Industry officials are finalising details with the Civil Service College of a periodic short seminar to explain Government policy and its application to individual tenders. Achieving this change in attitude is crucial to the success of the initiative and we as Ministers need to give the lead from the top in Departments.

9 Sustained effort is crucial. I have considered alternative ways to achieve this. There are a number of existing procedures which tend to be more bureaucratic than effective. I think we can dispense with those procedures and look to reliance on individuals to seek solutions rather than problems. I would propose therefore a small ad hoc ministerial and official committee which Departments would be invited to attend periodically to pursue the work now in train and to monitor progress on the implementation of our initiative. (The warlike stores purchases of MOD would be excluded since other procedures already cover these.) I would ask that each nationalised industry agree to discuss its progress with the Committee. The position of local authorities will need to await the discussions Ministers will be having with them. This ad hoc committee, which I suggest should be under the chairmanship of a Department of Industry Minister, would report to E Committee twice a year and would be wound up as soon as we were confident that the initiative had become fully self-supporting.

Conclusions

10 I invite the Committee to confirm that:-

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- (i) each Minister should reinforce within his Department the commitment to the policy on public purchasing agreed at E(80)7th and should ensure that all relevant officials are specifically made aware of it;
- (ii) purchasing departments should interpret the "value for money" criterion as set out in paragraph 7 above; and
- (iii) a temporary, ad hoc, Committee should be established under Department of Industry Chairmanship (paragraph 9 above).

K J

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