

NEPM at the stage.
To await P. advice
and Departmental
responses

AT 161,



FROM: CHIEF SECRETARY
DATE: 14 January 1985

PRIME MINISTER

**USING PRIVATE ENTERPRISE IN GOVERNMENT:
COMPETITIVE TENDERING**

On 5 July 1984 the Cabinet agreed to my proposals for the next steps in our drive to contract out work from Government departments to the private sector. I was asked to arrange for officials to consider how and in what timescale to take this forward.

2 There is, I believe, much scope for further progress; and we must show that we are taking this matter as seriously as we are asking other authorities, for example health and local authorities, to do. I propose that:

- a) departments should continue to cast their net as widely as possible so as to ensure that as much departmental work as possible is subject to competition. Every opportunity for competitive tendering, across the widest range of departmental activity, needs to be identified. One way of doing this, as we noted in July's Cabinet consideration of the matter, will be through departments' top management systems which have been set up under the Financial Management Initiative. This kind of process offers the best hope, in my view, of a substantial further advance in contracting work out of departments;
- b) departments should in any case test the market for the following specified services: cleaning, laundry, catering, security guarding (subject to Cabinet Office guidance) and some kinds of maintenance work. They should set targets for completing this process and progress towards these

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... targets should be monitored by the Treasury. Further services should be added to the list of specific services if experience shows that this will help departments achieve better value for money. The arrangements proposed for testing the market in the specified services are set out in the attached Annex A.

- c) a number of services, which do not appear to be suitable for mandatory market testing, should nevertheless be actively considered by departments for competitive tendering wherever this is practicable: I have particularly in mind professional services (for example, legal services), computer services, and secretarial and other training. Insofar as legal services are concerned, ED(L) separately asked me on 20 November to consider the scope for contracting out conveyancing work on the sale of government property. I have asked officials to look into this.

3 Departments have already made a good deal of progress. A summary of the position in the major departments is given in Annex B. As an example, the amount of cleaning now contracted out in these departments taken together is now of the order of 80 per cent. On cleaning, laundry and security guarding together, they spend in very round terms about £190 million per year, of which about £120 million is contracted out at present.

4 If you and colleagues agree I propose that we should instruct our departments to implement the proposals set out above and in Annex A. I will report progress to Cabinet in summer 1985.

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5 I am sending copies of this minute and the attachments to Cabinet colleagues, Ministers in charge of departments, Sir Robert Armstrong and Sir Robin Ibbs.

A handwritten signature in blue ink, consisting of the letters 'PR' in a stylized, cursive script.

PETER REES

MANAGEMENT IN CONFIDENCE

ANNEX A

COMPETITIVE TENDERING FOR SPECIFIED SERVICES IN GOVERNMENT DEPARTMENTS

Departments should be required to test the market for contracting out the following specified services:

- a) Cleaning
- b) Laundry
- c) Catering (in accordance with Treasury guidance of 30 October 1984)
- d) Security guarding (in accordance with Cabinet Office guidance of 14 August 1984)
- e) Maintenance of
 - (i) buildings
 - (ii) land attached to buildings, sports grounds, parks and gardens
 - (iii) vehicles (subject to special considerations in the case of MOD)
 - (iv) office equipment.

2. In some cases, these services are provided to departments by the central agencies such as the PSA. Departments should test the market for the service for which they are responsible: it will be for the central agencies to consider the possibilities for further contracting out for the services for which they are responsible.

3. Occasionally there may be circumstances where competitive tendering is considered to be impractical, eg for security reasons. In order to ensure broad consistency of practice in relation to such cases departments should let the Treasury

know of the criteria they are using in exempting particular cases from the general requirement.

Additions to the list of specified services

4. The following services should be considered for addition to the list of specified service when departments have had more experience of testing the market for them (or, in the case of postal and van services, the security implications have been considered centrally):

- a) Stores operation
- b) Messenger services
- c) Library services
- d) Press cutting services
- e) Postal and van services.

Re-testing the market

5. To take advantage of further opportunities of obtaining better value for money, testing the market should be a continuing activity. If the original test showed that better value was obtained by keeping the activity in-house, consideration should be given to a further test after an appropriate interval, which will depend both on the experience of the first test and on the likelihood of any marked changes in circumstance. The question whether a further test should be undertaken ought to be reconsidered at least every three years.

Targets and Monitoring

6. Each department should set targets for competing its testing the market for the specified services listed in paragraph 1. The aim would be to complete the initial

round by 31 March 1987 (31 March 1988 for catering). Departments should inform the Treasury of their targets and progress towards achieving them. The Department of Finance and Personnel, Northern Ireland, will co-ordinate a parallel exercise for Northern Ireland departments and the Northern Ireland Office. In addition, as in the past, departments will be asked to report periodically to the Treasury on the outcome of competitive tendering for work outside the specified services.

Exchange of Information

7. It will be desirable to improve the present arrangements for exchanging information between departments, in order to facilitate competitive tendering by sharing experience. Treasury officials will be in touch with departments about this and about other details of these new arrangements. In the case of catering, departments are asked to consult with CISCO in the first instance.

DEPARTMENTS PROGRESS WITH COMPETITIVE TENDERINGMinistry of Agriculture, Fisheries and Food

The market has already been tested for all cleaning and two thirds is contracted out. All laundry and about half of security guarding is contracted out. 6 out of 22 MAFF canteens are contract run; it is likely that the work of a further 5 will be contracted out in the next 2 years.

In addition, MAFF contract out work worth about £25m (1984-85 prices) including £3m paid to non-departmental public bodies for work which would cost more if done in house. Major contracted out activities include employment of local and temporary Veterinary Inspectors (£9½m) and seed testing and certification (nearly £4m). Civilianisation of offshore fishery protection (about £11m) is under consideration.

Cabinet Office

Most cleaning, laundry and catering is already contracted out. Security guarding at the Civil Service College, Sunningdale, is contracted out.

In addition the Cabinet Office contract out a good deal of lecturing at the Civil Service College and the Commission makes extensive use of fee paid recruitment panelists.

H M Customs and Excise

60 per cent of cleaning, 70 per cent of catering and 100 per cent of laundry is contracted out at present. Security guarding has been looked at in the past but the private sector has always been found to be more expensive. £3m was spent on maintenance contracts in 1983-84.

Other services contracted out include the operation of computer systems and maintenance of computer hardware, office machinery, the Customs offshore patrol fleet and official vehicles.

Ministry of Defence

Virtually all cleaning and laundry, and over half of all catering is already contracted out. Very little security guarding is contracted out; the possibilities for extension are being examined although security considerations may limit the scope for further progress.

In total some 100 services have been contracted out or are under consideration for contracting out. Aside from cleaning, catering, laundry and maintenance, these include academic teaching and research at Shrivenham, ocean weatherships for the Meteorological Office, range support services, stores depots, vehicle sales and quality assurance. 5,400 staff have been saved to date; the exercises under way will increase this by an estimated 15,000 posts.

Department of Education and Science

All laundry and 95 per cent of cleaning is contracted out. Some security is contracted out and the scope for further progress is under review. Catering is either contracted out or will shortly be put out to competitive tender.

In addition all maintenance of buildings (except that tied to PSA), computers and office equipment is contracted out. Increasing use is made of outside professional assistance including computer bureaux, computer and management consultancy services and audio-visual film-making and exhibition services. About £2³/₄m of research work is placed with outside bodies, mainly universities.

Department of Employment (including the Manpower Services Commission, the Health and Safety Executive and ACAS)

Most office cleaning and laundry and about a quarter of security guarding is already contracted out. Catering at MSC Moorfoot Headquarters and Rammoor Hall residential staff training unit is contracted out : all catering services have been withdrawn from Skillcentres.

In addition MSC uses managing agents to design, manage and deliver Youth Training Programmes. Community Programme Agents have a broadly similar role. The Employment Group contracts out a variety of domestic services including postal and transport services, warehousing, library services and general maintenance of premises (where this is untied from PSA) and equipment.

Department of Energy

All laundry, cleaning and maintenance are either provided by PSA or contracted out. All eligible security guarding is contracted out. Competitive tendering for the staff canteen in Thames House South is impractical until decisions are taken on whether the department will stay in the building. Other domestic services, for example the maintenance of computers and office equipment are also contracted out.

Departments of Environment and Transport

All laundry, virtually all cleaning and about 35 per cent of security guarding is contracted out. Catering is in part provided by CISCO and in part contracted out.

Other work contracted out includes cartographic and drawing office services, vehicle re-licensing work (undertaken by the Post Office) and design work for trunk roads programmes. Areas under consideration include Transport and Road Research Laboratory workshops, examination and certification of Merchant Seamen and interviewing for the 1986 English Housing Survey.

Foreign and Commonwealth Office

All cleaning, except in sensitive areas, will be contracted out by April 1985. All laundry is contracted out. Contracting out of security guarding is under consideration. The FCO have two CISCO managed restaurants; they expect to examine tendering possibilities later in 1985.

In addition, the FCO contracted out services worth about £12m in 1983-84. Major contracted out activities include overseas estate management (£6½m), overseas estate design work (£1m) and minor maintenance of the home estate (£½m).

Department of Health and Social Security

60 per cent of cleaning is contracted out. The small amount of laundry and catering is either contracted out already or will be subjected to market testing. The possibility of contracting out security guarding at Headquarters and the two Central Offices is currently being examined. Security officers in local offices do other duties as well and contracting out is not a practical possibility.

In addition consideration is currently being given to more use of management consultants and further contracting out of, among other things, the work on the operational strategy to extend and update the social security computer operations.

Home Office

A substantial proportion (85 per cent) of housekeeping, catering and security in the non-prisons area is already contracted out. A programme of review of in-house provision is under way. The Home Office follows a deliberate policy of providing laundry and catering services in prisons by means of inmate labour.

In addition, a wide range of Home Office services have been contracted out for many years including the conveyance of prisoners and escorts; design, construction and maintenance of new prisons and installation of large telecommunications systems. The annual value of contracts in 1984-85 is about £75m.

Inland Revenue

About 90 per cent of cleaning is contracted out. Most of the 78 staff restaurants are run by committees staffed by volunteers : in future tenders will be invited. All laundry is done by private contractors. The security provision is currently under review.

In addition, competitive tendering led to large savings in the work of the Inland Revenue postal sorting centre at Kew; the decision was to retain the work in house.

Lord Chancellor's Department

All laundry, most catering and about 75 per cent of cleaning are contracted out. 10 per cent of security guarding has recently been contracted out and the lessons are being watched with a view to further progress.

Other domestic services, for example ADP, are contracted out or under consideration for contracting out. In addition there are firm plans to contract out the Registry of County Court Judgements and the work of the Conveyancing Section.

Overseas Development Administration

Most cleaning and all laundry services are contracted out. Arrangements for testing the market for security guarding are in hand.

In addition ODA have work in hand to contract out overseas travel bookings and are thinking about partial contracting out of their in-house training operation.

Property Services Agency

All laundry and most cleaning is contracted out. Security guarding is not contracted out but the position will be kept under review following the issue of Cabinet Office guidance.

About 80 per cent of maintenance work has been contracted out saving 7,000 posts since April 1979. Further savings of 3,000 posts are expected. A substantial proportion of major design work is contracted out and 1,150 posts have been saved. In addition most ADP services are contracted out.

Department of Trade and Industry

Most cleaning and laundry and about half of security guarding are contracted out already. There are plans for testing the market for catering and security guarding.

In addition DTI contract out a wide variety of services including administration of assistance schemes, initial distribution of UK patent specifications and photographic and reprographic work.

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M Treasury

All cleaning and laundry work is contracted out. Tenders were invited (unsuccessfully) for catering in 1982; they will be invited again next year. Minor maintenance works are contracted out. The scope for contracting out security guarding is limited, following the recent Cabinet Office guidance.

In addition services worth about £2½m in 1984-85 are contracted out; the major items are consultants employed by CCTA (£1½m) and development studies for CCTA (£1m).

Northern Ireland

Virtually all laundry and 30 per cent of security guarding is contracted out. However, very little cleaning is contracted out at present; there is considerable scope for further competitive tendering in this area. Catering at the Northern Ireland Government training centres and the Northern Ireland Office is contracted out; staff catering in Northern Ireland departments and the 3 Agricultural Colleges is done in house and contracting out is a possibility.

Northern Ireland departments already contract out, among other services, capital work (including a substantial proportion of the associated planning and design work) and about two thirds of school transport. A number of other initiatives, for example in health service audit, sludge disposal and land acquisition, management and disposal are in hand or under consideration.

Scottish Office

Most cleaning and laundry, except in prisons, is contracted out. Contracting out of catering and security guarding is under review. All vehicle maintenance is contracted out. In prisons cleaning, catering, laundry and other domestic services are among the main sources of work for prisoners and both cost and security implications make contracting out inappropriate.

Other services contracted out by the Scottish Office include trunk road construction and prison building work, major maintenance in prisons, domestic services at the Scottish Police College and survey and research work.

Welsh Office

All laundry, 75 per cent of cleaning and 50 per cent of security guarding is already contracted out. Directly employed cleaners are only used at remote outstations. The market will be tested for catering during the course of the next two years.

In addition the Welsh Office contract out almost all their maintenance, design and research work.