



10 DOWNING STREET

THE PRIME MINISTER

3 May 1983

Dear Anthony,

I said that I would look into the matters raised by your Questions in the House on 10 March about prison workshops, workshops for the disabled, the Priority Suppliers' Scheme and nationalised industries purchasing from private industry.

As you know, the Priority Suppliers' Scheme has a long history. For some thirty years preferential status for central government contracts has been afforded to sheltered workshops for the disabled and to prison workshops. The value of contracts given to these workshops under the Scheme, however, remains small in relation to the size of all government purchasing.

Perhaps I should say first of all that I do not think there should be any change in the preference given by the Scheme to the factories operated by Remploy Limited and to the sheltered workshops run by local authorities and voluntary bodies. Because of the severity of their disabilities the workforce has little or no opportunity of securing employment elsewhere. I think it is right that Government should give some help through the Scheme to find work for disabled people. The volume of business is relatively small, and both Remploy and sheltered workshops obtain work at current market prices; they do not attempt to undercut the market with the help of their Government support.

On the other hand, I can understand your worries about including prison workshops in the Scheme. If there were evidence that many firms faced problems because of the activities of prison workshops I would be seriously concerned. But I have been impressed by the

/ fact

da

fact that in the last three years we have had complaints about only four out of the two thousand products that Prison Industries manufacture. Moreover, Prison Industries have always tried to reach a satisfactory accommodation with those employers' associations or trade federations that have made representations about particular products. They have usually been successful. In some cases the complaints have arisen from misunderstandings on factual matters. In others, Prison Industries have agreed to limit the manufacture of certain products and to switch to products where the market is largely dominated by imports. I think this effort by Prison Industries to produce goods which substitute for imports is commendable and it is certainly the direction in which we intend their work to develop.

While therefore I share your concern that Prison Industries should not threaten jobs in the private sector, especially in hard pressed areas, there is no evidence to suggest that the problem is in any way widespread or particularly related to hard pressed firms in special development areas. For these reasons I am not convinced that it would be right to amend the Scheme as you suggest. Rather than make blanket changes, I think the real answer is to look at each case sympathetically on its merits. If you have any particular cases where you feel that a firm is being put at risk by the work of Prison Industries, we will of course look into it.

As for the nationalised industries and public authorities, some of them operate a preference scheme for sheltered workshops and prison workshops. But this is entirely voluntary, and we do not traditionally interfere in the purchasing policies of these bodies. For much the same reasons as I have given above, I do not think a circular would be the right solution.

Yours ever

Ragaut

Anthony Steen, Esq., M.P.

From: THE PRIVATE SECRETARY



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

28 April 1983

Dear Willie,

to Lyne

PRIORITY SUPPLIERS' SCHEME

... In response to your note of 18 April of the Prime Minister's meeting with the Home Secretary and Chief Secretary, I enclose a draft letter which the Prime Minister may care to send to Mr Steen.

I am copying this letter and enclosure to Jane Swift and Felicity Everiss.

Yours sincerely,

Lesley Pallett.

MRS L PALLETT

Willie Rickett, Esq

DRAFT LETTER

ADDRESSEE'S REFERENCE.....

TO	ENCLOSURES	COPIES TO BE SENT TO
Anthony Steen, Esq, MP House of Commons (FULL POSTAL ADDRESS)		Rt Hon W Whitelaw, CH, MC, MP Rt Hon Leon Brittan, QC, MP Rt Hon Norman Fowler, MP Rt Hon George Younger, MP Rt Hon Patrick Jenkins, MP (FULL ADDRESSES, IF NECESSARY)

LETTER DRAFTED FOR SIGNATURE BY PRIME MINISTER
 (NAME OF SIGNATORY)

I said that I would look into the matters raised by your questions in the House on 10 March about prison workshops, workshops for the disabled, ~~and~~ the Priority Suppliers' Scheme, ~~and about~~ nationalised industries purchasing from private industry ~~and would write to you.~~

I have discussed the question of the Priority Suppliers' Scheme and the inclusion in it of prison workshops and workshops for the disabled with the Home Secretary and the Chief Secretary to the Treasury. ^{As} You will know, ^{that for} ~~that for~~ ^{the Priority Suppliers Scheme has a long history. For} some thirty years preferential status for central government contracts has been afforded ~~under the Scheme~~ to sheltered workshops for the disabled and to prison workshops. The value of contracts given to these workshops under the Scheme, however, remains small in relation to the size of all government purchasing.

/The

Perhaps I should say first of all that I do not think there should
The Priority Suppliers' Scheme also provides for preference
~~to be given~~ ^{be any change in the preference given by the scheme} to the factories operated by Remploy Ltd and
to the sheltered workshops run by local authorities and
voluntary bodies. I am convinced that these ^{particular} ~~arrangements~~
should not be disturbed. Because of the severity of their
disabilities the work force has little or no opportunity
of securing employment elsewhere. I think it is right that
Government should give some help through the Scheme ^{to} with
finding work to keep these jobs secure for disabled people.
~~As with the prison workshops~~ The volume of business is relatively
small, ^{and} ~~moreover~~, both Remploy and sheltered workshops obtain
work at current market prices; they do not attempt to
undercut the market with the help of their Government
support.

If there were evidence
that many firms faced
problems because of
the activities of
prison workshops
it would be
sensible to
consider
removing

On the other hand,

I can understand your ^{worries} ~~concerns~~ about including

As regards the inclusion of prison workshops in the Scheme
I have been impressed by the fact that ^{in the last three years} although Prison ^{we have}

that prison
had

Industries manufacture some 2,000 separate product lines,
complaints have ^{only} ~~been~~ received about ^{out of the 2000} ~~only~~ four products ⁱⁿ
the last three years. ^{never} Prison Industries have always sought ^{first}
to reach a mutually satisfactory accommodation with ^{more} employers'
associations or trade federations which ^{that} have made represen-
tations ^{They have} to them about particular products, and this has
usually been ^{successful} ~~attained~~, particularly ^{in some cases} where complaints have
arisen from misunderstandings on factual matters. ^{In many,} Prison
Industries have ^{agreed,} ~~agreed~~, in other cases, where complaints
~~about the degree of market penetration had some substance,~~
to limit the manufacture of certain products, ^{and to} in market
sectors where problems had arisen provided that the trade

switch to
~~association would agree to Prison Industries using their
production capacity to manufacture other products in the
same general market where such problems do not arise, for example,
where a particular market sector is largely dominated by
imports into the UK. In this latter respect the effort
made by Prison Industries to produce goods which substitute
for imports is commendable and is (the direction in which
we intend Prison Industries to develop.~~

While therefore I share your concern that Prison Industries should not threaten jobs in the private sector, especially in hard pressed areas, there is no evidence to suggest that the problem is in any way widespread or particularly related to hard pressed firms in special development areas. I am not convinced ~~therefore~~ that it would be right to amend the Scheme as you suggest. ~~Such changes would be likely to increase the costs of these workshops which is ultimately borne by the Exchequer and there is no evidence to suggest that the operation of the Scheme unfairly affects private sector firms particularly in view of the small value of work given under the Scheme when compared with the totality of central government purchasing. Rather than make~~

I think the real answer is
~~unnecessary blanket changes, we will continue to look at each case sympathetically on its merits.~~

If you have any particular cases where you feel that a firm is being put at risk by the work of Prison Industries, we will of course look into it.

Some of them
~~Some nationalised industries and public authorities, also operate a preference scheme for sheltered workshops and~~

and I don't think
~~prison workshops. But this is entirely voluntary, in any event the Government does not direct their purchasing policies.~~

For much the same reasons as I have given above, I do not think and it would not therefore be appropriate to issue a circular as you proposed. ~~to these bodies would be the right solution.~~

Subject

cc Subject File

M.F.J.



cc: HMT
DM

VSO

10 DOWNING STREET

From the Private Secretary

18 April 1983

Dear Lesley

Priority Suppliers Scheme

The Prime Minister held a meeting with the Home Secretary and the Chief Secretary at 1130 this morning. Its purpose was to decide what reply the Prime Minister should give to Mr. Anthony Steen's suggestion that this scheme should be amended so that prison workshops and workshops for the disabled receive no higher preference in the allocation of Government orders than private sector firms in special development areas.

The Home Secretary said that there were three reasons for not amending the scheme. Providing a proper occupation for prisoners was crucial to maintaining peace in the prisons. A lot of the work done by Prison Industries was in areas where it really did not compete with the private sector: providing prison uniforms, running prison laundries and prison farms, and in doing certain work for the Armed Forces. A firm of consultants had now been engaged to advise on the products and markets on which Prison Industries should concentrate in the future; a major aim would be to concentrate the work of Prison Industries on import substitution. Prison Industries had recently won a contract to make one million tee-shirts, not in competition with UK firms, but with Taiwanese firms. Finally, the Home Secretary said that the problem identified by Mr. Steen was not large. Prison Industries made two thousand products and had four hundred commercial customers. He had received practically no complaints of unfair competition; at most, only two or three private sector firms had complained that their livelihood was threatened by Prison Industries.

The Home Secretary concluded by saying that he recognised the Prime Minister's concern that private sector firms might be facing problems because of competition from Prison Industries, and that if necessary he and the Chief Secretary would be

/willing

DSG

willing to make the concession requested by Mr. Anthony Steen, M.P. In special development areas, prison workshops would receive no preference in the allocation of Government orders. He understood that the Prime Minister already recognised the case for giving sheltered workshops and factories for the severely disabled preference under the scheme, and no change was proposed as far as such workshops were concerned.

After a short discussion, the Prime Minister said that she was not convinced that Anthony Steen's proposals would remedy the problem he had identified; some of the firms facing difficulties because of competition with Prison Industries were not in special development areas. To make the blanket change suggested by Mr. Steen would also give the impression that the problem was much larger than in fact it was. She would write to Mr. Steen saying that she shared his concern that Prison Industries should not threaten jobs in the private sector, especially in hard pressed areas; but that there was no evidence that this was a widespread problem, and that she was not convinced that his proposal was the right solution, especially as some hard pressed firms were not in special development areas; that the Government was steering Prison Industries into areas where its work would not compete directly with the private sector, such import substitution; and that the best way of avoiding the problems of competition between Prison Industries and the private sector was not to make a blanket change in the rules, but to look sympathetically at each case on its merits: the Government had made strenuous efforts to be accommodating in the case of the British Ladder Manufacturers Association, and would make similar efforts in any other case drawn to its attention.

bc
I should be grateful if you could provide a draft letter for the Prime Minister to send to Mr. Steen on these lines by Tuesday 3 May. I think you will have to ask the Department of Employment for a draft contribution defending the priority suppliers scheme in so far as it relates to sheltered workshops and factories for the severely disabled.

I am copying this to Jane Swift (HM Treasury) and Felicity Everiss (Department of Employment).

yours ever

Willie Rickett

Mrs Lesley Pallett
Home Office.



10 DOWNING STREET

From the Private Secretary

13 April, 1983

Thank you for your letter of 22 March about prison workshops and the Priority Suppliers Scheme. The Prime Minister has seen both your letter and the letter to me of 30 March from Jane Swift in the Chief Secretary's Office. As you know, we have arranged for the Home Secretary and the Chief Secretary to discuss this subject with the Prime Minister at 11.30 on Monday, 18 April.

I should record that the Prime Minister has noted the Chief Secretary's view that if prison industries were to lose their market among Government Departments, then public expenditure might rise by as much as £5 million a year. She has commented that giving prison industries preferential status as priority suppliers can cause bankruptcies in the private sector, and that these also have public expenditure implications.

I am copying this to Jane Swift (Chief Secretary's Office).

W. F. S. RICKETT

Mrs. Lesley Pallett,
Home Office

h



10 DOWNING STREET

Caroline

Pl fix a meeting with
the Home Secretary and
the Chief Secretary to
talk about the Priority
Suppliers Scheme. About
30 minutes. When you have
a date, pl return to me
to ~~write~~ write to the Home
Sec's office.

Within the next two weeks
pl.

WM 874

W. Ure

11.30 -

12.00

0 -

Monday
18 April.
es.

12/4

PRIME MINISTER

I think we must talk about it -

W.R. o/v.

A.P.C. $\frac{5}{4}$

You will remember that on 10 March Anthony Steen asked you a priority written Question about this scheme. He wanted you to amend it so that prison workshops and workshops for the disabled receive no higher preference in the allocation of Government orders than private sector firms in special development areas. In your Answer, you said you would look into this and would write to him. A copy of your Answer is at Flag A.

On 11 March I wrote to the Home Secretary's office explaining that you felt it was quite unjustified to put jobs in the private sector at risk by giving prison workshops preferential status as Central Government contractors under the priority supply scheme. I said you recognised the case for giving sheltered workshops and factories for the severely disabled some preference. I asked if the Home Secretary could consider your comments and let me have a draft letter to send to Mr. Steen.

The Home Secretary's response is at Flag B. This sets out the background, and says that the Home Secretary would like to have a word with you about your concerns. The letter says that the priority supply scheme does not oblige purchasing Departments to purchase from priority suppliers because in almost all cases competitive tenders are involved. He does, however, make some concessions. For example, prison and sheltered workshops have at times had difficulties in meeting quality and delivery requirements, and some toleration of these shortcomings has been afforded.

Since the letter from the Home Office expressed some concern about the public expenditure implications of depriving prison workshops of preferential status, I asked the Chief Secretary's Office for their views. These are set out in the letter at Flag C. This letter concludes:-

But we they truly competitive?

And how much increase of expenditure would result from private sector undertakings?

(a) If prison industry is lost all preferential status, this could lead to an increase in expenditure of the order of £5m a year. The Chief Secretary does not therefore favour the total removal of the preference currently given to prison industries.

/ (b)

- (b) The priority supply scheme could be amended so that prison industries are not given preference over firms in development or special development areas. This could probably be achieved at minimal cost to public expenditure. In such circumstances the Chief Secretary would not object. He understands that the Home Secretary might be willing to make such a change.

Making this change is in fact exactly what Anthony Steen asked you to do. (In fact it goes slightly further in that it covers development areas as well as special development areas.)

Would you like me to write to the Home Secretary's Office asking whether he would be willing to implement such a change, or do you still wish to go further and remove all preference for prison industries? If you still want to go further, you may feel that the Chief Secretary should attend the meeting with the Home Secretary.

WR

31 March, 1983.



Treasury Chambers, Parliament Street, SW1P 3AG

W Rickett Esq
Private Secretary
10 Downing Street
London SW1

30 March 1983

Dear Mr Rickett,

PRIORITY SUPPLIERS SCHEME (PSS)

The Chief Secretary was grateful for the opportunity to comment on the public expenditure implications of your correspondence with Lesley Pallett on the Priority Suppliers Scheme (PSS).

The financial performance of prison industries is a matter of some concern. They are relatively big business, with a current output sales value of £32 million, and getting bigger. However, they have shown considerable losses in the past and expect to do so again in 1982-83. It was for this reason that the Treasury and the Prison Department jointly commissioned the consultants Arthur Young Management Services (AYMS) to examine how prison industries' performance might be improved. We understand that the Prison Department accepts much of the consultants' report and is working towards the improvements recommended. Important elements of these were the identification of realistic financial objectives for prisons' workshops, better investment analysis, and a sounder accounting system, all aimed at a better pursuit of divergence from budget. The general thrust of this approach has been to try to induce a more commercially-oriented attitude in prison industries.

As to the public expenditure effects of the Prime Minister's proposal, if prison industries were to lose the (significant) portion of their market represented by their supplying of other Government Departments, then we might expect public expenditure to rise as a direct result by something of the order of £5 million per annum, unless offsetting savings could be obtained elsewhere. In addition there will be other substantial indirect costs from redeploying the prisoners on what we understand would be more costly activities elsewhere.

Subject of course to the Home Secretary's views, the Chief Secretary is concerned about avoidable public expenditure additions

when the current pressures on the prison system make it seem certain that there will be additional bids for more resources for prisons. He would therefore not favour the total removal of the preference currently given to prison industries.

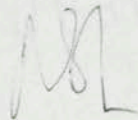
But one helpful proposal which we understand the Home Secretary may be able to offer would be to modify the priority suppliers scheme so that prison industries are not given preference over firms in development or special development areas. If, as appears possible, this can be achieved at no or minimal cost to public expenditure, the Chief Secretary would have no objection to that.

In the context of the PSS, it might be appropriate to return to the wider question of prison industries and their path towards a more profitable use of the resources they employ. If after the initiatives in this direction have had time to take effect, say in 2 years or so, sufficient progress is not being made and is not in prospect, we may have to consider a more radical approach.

As to sheltered workshops, the Chief Secretary notes that the Prime Minister has accepted the case for giving sheltered workshops and factories for severely disabled people some preference. Subject to the outcome of the current review, the Chief Secretary is entirely content with this.

I am copying this letter to Lesley Pallett (Home Office).

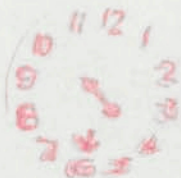
Yours sincerely



MISS J M SWIFT
Assistant Private Secretary

Home Affairs, March 83
Prison workshops.

31 MAR 1983



LONDON

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Sec.

10 DOWNING STREET

From the Private Secretary

23 March 1983

Priority Suppliers Scheme

We spoke this afternoon about the attached correspondence. Briefly, you will see that the Prime Minister feels it is quite unacceptable for prison workshops to be given preferential status as Government contractors under the Priority Suppliers Scheme. She has told Mr. Anthony Steen MP in a Written Answer that she is looking into this question and will write to him. The Home Secretary wishes to discuss the matter with her before providing a draft letter to Mr. Steen.

Handwritten initials

It is clear from Lesley Pallett's letter of 22 March that this issue has public expenditure implications. I think it would be very useful for the Prime Minister to have the Chief Secretary's comments before her meeting with the Home Secretary. It would be helpful if you could let me have these as soon as possible.

I am copying this letter to Lesley Pallett (Home Office).

M. F. S. RICKETT

John Gieve, Esq.,
Chief Secretary's Office,
HM Treasury

NR

OK

B

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

22 March 1983

Dear Sir,

Thank you for your letter of 11 March recording the Prime Minister's views on prison workshops and the Priority Suppliers Scheme. The Home Secretary would welcome your suggestion of a discussion with the Prime Minister about this before he provides her with a letter to send to Mr Steen. It might be helpful to you to have the following factual information in advance of a meeting.

The Priority Suppliers Scheme is administered by the Sheltered Employment Procurement and Advisory Service (SEPAAS) within the Manpower Services Commission. The primary intention of the Scheme is to increase the amount of work on long-run contracts available from Government Departments and the public sector to prison workshops and workshops for the disabled, while at the same time continuing to ensure that commercial suppliers are not treated unfairly. The Treasury, in consultation with interested Departments and with the approval of Ministers, set out the revised procedures for the Scheme in 1979. A copy of the memorandum is attached as an annex to this letter.

The intention of the Scheme was initially to draw the attention of purchasing sections in government departments and nationalised industries to the fact that prison workshops and sheltered workshops could provide them with a range of products and services. By purchasing from these sources economies could be made in Government expenditure since sheltered workshops and prison workshops are funded with public money and it seemed to make sense that full economic use should be made of them. Otherwise the Exchequer would be paying twice, once for providing the resources for prison and sheltered workshops which were being under-used and once again for goods which could have been made in those workshops.

The Scheme operates on the basis that purchasing departments should rank all organisations in the Priority Suppliers Scheme equally but in front of firms in development areas for consideration when Government orders were being allocated. The Scheme does not, of course, oblige purchasing departments to purchase from Priority Suppliers because in almost all cases competitive tenders are involved and Priority Suppliers are expected to compete on price, quality and delivery with the private sector.

/Government support

W Rickett, Esq

Government support of the Priority Suppliers Scheme has meant that purchasing departments have given work to prison workshops and sheltered workshops where they could provide good service on the basis of best value for money. The only concession has been that prison and sheltered workshops at times have had difficulties in meeting quality and delivery requirements and some toleration of these shortcomings has been afforded. Nationalised industries and local authorities, however, tend to operate strict value for money policies. The National Coal Board contract for 'flip-flops', for example, which caused Mr Steen to protest last year was awarded to prison industries strictly on price, quality and delivery which the private firm in his constituency was quite unable to match. In this case the Priority Suppliers Scheme played no part whatsoever.

Yours sincerely,

Lesley Pallett.

MRS L PALLETT



23 MAR 1983

[Faint, illegible text]

PRIORITY SUPPLIERS SCHEME

PLACING OF GOVERNMENT CONTRACTS WITH NON-PROFIT-MAKING BODIES

1. Treasury Memorandum TC1/72 was concerned with arrangements designed to give as much work as possible by way of Government contracts to "Priority Suppliers". This term covers prison workshops and any workshop which is approved by the Department of Employment under the Disabled Persons (Employment) Acts 1944 and 1958 for the provision of employment under special conditions for severely disabled persons (e.g. Remploy factories or workshops set up by local authorities or voluntary bodies).

In response to recommendations made by the National Advisory Council on the Employment of Disabled People (NACEDP), the Treasury and other Departments principally concerned have reviewed the existing guidance and Ministers have decided it should be modified in certain respects. The primary intention of the changes to the scheme is to increase the amount of work on long run contracts available to sheltered workshops, while at the same time continuing to ensure that commercial suppliers are not treated unfairly. This Memorandum accordingly sets out the revised procedures Departments should follow in placing contracts with Priority Suppliers.

2. It should be noted that, as a result of this review, a Sheltered Employment Procurement and Advisory Service (SEPACS) will come into operation from mid-1979 within the Employment Service Division of the Manpower Services Commission (MSC). The main function of SEPACS will be to improve the efficiency of sheltered workshops by advising on plant, equipment and factory operations as necessary so that they are better able to obtain orders from the public sector. It will assist those workshops, who have not the resources to seek out government work, as a broker in the negotiation of public sector contracts and with the resolution of quality and delivery problems. It will also take on the task of providing a Secretariat for the Priority Suppliers Committee and should be regarded as the focal point for consideration of priority supplies matters for Government department. Departments should note that some sheltered workshops may not wish to avail themselves of the services provided by SEPACS. They will continue to deal direct with Purchasing Departments although still participating in the Priority Suppliers Scheme.

Contracting Arrangements

3 Departments should continue to rank the Priority Suppliers equally among themselves, and in front of firms in development areas, for preferential allocation of Government orders; and they should endeavour to allocate a fair share of suitable orders to each of the Priority Suppliers.

4 Departments should give the Priority Suppliers the opportunity to manufacture the widest possible range of their requirements. For this purpose Departments should send lists of items likely to be within the manufacturing competence of Priority Suppliers to SEPACS for distribution to the Priority Suppliers, who will then notify SEPACS and Departments of those items they would like to supply. SEPACS will notify Departments of items which Priority Suppliers become capable of supplying by virtue of changes in their manufacturing capacity. Where Departments have already submitted such lists, they should ensure they are kept fully up-to-date having regard to extensions in the Priority Suppliers' manufacturing range and new requirements known to be within the Priority Suppliers' capability. Purchasing Departments should also consider whether there are any products for which a Priority Supplier should be made the sole supplier.

5 In addition Departments are strongly urged, in co-operation with SEPACS, to identify blocks of work which would help to maintain or increase the level of employment by providing continuity of work in sheltered workshops and which might be expected to provide 12 months or more work and offer the possibility of repeat orders thereafter. Having identified these and having satisfied themselves that the workshops can meet their requirements, Departments are also urged to offer the sheltered workshops long-run contracts for the work. It should be noted that before such long-run contracts can be undertaken in a workshop, the production or other facilities will often need to be altered or improved, either by re-equipping and/or reorganising, and that this may involve a delay in starting production. In these cases Departments are requested, if possible, to give the workshop an undertaking that work will be placed there once the necessary re-equipment or modernisation has been completed. If possible the advance planning of contract work in Departments should attempt to accommodate any delays which may result from this. In the event of difficulty, Departments should consult SEPACS.

6 In order that Priority Suppliers may be enabled to plan their production, there should be close and continuous consultation between the Purchasing Department, SEPACS and the Priority Suppliers with a view to establishing realistic forecasts of the average level of requirements for Priority Suppliers' products. Departments should also consult SEPACS when dividing up orders between more than one Priority Supplier, or perhaps allocating the whole of a particular order to one Priority Supplier in preference to other Priority Suppliers able to compete, taking account of such factors as differences in available manufacturing capacity, the volume of orders previously placed, the desirability or otherwise of creating fresh capacity, and whether there is work in the pipeline for particular workshops. When Purchasing Departments place, or have placed, work with sheltered workshops, it should not normally be transferred to another supplier, provided quality, delivery and reasonable pricing are maintained. However, Departments will need to assess from time to time that the prices quoted by Priority Suppliers are reasonable. Before deciding not to renew a contract with a Priority Supplier the Head Office of the Purchasing Department should consult SEPACS.

7 Purchasing Departments should not interpret this guidance as requiring them to transfer existing contracts from satisfactory commercial suppliers to Priority Suppliers or to cease placing orders with commercial suppliers where the maintenance of suitable outside manufacturing capacity is necessary for strategic reasons. It is considered that new or expanding work offers the best scope for new work for Priority Suppliers.

PRICING ARRANGEMENTS

8 In tendering to Departments the Priority Suppliers may enlist the assistance of SEPACS. Besides quoting a price, they will specify the quantities they are prepared to supply and the delivery dates they can offer. The Purchasing Department on receiving such a tender, should, subject to being satisfied as to the tenderer's ability to meet its requirements, offer the Priority Supplier a contract for the full quantity which it is able to supply within the specified delivery date. If competitive tenders have been invited and a Priority Supplier does not secure the contract competitively, the price in any contract offered to a Priority Supplier must be no higher than the price quoted in the lowest acceptable trade tender and no lower than the unit price paid to a trade supplier if only part of the requirement is met by the Priority Supplier; provided that nothing in the foregoing shall require a Department to pay a Priority Supplier a price that exceeds the price quoted for the

general guidelines Departments should exercise their discretion in individual cases. In the absence of competitive tenders the Purchasing Department should fix a fair price for the contract, either on the basis of its knowledge of market prices (i.e. by reference to trade price lists or other contracts for similar items) or, in the absence of any such guidance, by negotiation. This procedure is subject to the following provisos:-

- a Where the quantity tendered for by one Priority Supplier, together with the quantity tendered for by other Priority Suppliers, exceeds the total quantity required, the contract should be divided among the Priority Suppliers, unless, for example, it is too small to split;
- b The Purchasing Department may consider it essential to give a part of the contract to the outside trade, e.g. in order to maintain some outside manufacturing capacity or for comparison of market prices. The remarks in paragraph 4 should, however, be particularly borne in mind.

9 In those cases where a Department considers it can make a commitment to place contracts with a Priority Supplier after re-equipment or modernisation of a workshop, the Priority Supplier will seek to give a general undertaking on prices. However, it must be recognised that it will be impossible to provide precise figures at that stage.

10 Any problems arising in connection with this guidance should, if necessary, be referred to the Treasury (AP2 Division).



10 DOWNING STREET

From the Private Secretary

11 March 1983

We spoke yesterday about Mr. Anthony Steen's priority written Question to the Prime Minister about the Priority Suppliers Scheme. The text of the Question and the Prime Minister's eventual reply are attached. You will see that she has promised to look into the matters raised by Mr. Steen and to write to him.

I also enclose the text of the draft reply which was submitted to the Prime Minister, based on contributions from the Manpower Services Commission, the Treasury, and your Department. The Prime Minister was not willing to reply in the terms drafted because she feels that it is quite unacceptable for prison workshops to be given preferential status as central Government contractors under the Priority Suppliers Scheme. She recognises the case for giving sheltered workshops and factories for severely disabled people some preference. But she feels that to put jobs in the private sector at risk, especially in special development areas, by giving prison workshops preferential status is quite unjustifiable.

The Prime Minister would be grateful if the Home Secretary could consider her comments and if he could let her have a draft letter to send to Mr. Steen. The Prime Minister would, of course, be willing to discuss this matter with the Home Secretary if he so wished.

I am copying this letter, and its enclosures, to Barnaby Shaw (Department of Employment) and to Jill Rutter (HM Treasury).

W. F. S. RICKETT

Mrs. Lesley Pallett,
Home Office.

JWR

TEXT OF DRAFT REPLY FROM THE PRIME MINISTER TO
MR. ANTHONY STEEN, MP

Preferential status as central government contractors has been given for about thirty years to sheltered workshops and factories for severely disabled people and to prison workshops under the Priority Suppliers Scheme. The value of contracts given to workshops under the Scheme is small in relation to the size of all purchases by government. While I understand the honourable Gentleman's concern, I am not convinced the solution would be to amend the terms of the Scheme as he suggests. Such a change would be likely to increase the costs of these workshops, which could have implications for public expenditure.

Some nationalised industries and public authorities also operate a voluntary preference scheme to workshops, but the Government does not direct their purchasing policies and it would not therefore be appropriate to issue a circular.

Thursday 10 March 1983

(Answered by the Prime Minister on Thursday 10 March 1983)

UNSTARRED Mr Anthony Steen: To ask the Prime Minister, if she
NO. 49 will amend the existing priority suppliers agreement
(W) to provide that prison workshops and workshops for
the disabled receive no higher preference in the
allocation of Government orders than competing
private sector firms in special development areas;
and if she will make a statement.

UNSTARRED Mr Anthony Steen: To ask the Prime Minister, if she
NO. 50 will issue a circular to the nationalised industries
(W) and public authorities encouraging them to favour
private enterprise in their purchasing policy.

I am looking into the matters raised by my hon
Friend and will write to him.