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MANAGEMENT IN CONFIDENCE



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Prime Minister (4)

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19th November 1982

*Dear Geoffrey*

In your letter of 11th August to Willie Whitelaw, you asked for a report on progress in contracting out public sector functions. I have already given you a progress report on the closely related subject of privatisation. I attach at Annex summaries of our contracting-out activities as requested by your Private Secretary in her letter of 18th October to the Private Secretary to the Secretary of State for the Home Office.

The largest contracting-out exercise under way in my Department is accommodation cleaning. This has been outstandingly successful. When it began, we identified about 7,300 (full-time equivalent) complemented cleaning posts, although this number was subsequently reduced by closures and complement reductions. So far, about 4,800 posts have been saved through bringing in private sector cleaning contractors. On the basis of our standard cost comparison, the estimated financial savings are about £7½ million a year, or around one-third of the total. The exercise concentrated initially on the larger defence establishments, almost all of which have now changed to contract cleaning. The very small establishments now being considered are expected to yield up to 1,000 further posts. Only 2-300 posts were exempted from the exercise on non-financial grounds (some for security reasons or because the establishment is due to close). Provided that contract cleaning continues to prove cheaper, there should be very few directly-employed cleaners on our books by April 1984.

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The Rt Hon Sir Geoffrey Howe QC MP

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Contract catering has also been examined, mainly at Service bases, but here the cost comparisons have been less favourable to contract. The Army Department is nevertheless running a pilot study of contract catering at three locations, and we hope to be successful in identifying a few further possibilities including RNC Greenwich.

As part of a general study of the Services' training organisation under the leadership of Jerry Wiggin consideration is being given to the scope for contracting out more training to the private sector. Possibilities being looked at are Service basic MT driver training, ADP training and language training. No decisions have been reached on the extent of any contracting-out; much will depend upon whether potential savings can be reliably identified.

The repair of defence accommodation stores (DAS) - furniture for example - formerly carried out at a number of Navy and Army Department depots has ceased with a view to contracting out in due course. No cost comparison between in-house and contract repair can be provided since very little of the work undertaken by the 66 posts involved has yet been put to contract. In my report on privatisation I mentioned the extended use of contractors in this area at the RAF Maintenance Unit at Quedgeley, which has now been agreed in principle, and where there is a potential saving of some 400 civilian posts.

We are actively exploring a number of other areas where we may be able to make use of the private sector. It is expected that invitations to tender will be issued in November which will enable the Air Force Department to assess the cost effectiveness of contracting out compressed gas production and cylinder servicing. There is a potential saving of about 180 civilian posts if this can be done.



Initial studies have established the feasibility of contracting out some of the tasks currently undertaken at the Air Publications and Forms Store, Woolwich. If the work is eventually placed with contractors, up to 150 civilian posts would be saved.

At a very minor level, we have contracted out the production of our daily press cuttings service, and we intend also to use a private firm to produce cuttings from Hansard.

In the Procurement Executive, there has been a steady devolution to industry of work undertaken by the Sea, Land and Air Systems Controllerates, including the Quality Assurance establishments under their control. So far as quality assurance is concerned, greater responsibility for monitoring has been steadily transferred to approved firms over the past few years. Some of the functions hitherto undertaken by Project Management teams within the department are being devolved to contractors. These include project planning, cost control and production of development cost plans for military equipment such as armoured fighting vehicles and air defence systems, and also the monitoring of the reliability of in-service equipment. In the three Controllerates, contracts to the value of around £4.5 million are expected to be placed in 1982/83, rising to around £6.3 million by 1985/86. It should be noted however, that it has sometimes been necessary to contract out such work simply in order to manage the rising equipment programme; necessary tasks can no longer be undertaken by MOD staff because of reducing manpower provision. In some cases, in-house staff with the required expertise are not available. There are other cases where the requirement for staff is temporary or variable. Experience to date suggests that contracting out such work can prove  $1\frac{1}{2}$  times as expensive as employing in-house staff. Treasury approval for all contracts in this area of work in excess of £100K is required.



In the Procurement Executive the major proposals for contracting out concern research and development work currently undertaken in the R & D Establishments. Following the Strathcona Report more responsibility for the provision of Post Design Services (i.e. the continuing support for in-service equipment) has been placed on industry. Much of this contracting-out has already been implemented, including work undertaken by the Royal Signals and Radar Establishment and the Royal Aircraft Establishment (RAE).

The contractorisation of support services at the RAE Range at West Freugh has been implemented, with the saving in July 1982 of 30 non-industrial and 116 industrial civil servants and a financial saving of around £250K a year. Proposals to contract out support services at MVEE Kirkcudbright, where the potential saving is 67 civilian (5 non-industrial and 62 industrial) and 18 Service posts have been approved and will be implemented next May at a saving of £146K per annum. Tenders have been issued for the provision of technical support services at A & AEE Boscombe Down, where 55 posts could be affected.

From what I have listed above you will see that the drive to use private contractors for public sector functions has been pursued at all levels and in all parts of the MOD. All concerned are fully seized of the need to keep up the pressure and to convert potential savings of cash and staff into reality.

Copies of this letter go to the Prime Minister, other members of the Cabinet, the Attorney General, the Lord Advocate, Sir Robert Armstrong and John Sparrow.

*John Nott*

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John Nott

CONTRACTING OUT PUBLIC SECTOR FUNCTIONSCONTRACTING OUT SINCE 1979

Services	Expenditure Prior to Contracting Out	Saving	Date
Accommodation Cleaning	£22m approx	£8.8m	1980-82 cont
Catering	£1.7m approx	£0.15m <sup>Ø</sup> Ø£45k from pilot studies	1981-82 cont
Press Cuttings	£39,000	£24,000	1981 -
R & D Work	*	*	
Quality Assurance etc	*	*	
Project Management Functions	*	*	
PDS Work	*	*	
Range Support Services (West Freugh)	*	£250k	1982
Insurance Cover	£16m approx +	£11m (total)	being introduced progressively 1982-92

\* Figures not available or difficult to quantify

+ 1981 prices; includes areas not being contracted out

CONTRACTING OUT - FUTURE PLANS 1982/83 & 1983/84

Services	Expenditure Prior to Contracting Out	Saving	Date
Accommodation stores holding and maintenance (Quedgeley)	£8.9m <sup>∅</sup>	no greater than £800k	1984
Accommodation Cleaning	£5.5m approx	*	1982-84
Catering	£5m approx	*	1982-84
Hansard Cuttings	£24,270 +	£16,000 +	1982-83
R & D Work	*	*	} continuing
Quality Assurance etc	*	*	
Project Management Functions	*	*	
PDS Work	*	*	
Compressed Gas production and cylinder servicing (RAF)	£812k	*	1983-84
Repair of Accommodation Stores	£400,000	*	1983-84

\* Figures not available or difficult to quantify

∅ 1980/81 prices

+ 1982 prices

CONTRACTING OUT - POSSIBLE FUTURE CANDIDATES

Military Bridging and  
Field Engineering

Basic MT Driver Training

ADP Training

Language Training

Air Publications and Forms  
Store (RAF)

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