

Ref: B06919

PRIME MINISTER

c Sir Robert Armstrong

The Future of the Crown Agents  
(OD(83) 13)

## BACKGROUND

The Crown Agents' loss of the Brunei investment management control has placed them in serious financial difficulty. The Board of Crown Agents have recommended a reorganisation over two years and a restructuring of capital. The alternative is closure. Privatisation in the sense of selling off the Crown Agents is not an option in their present financial circumstances.

2. The proposed reorganisation and capital reconstruction involves -

- a. reducing staff from 1,200 to 900;
- b. selling the Crown Agents' main asset, their Millbank office block, and relocating to Sutton;
- c. moving the staff who are still on Civil Service terms to more commercial terms of service;
- d. a Government indemnity or assurance to deal with the Crown Agents' technical short term insolvency;
- e. a Government waiver of interest due in 1984 on their commencing capital debt and, if necessary, in 1985 and 1986 also; a waiver for 1984 is within existing Ministerial powers but a waiver for 1985 and 1986 would require an affirmative resolution in the House of Commons;
- f. accepting surplus Crown Agents' staff into the Civil Service or making them redundant.

3. Closure would involve -

- a. transfer of aid administration tasks (and 200-260 staff) from the Crown Agents to the Overseas Development Administration;

- b. leaving the remaining business to be picked up by the private sector (not necessarily in the United Kingdom);
- c. primary legislation;
- d. international political consequences.

FLAG A

4. The Foreign and Commonwealth Secretary has not been able to persuade the Chancellor of the Exchequer in correspondence that the Crown Agents should be allowed to continue as a public sector organisation. (The Chancellor of the Exchequer minuted him on 8 December.) The Foreign and Commonwealth Secretary is seeking a very early decision since the uncertainty, fuelled by press speculation, is already having an effect on the Crown Agents' business and could jeopardise an important contract in Zimbabwe. The Secretary of State for the Environment wrote to the Chancellor of the Exchequer on 8 December to suggest that the transfer of at least part of the Crown Agents' purchasing function to PSA Supplies might be considered.

FLAG B

5. The Secretary of State for the Environment, the Minister for Overseas Development and the Minister of State, Management and Personnel Office and the Chief Whip have been invited for this item.

HANDLING

6. You will wish to invite the Foreign and Commonwealth Secretary to introduce his paper. You will also wish to invite the Chancellor of the Exchequer to comment. The main issues to be brought out in discussion are -

- a. do the Crown Agents have a good prospects of achieving financial viability? How realistic are their own forecasts? How dependent is viability on the co-operation of the trade unions in facilitating the move to Sutton and the worsening of conditions of service? And if it is not possible to be confident, as the Foreign and Commonwealth Secretary himself recognises, that the Crown Agents will be able to achieve financial viability by 1986, is it better to bite the bullet now and close them down?

b. what benefits do they bring to Britain in terms of our relations with certain overseas countries (mainly the smaller members of the Commonwealth) and to British exports? The Secretary of State for Trade and Industry will wish to comment on the latter point;

c. are their functions proper to the public sector or could they be carried out effectively by the private sector? (It should be noted that transfer of purchasing functions to PSA Supplies - another public sector body - could be inconsistent with any idea of privatisation: PSA Supplies is a Civil Service organisation which lacks expertise in the area of supplying overseas governments.)

Other issues are -

d. the Parliamentary dimension: opinion among Conservative back-benchers appears to be divided. The Lord Privy Seal and the Chief Whip should be asked to advise, particularly on the likely opposition to the primary legislation needed to effect closure, and its implications for the parliamentary timetable;

e. the future of certificated (ie ex-Civil Service) Crown Agents' staff, on which the Minister of State, Management and Personnel Office (Lord Gowrie) should be invited to comment. These are the staff who were in post before 1980 when the Crown Agents were incorporated by statute, following their earlier financial collapse through their involvement in secondary banking activities. The issue here is whether Government Departments should be compelled to accept surplus staff or whether the existing arrangements for voluntary transfer should continue, with any balance being made redundant. (The quality of the Crown Agents' staff is widely believed to be uneven.)

*Gov Gowrie*

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CONCLUSION

7. Subject to the discussion, you might guide the Committee to agree that -

i. the Crown Agents should continue but should be reorganised broadly on the lines proposed by the Board;

ii. the Government should waive interest on their commencing capital debt in 1984 and should introduce a resolution in the House of Commons seeking approval for a waiver in 1985 and 1986;

iii. the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer should agree on the new financial targets which the Crown Agents should be set;

iv. Government Departments should not be compelled to accept on transfer certificated Crown Agents' staff who would otherwise be redundant but that every effort should be made to absorb such staff through the existing arrangements;

v. in announcing these decisions, Ministers should make it clear that the Board of Crown Agents accept that their long term future depends on their ability to achieve financial success.

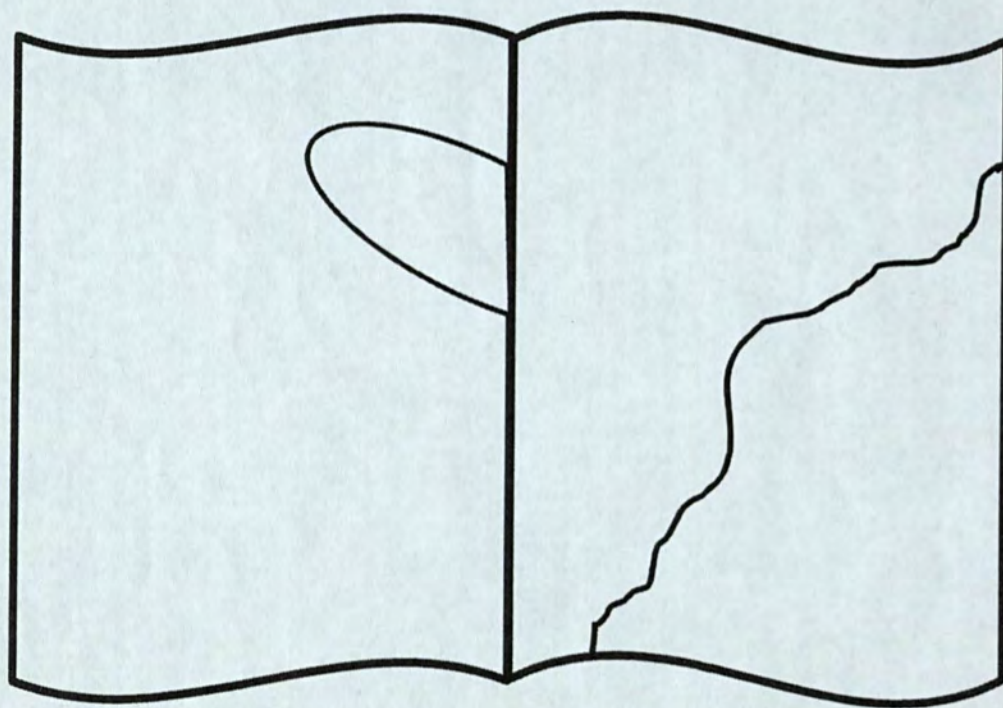
8. If, however, the consensus in the Committee is that the Crown Agents should be closed down, the Foreign and Commonwealth Secretary should be invited, in consultation with the Chancellor of the Exchequer and the Secretary of State for the Environment, to consider the possible transfer of purchasing functions to the Property Services Agency, or to companies in the private sector.

*David Goodall*

13 December 1983

A D S GOODALL

# **SPECIAL NOTICE**



**DAMAGED TEXT - INCOMPLETE IMAGE**

CONFIDENTIAL

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2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

17245

Your ref:

8 December 1983

Dear Chancellor of the Exchequer

You sent me a copy of your minute of 28 November to the Foreign and Commonwealth Secretary about the future of the Crown Agents.

I am not really in a position to comment on the desirability of your main recommendation, but if it is decided to go for closure I do think it would be well worth considering transferring at least part of the Crown Agents' purchasing function to PSA Supplies. You may recall that PSA Supplies has, with my agreement, recently adopted a more vigorous marketing strategy designed to increase the volume of its business in the public sector and so secure the maximum advantages of centralised buying. They are also required to use their position to help British industry and over 95% of their purchases are from British firms.

PSA Supplies do not at present do much business abroad apart from their work for our Embassies and official residences throughout the world and for the British forces in Germany. But a significant extension of their present geographical areas of operation for furniture, furnishings and a wide range of domestic equipment would almost certainly enable them to offer still more competitive prices for all their customers including of course, UK Government Departments. A number of Commonwealth and foreign Governments are already showing an interest in using their services and they find themselves at some disadvantage because of their relative inexperience of overseas trading. That experience could presumably be provided from the Crown Agents if we decided to transfer that part of their responsibilities.

As it happens I shall be announcing on 18 January a new name and corporate identity for PSA Supplies. Their new title would be particularly appropriate to a wider area of responsibility and would neatly cover such of the purchasing functions of the Crown Agents as we decided to transfer.

I hope you will give this idea serious consideration.

Copies of this letter go to the recipients of yours.

Yours sincerely

L. Robinson

PP PATRICK JENKIN  
(Approved by the Secretary of State and signed in his absence).

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BF 14/2/83 A

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Meeting folder to

15 Dec.

FOREIGN AND COMMONWEALTH SECRETARY

ADG.  
/n.

CROWN AGENTS

... I understand that on 15 December we are to discuss in OD your paper OD(83)18. I have read it with interest, but without finding much reflection of the views I had previously put to you, in my minute of 28 November, a copy of which I attach. The only point I would now add, in view of your new reference to price certification, is that this seems a further example of business which really is more appropriate to the private sector than to a public corporation.

2. Copies of this minute and enclosure go to the Prime Minister, our OD colleagues, Patrick Jenkin (in view of the PSA angle: his letter today to me), and Sir Robert Armstrong.

N.L.

8 December 1983

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

FOREIGN AND COMMONWEALTH SECRETARY

CROWN AGENTS

Thank you for your minute of 14 November. I have also seen Grey Gowrie's letter of 24 November.

2. I agree that the two essential issues are the Crown Agents' prospects of financial viability, and the value of the benefits they bring to the UK.

3. On the question of their future viability, I accept that we should take seriously the assessment of Peter Graham and his Board. But I frankly find it difficult to believe that all, or a sufficient number, of the assumptions on which future viability depends will be validated. It is clear that there are serious risks. It takes only a slightly less optimistic - and arguably more realistic - set of assumptions than those made by the Board to produce a forecast of continuing losses, with the unwelcome prospect of a need for further Government assistance in the future. Even the Board's own forecast of future viability depends heavily on the Crown Agents' continuing to make a substantial profit on their work for ODA, which could probably be done more economically by the Department itself. In other words, if we accept the course you have in mind, there must be a high risk that we shall be considering the same case for closure in another 2 or 3 years' time.

4. I would not deny that the Crown Agents have some value for our relations with certain countries overseas and in bringing business to UK firms. But one could explore, perhaps in consultation with the CBI, whether arrangements could be made with the private sector (or just conceivably with PSA Supplies) to retain at least some of these benefits, perhaps (if we decide to use PSA Supplies) retaining the Crown Agents' name.

5. I understand your reasons for suggesting a trial period until 1986. However I suspect that the cost of closure then would be higher. Moreover, the political





arguments do not all point one way. It could be easier to legislate now, towards the end of the interim period prescribed under the Labour Government's 1979 Act, than to have to justify legislation towards the end of this Parliament. Our own decision not to close them earlier would then be in question, and legislation in the run-up to an Election would be unattractive.

6. More generally it does not seem to me that Crown Agents do much which could not be done better either by the Government itself or by the private sector. Frankly, I do not think that the case for allowing them to continue as a public sector organisation has been made out; and my inclination therefore is to go for closure now.

Copies of this minute go to Norman Tebbit, Patrick Jenkin (in view of the reference to PSA Supplies), Grey Gowrie and Sir Robert Armstrong.

*J. Kew*

PP (N.L.)

28 November 1983

[Approved by the Chancellor,  
signed in his absence.]

Good Mach June 79  
Crown Agents.

29 DEC 1983

