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PRIME MINISTERUsing Private Enterprise in Government
(C(82) 41)

BACKGROUND

On 10th August this year the Chancellor of the Exchequer sent you a minute on contracting out public sector functions. This suggested that more could and should be done to encourage contracting out, and proposed that you should send a personal minute to all Departmental Ministers asking them to review progress and to identify new opportunities. The Secretaries of State for Social Services and for the Environment would be invited to conduct similar reviews of the National Health Service (NHS) and local government respectively.

2. You decided that the exercise should be put in hand by the Chancellor rather than yourself. He therefore wrote on 11th August to all members of the Cabinet. He asked his colleagues to reply by the end of October, setting out a detailed programme of the further measures that might be taken during the remainder of the Government's term of office and summarising the main prospects in the longer term.

3. We understand that the Chancellor has been disappointed by the replies he has received. His present memorandum (C(82)41) contains no specific proposals for new measures of contracting out. Instead, it proposes a 'major and co-ordinated drive to secure further contracting out in the public sector', and makes procedural suggestions for the various parts of the public sector (Civil Service; NHS; local government; nationalised industries). The Chancellor, together with the Ministers concerned with the NHS, local authorities and nationalised industries, would report progress to the Cabinet in May 1983, when the Chief Secretary, Treasury, also proposes to report on Civil Service numbers.



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4. The Chancellor of the Exchequer also refers to his intention to correct an anomaly involving value added tax (which is thought to inhibit contracting out), and to the work commissioned by the Cabinet on 25th November in connection with the Civil Service and Related Bodies (Redundancy Compensation) Bill (CC(82)50th Conclusions, Minute 1, Conclusion 3).

MAIN ISSUES

5. There is unlikely to be dissent from the objective of contracting out to the maximum possible extent or from the procedural suggestions in the Chancellor's paper. The main purpose of the discussion should therefore be to give the contracting out exercise new impetus by putting the collective political will of the Cabinet behind it.

6. It may be worth enquiring why the results of the exercise launched in August are relatively slight. The Chancellor refers to some general inhibitions, for example industrial relations and managerial obstruction. The solution in both these cases is largely a matter of determination, and skill in presenting and explaining the issues. There may, however, be other obstacles which require closer analysis, if they are to be effectively dealt with.

7. There may be areas in which Departments find it difficult to act in isolation and need an initiative from the central Departments. It is, for example, sometimes suggested that Departmental accounts and internal audit could be contracted out; but that individual Departments cannot take a decision in this sense, partly because of likely problems with departmental staff sides, partly because of the potential difficulty in justifying to Parliament differences of standards between Departments. It is therefore said that what is needed in such areas is a policy for the whole Civil Service; or, at least, that it should be accepted by a significant number of Departments as an available option.

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8. It is also possible that procedural changes might help. For example, there might be merit in establishing a Ministerial committee on contracting out to parallel the Ministerial Subcommittee on the Disposal of Public Sector Assets (E(DL)). But until there is a better idea of what the obstacles are to greater contracting out, it will not be possible to decide how to make progress.

HANDLING

9. I therefore suggest that you might first ask the Chancellor of the Exchequer to introduce his memorandum; depending on the time you wish to devote to this item you might then ask other members of the Cabinet for constructive suggestions as to how faster progress might be made.

CONCLUSIONS

10. You will wish the Cabinet to reach conclusions on the proposals in paragraph 8 of C(82) 41. Depending on the course of discussion you may wish to direct attention to particular obstacles in the way of contracting out and how they might be overcome. Should it appear from the discussion that new Ministerial or official machinery might be useful, I will submit further advice.

RA

Robert Armstrong

14th December 1982

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