



be Air EC

10 DOWNING STREET

From the Private Secretary

29 January, 1986.

Dear Sir,

CROWN AGENTS: PENSIONS WORK

Thank you for your letter of 27 January setting out the implications of the proposal that the overseas pensions work now carried out under contract by the Crown Agents should be absorbed into the Overseas Development Administration.

The Prime Minister agrees that the ODA should take over the pensions work as soon as practicable, and is content with the proposed announcement through a written Parliamentary Question.

I am sending copies of this letter to the Private Secretaries to the Secretaries of State for Employment and Scotland, the Minister of State at the Treasury, the Minister for the Arts, the Minister for Overseas Development, and to Michael Stark (Cabinet Office).

Yours sincerely

(C.D. Powell)

L.V. Appleyard, Esq., CMG,
Foreign and Commonwealth Office.



Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
 Agree that ODA
 should absorb Crown
 Agents' pensions work?

27 January 1986

*We shall have to pay
 some compensation to
 the Crown Agents, but the
 expenditure will still be a net saving to public*

Yes

*CDP
 207i*

Crown Agents: Pensions Work

Sir Geoffrey Howe held a meeting on 21 January to discuss this, attended by Lord Young, Mr Rifkind, Mr Raison and Mr Brooke (Mr Luce had been consulted beforehand, but was unable to come). Ministers agreed to absorb into the ODA the overseas pensions work now carried out under contract by the Crown Agents. Since a machinery of government change is involved, Sir Geoffrey has asked me to write to you.

The ODA is responsible for the pensions and related benefits of about 47,000 overseas pensioners (estimated expenditure in 1985/86 is £140 million). Most of the benefits derive from public service by expatriate officers in the former dependencies. The Crown Agents' present contract for this work with the ODA (value £2.454m in 1985/86) runs to August 1989. ODA business accounts for 98% of the Division's work.

The Crown Agents' Pensions Division was the scene of prolonged industrial action in 1984. A majority of staff were opposed to the prospective transfer of their jobs out of the public sector in the context of privatisation. As part of the settlement of this dispute Ministers undertook to decide by the end of 1985 whether or not ODA should take over the pensions work. A slight extension of that deadline was possible but we now think it important to announce a decision soon.

Our study shows that value for money and management factors point to a single (ie merged ODA-Crown Agents) operation. Rationalisation will mean net staff savings; and changes which will become necessary as the work declines can be more efficiently accomplished by slimming down a single organisation (based on the ODA, since the Ministerial responsibilities involved must remain there).

/By



CONFIDENTIAL & MANAGEMENT IN CONFIDENCE

By absorbing the work the ODA stand to make gross savings in public expenditure terms of £544,000 a year in 1985 prices. This arises partly from savings in staff costs and partly because the ODA will no longer have to pay the profit element in the current contract with the Crown Agents. It is true that the Crown Agents will be entitled to claim up to £450,000 a year to the end of the contract in August 1989 as compensation for losing the business. But even in this period there will be a net public expenditure benefit to the ODA, and after 1989 the savings will accrue in full.

Absorbing the work into the ODA means increasing Civil Service numbers by 114. This represents a saving of 17 posts as compared with the number of people expected to be engaged in this work in 1987. The Chief Secretary agreed to such an increase in ODA's manpower in last autumn's PES discussions, on the grounds that it would be justified by the running cost savings.

Dispersal policy is also relevant. Owing to manpower savings the ODA was not able to fulfil its dispersal commitment (reconfirmed in 1979) to move 650 jobs to East Kilbride. The Crown Agents Pensions Division made up most of the shortfall but it is well known that the Crown Agents would much prefer to move the work back to their new headquarters at Sutton. Taking the work into the ODA would help to fulfil our dispersal pledge. It will also avoid industrial relations problems, to which the Secretary of State for Scotland and other Ministers attach importance. Leaving the work with the Crown Agents would mean more trouble with staff. We could sit this out, but it would risk tarnishing the image of the Crown Agents which we want to present to prospective buyers.

Ministers have also considered the effect on the Crown Agents' privatisation prospects of detaching this work. This should be on balance beneficial. Buyers of the operation will be interested in the core business of procurement, rather than in pensions work which will in any case be a declining source of income. Far better, in fact, to clear the issue of the pensions work out of the way, so that we can plan with the Crown Agents board the successful disposal of their core business.

Crown Agents will naturally be disappointed, at least initially. But the cash compensation which we will provide to the end of the present contract should reconcile them to our decision (and will still leave us with net savings). The way will then be clear to privatise the (slimmed) Crown Agents, without the risk of industrial relations trouble. The Foreign Secretary is keen to find a place for an appropriate privatisation bill in the 1986/87 legislative programme.

/The



CONFIDENTIAL & MANAGEMENT IN CONFIDENCE

The Foreign Secretary therefore proposes that the ODA should absorb the pensions work as soon as practicable, say in 1987. There are no legislative implications. He suggests that Mr Raison should announce the decision through a written PQ (draft enclosed).

I am copying this letter to John Lambert (PS/Secretary of State for Employment), John Graham (PS/Secretary of State for Scotland), Mike Norgrove (PS/Minister of State, Treasury), Paul Thomas (PS/Minister for the Arts), Martin Dinham (PS/Minister for Overseas Development) and Michael Stark (Cabinet Office).

Yours ever,

Len Appleyard

(L V Appleyard)
Private Secretary

C D Powell Esq
PS/10 Downing Street

CONFIDENTIAL & MANAGEMENT IN CONFIDENCE

DRAFT WRITTEN PQ AND ANSWER

- Q. To ask the Secretary of State for Foreign and Commonwealth Affairs what decision he has reached on the future of the pensions work carried out for the ODA by the Crown Agents Pensions Division in East Kilbride.
- A. I have concluded from a careful study of the issues that this work should be absorbed into the ODA. I believe that we shall achieve the best value for money in handling this substantial but shrinking block of work if we combine the routine administration at present carried out by the Crown Agents with the policy and other work which must remain with the ODA. I have also borne in mind our commitment to maintain a strong ODA presence in East Kilbride. It remains our objective to privatise the main part of the Crown Agents.