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CABINET

USING PRIVATE ENTERPRISE IN GOVERNMENT

Memorandum by the Chief Secretary, Treasury

On 16 December 1982 the Cabinet agreed that there should be a drive to achieve further contracting out from the public sector (CC(82) 53rd Conclusions, Minute 7). I reported progress on 21 July 1983 (CC(83) 24th Conclusions, Minute 5); this paper reports further progress.

2. Introducing competition for public sector work provides a much-needed incentive for increasing value for money in the public sector. There are also other benefits, such as cost savings, reductions in public sector manpower, access to specialised expertise and greater flexibility in working practices and deployment of manpower.

3. But there are still obstacles to contracting out, and progress has been disappointing. The obstacles include union opposition, management inertia and, in the case of some local and health authorities, politically-motivated obstruction.

LOCAL AUTHORITIES

4. Under the 1980 Local Government Planning and Land Act, local authorities are required to seek tenders for some (since October 1983 at least half) of their building and maintenance work. This has had some useful results: by 1982-83 direct labour organisations undertook less than 40 per cent of their construction work and staff numbers had fallen to 130,000 at October 1983, 13 per cent lower than in April 1981.

5. Outside this area there has been only exhortation to contract out more in the local authority field. This has not been very successful: for example only 23 contracts for refuse collection and street cleaning (saving £7 million a year net) have been let compared with 16 a year ago. In consequence the Ministerial Committee on Economic Strategy Sub-Committee on Economic Affairs (E(A)) decided, on 28 February (E(A)(84) 7th Meeting), that exhortation was not enough and that the Secretary of State for the Environment should prepare a report on legislative options for extending contracting out. This report is expected to be completed soon.

NATIONAL HEALTH SERVICE

6. In September 1983 all health authorities were asked to draw up programmes to implement compulsory tendering for cleaning, catering and laundry services. The cost of these three key services in 1982-83 was around £950 million, of which less than £17 million was contracted out. The scope for savings is illustrated by the fact that in 12 recent contracts for cleaning and laundry services savings of £1.5 million have been made. At present, the responses of the health authorities to this request are being assessed by the Department of Health and Social Security.

NATIONALISED INDUSTRIES

7. Unlike most central and local government activities, those of nationalised industries already take place in a commercial environment. Resultant management pressures, accentuated by tight financial disciplines, lead to the industries contracting out a wide variety of functions and services where this is the most cost-effective solution. The energy industries, for example, annually contract out over £2 billion of work. Corporate planning discussions and the annual Investment and Financing Review provide a mechanism for pressing the industries to do more and I am sure that we should continue to emphasise the importance we attach to this area.

CENTRAL GOVERNMENT

8. Some 20,000 Civil Service posts and £18 million net per annum were saved by contracting out policies between 1979 and April 1984. Present manpower plans assume only a further 2,000 will be saved by April 1988. There are wide variations between the extent to which different Departments have contracted out work (figures at Annex A).

9. While we need to ensure that contracting out is cost-effective, I cannot believe that these figures represent the full scope for contracting out by Government Departments. Nor does the approach of Departments match up to what we are requiring of health authorities and are considering for local authorities. I hope colleagues will ensure that their top management systems set up under the Financial Management Initiative will be used to identify functions which could suitably be contracted out to the private sector. In addition, I propose that Departments should now be required to test the market (where they have not done so already) for a number of specified services - for example, cleaning, catering laundry and maintenance. If my colleagues agree I will arrange for officials to consider how best and in what time-scale to proceed.

CONCLUSION

10. I invite the Cabinet to note progress made so far and to agree that -

a. Government Departments should be required to test the market for contracting out a range of specified services; they should also use their top management systems to identify functions which could suitably be contracted out;

b. the Secretary of State for the Environment should bring forward to colleagues as soon as possible his proposals on the legislative options for increasing contracting out by local authorities;

c. the Secretary of State for Social Services should inform colleagues of the conclusions of the assessment of health authorities' contracting out returns as soon as it is completed; and make proposals for further action;

d. I should make a further progress report next year.

P R

Treasury Chambers

29 June 1984

CONTRACTING OUT BY GOVERNMENT DEPARTMENTS

The table below shows the amount of running costs expenditure contracted out by each department.

The information was collected in the 1983-84 annual scrutiny of running costs and does not give a complete picture of work contracted out by Government departments because 'programme' expenditure is not covered. To some extent the differences in the amount of running costs contracted out shown in the final column reflect quirks in the coverage of the annual scrutiny.

	£M	£M	per cent
Defence	69.7	8,680.1	0.8
Foreign and Commonwealth Office	2.3	362.7	0.6
Overseas Development Admin	4.4	42.6	10.3 (Note 3)
Agriculture, Fisheries and Food	1.5	208.4	0.7
Trade and Industry	7.0	263.6	2.7
Energy	0.2	31.0	0.8
Employment	4.2	342.7	1.2
Manpower Services Commission	2.6	334.6	0.8
Transport	2.8	261.4	1.1
Environment	5.7	161.6	3.5
Property Services Agency (excluding Supplies)	93.1	481.1	19.4 (Note 4)
Home Office	18.2	658.5	2.8
Lord Chancellors Department	2.8	178.9	1.6
Education and Science	0.5	52.2	1.0
Health and Social Security	36.2	1,421.1	2.5
Treasury	3.5	68.3	5.1
Customs and Excise	1.8	375.9	0.5
Inland Revenue	15.4	902.2	1.7
National Savings	0.9	150.4	0.6
Cabinet Office	2.4	49.0	4.9
Paymaster Generals Office	0.3	12.4	2.3
Scottish Office	2.7	165.4	1.6
Welsh Office	0.3	41.6	0.6
Northern Ireland Civil Service	5.6	316.4	1.8
Northern Ireland Office	3.0	94.6	3.1
TOTAL MAJOR DEPARTMENTS	287.1	15,656.7	1.8
TOTAL MINOR DEPARTMENTS	8.1	393.4	2.1
TOTAL ALL DEPARTMENTS	295.2	16,050.1	1.8

Notes

1. Figures are forecast outturn for 1983-84.
2. Figures under headings contract cleaning, other agency charges, contract and consultancy services.
3. All of ODA's technical co-operation offices are specialists, for example in agriculture, employed on short term contracts to help underdeveloped countries.
4. PSA contract out 80 per cent of property maintenance and 40 per cent of major design work.