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10 DOWNING STREET

From the Private Secretary

30 October 1984

cc MOD
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CSec
Min/FCO
Min/DTI
ODA
Min/DHSS

Min/HO
Sir R. Ibbs
RTA.

GOVERNMENT PURCHASING

The Prime Minister chaired a meeting on 29 October to consider the report on Government Purchasing which Lord Gowrie circulated to colleagues with his letter of 29 August to the Chancellor of the Exchequer. Those present in addition to the Chancellor of the Duchy were the Secretaries of State for Defence, the Environment, and Transport, the Chief Secretary, Lady Young, Mr Lamont, Mr Raison, Mr Newton, Mr Waddington, Sir Robin Ibbs and Sir Robert Armstrong.

Introducing the report Lord Gowrie said that its recommendations had to be seen in the widest context. The Government was committed to obtaining the best possible value for money from public expenditure, and to improving staff motivation and performance (especially through the Financial Management Initiative). Against this background, the report showed that Government buying lagged behind best practice in the private sector, and it proposed changes in methods and attitudes which could produce savings of the order of £400 million over the first two years.

Members of the central team gave a brief presentation of the report's findings and recommendations. In discussion the following points were made:

- (i) There was a strong case for establishing a small Central Purchasing Unit (CPU), with private sector representation, and a limited life. It was however important that the Unit should confine itself to an advisory and "catalytic" role, and that it should not become either a purchasing agency or a source of unwelcome demands for information.
- (ii) Those senior industrialists who had been consulted had supported the report's

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analysis, including the estimated savings and the recommendation in favour of establishing a CPU.

- (iii) Although the report spoke in terms of savings, it could be argued that at least some of the money freed by improved purchasing could be used to increase volume within agreed cash allocations. This issue would need to be resolved case by case, but should not be allowed to obscure or divert the pursuit for better value for money.
- (iv) There was undoubtedly scope for similar improvement in local authority purchasing. But the Audit Commission provided a mechanism for raising standards, and it would be inappropriate for the CPU to become involved.
- (v) While doubts had been expressed by some senior managers about the wisdom of having a new civil service specialism in purchasing, the traditional approach - which combined rapid turnover of staff with the posting of generalists - left Government Departments at a disadvantage when dealing with suppliers.
- (vi) It was disturbing that earlier studies, which had foreshadowed much of the team's findings, had produced so little in terms of practical results. Good purchasing was fundamental to good management, and it was to be hoped that the emphasis on action documents, target setting and monitoring, together with the influence of the CPU, would produce a better outcome.
- (vii) The timescale proposed in implementing the report was a generous one, given the enormous sums of money at stake and the extent to which requirements were already overdue. The aim should be to get Departmental targets in place by 1 April 1985.
- (viii) The overall target saving of 5 per cent over the first two years was not ambitious, but it was acceptable bearing in mind the limitations imposed on some

Departments by existing contracts.

Summing up the discussion the Prime Minister said that the meeting congratulated those involved in the preparation of the report. Their work showed clearly that Government Purchasing methods lagged behind best practice in the private sector. Action should now be set in hand to remedy the position as soon as possible. A Central Purchasing Unit should be established in line with the report's recommendations. It should be staffed both by secondees from the private sector and by civil servants. An overall target of 5 per cent savings over the first two years should be set, and improved upon if possible. Departments should be invited to prepare action documents as proposed in the report, but the timescale should be accelerated to allow individual targets to be in place by 1 April 1985. The report should be published, together with a brief Government response, subject to further consideration of the appendices. Lord Gowrie was invited to clear detailed proposals on publication in correspondence. For the time being at least, individual departmental targets should not be published.

Finally the Prime Minister agreed to write a foreword to the published version of the report. I should be grateful for a draft in due course.

I am sending copies of this letter to the Private Secretaries to those who attended the meeting.

(David Barclay)

Paul Thomas, Esq.,
Lord Gowrie's Office.