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Oddi wrth Ysgrifennydd Gwladci Cymru The Rt Hon Nicholas Edwards MP From The Secretary of State for Wales

3rd November 1982

CONFIDENTIAL

John G. M.

THE CONTRACTING OUT OF PUBLIC SECTOR FUNCTIONS

I have now completed my review of all my Department's activities on contracting out. I attach a report dealing with the specific issues raised in your letter of 11 August to Willie Whitelaw and in the more recent letter of 18 October.

As to the scope for contracting out, my responsibilities broadly fall into two categories: those activities directly carried out by the Welsh Office and more indirectly areas such as local government, the Welsh Development Agency (which has already contracted out its construction and maintenance work) District Health Authorities and the Welsh Water Authority where I can influence but not directly control future planning. I have encouraged the extension of contracting out in these areas and this has already borne some fruit - particularly, as my report shows, with the District Health Authorities - and I believe there will be further progress including assessments of financial consequences to report.

On the more direct Departmental activities contracting out has been used wherever possible for a number of years. For example my Transport and Highways Group has never employed a Road Construction Unit and the bulk of design work on trunk roads and motorway schemes in Wales has been, and continues to be, undertaken by private consultants.

I am sending copies of this letter to all members of the Cabinet, the Attorney General, the Lord Advocate, Sir Robert Armstrong and to John Sparrow.

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The Rt Hon Sir Geoffrey Howe QC MP
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WELSH OFFICE PROGRESS REPORT ON THE CONTRACTING OUT OF
PUBLIC SECTOR FUNCTIONS

PART I - DEPARTMENTAL FUNCTIONS

(Numbering of functions and categorisation as in
CPRS report of July 1981)

1. Contract Cleaning: Category A (Departments generally); A(W.O.)
 1. All main Welsh Office domestic office cleaning and window cleaning is contracted out. (See Item 1.xiv. on page C6 of CPRS report.) This is the case also in WOAD as far as window cleaning is concerned but there are some 21½ cleaners directly employed in various offices, a number of which are in small out stations unlikely to attract a contractor. But further contracting out needs to be considered.
 2. Caerphilly Castle, Castell Coch and Tintern Abbey are already cleaned by contractors. Caernarfon Castle is a possibility, which might reduce the direct labour force by one. The remaining ancient monuments will be looked at but scope for further contracting out is not anticipated.
 3. [Contract cleaning could produce savings in the Health Service. The industry is ready to meet the specialised needs of the DHSS and has sought a meeting with the Department. AHA Chairmen are to be invited to consider the potential advantages.
2. Management Consultants: Category B (Departments generally); A? (W.O.)
 4. The Welsh Office has little direct experience of the use of management consultants. The possibility is being explored of contracting out the management of the oil depot at Llanreath, Pembroke Dock, which the Department holds for use in the event of a major oil tanker disaster off the west coast of Wales.
 5. The scope for the use of management consultants by the NHS in Wales is regarded as limited, because AHAs have their own management services teams with the kind of specialised knowledge of the Health Service which outsiders lack. Moreover, since consultants of repute are expensive to employ, the Department would advise AHAs to consider each case carefully before committing funds for this purpose.
3. Agency Staff: Category B (Departments generally); C (W.O.)
 6. The Welsh Office shares the generally held view (See item 3.9 on page C8 of the CPRS report) that agency staff would be employed only if absolutely necessary, since it is very expensive to do so.
4. Computing Services and Staff: Category B (Departments generally); B/A (W.O.)
 7. The Welsh Office is considering the introduction of mini and micro computers in order to save money spent on bureau services (of the order of £100,000 per year) and improve departmental control. This is the approach also of the Department of Energy, which has decided to reduce the amount of contracting out to computer bureaux for the same reason (Para. 21(ii) on page 7 of Part I of the CPRS report.)
 8. In England, RHA Chairmen have agreed proposals by the DHSS which is now preparing specific advice on the use of commercial computing services where computing package development would otherwise have to be undertaken by the NHS. Against this background, the Welsh Office is looking into policy on NHS computing in Wales.

Training: Category B (Departments generally); C (W.O.)

9. The Welsh Office relies in the main on internal training facilities, the Civil Service College and other specialist facilities within Government Departments. The Department is alert to the possibility of using outside contractors if a need were perceived in specific areas and subject to considerations of quality, relevance and cost (Para. 18 on page C13 of Part I of the CPRS report.) An example of such usage is for aerial photography (see para. 23 below.).

6. Security Staff: Category B (Departments generally); B/C (W.O.)

10. The CSD's continuing view is that the present extent of contracting out is about right and that the use of contract staff is generally more expensive. (Para. 20 on page C13 of Part I of CPRS report). The present position in the Welsh Office is that private contractors provide security cover in both Cathays Park buildings throughout the day and night. This is the cheaper arrangement but, following the industrial action in 1980, recruitment of Welsh Office staff to provide daytime cover has been agreed by the Secretary of State.

7(a). Catering (CISCO): Category C (Departments generally); C (W.O.)

11. CSD contend that substantial contracting out could only be achieved at additional cost but that individual cases should be decided on their merits since, at the margin, some contracting out may be feasible. The Welsh Office is watching the progress of a comparative study of CISCO and private catering for the snack bar in the Treasury, with a view, possibly, to 'read across' of the results.

7(b). Catering (NHS): Category A (DHSS(NI)); C (DHSS); C (W.O.)

12. The Welsh Office agrees with DHSS that contracting out is inhibited by private caterers' lack of expertise in the specialised field of hospital catering, lower cost and higher efficiency of directly provided services, and union and staff opposition. But there may be some limited scope in future for using contractors for specific local problems which cannot be solved within the NHS.

9(a). Architectural and Building Design Work (Ancient Monuments):
Category A (PSA generally); B (W.O.)

13. Preservation work on monuments requires staff experienced in the needs of this kind of work and the Welsh Office Ancient Monuments Branch will, therefore, always need to employ its own architects. There is scope for the employment of outside architects in the design of such structures as ticket offices, toilets and display centres where the work, although archaeologically and aesthetically sensitive, is not critical, and also in the design of ancillaries such as heating or lighting installations. Use has already been made of consultants for these purposes and will continue to be made in the future, but work of this kind does not form a large part of the architects' workload and is unlikely, on its own, to give scope for a staff reduction. Engineering consultants are being used this year at a cost of £10,000.

9(c). Architectural and Building Design Work (NHS): Category ? (Departments generally); B (W.O.)

14. The principle of using outside contractors is already accepted. Around 70% of the work is already contracted out by WHTSO and AHAs in Wales. No further scope is foreseen but the situation will continue to be monitored.

11. Research and Development: Category ? (Departments generally); ? (W.O.)

15. The greater part of the R&D sponsored by the Welsh Office is carried out by public sector institutions. There would seem to be little scope for further privatisation. An inter-departmental committee is looking at the possibilities in the industrial field.

16. If the recent (and still Confidential) decision to close the National Building Agency is confirmed, there will be a need to consider continuing the kind of work done by it in Wales by contracting out to other research organisations. The current cost of housing research carried out in Wales through the Agency is about £70,000 in 1981/82.

c) See

a.51(12)(d) Building Maintenance and New Works (Ancient Monuments):
Category A (Departments generally); B (W.O.)

17. Special skills, e.g. in consolidation of old stonework to match the style of the original, have been built up by the Department's direct labour force over many years and are not to be found in the general building trade. A further complication is the frequent need to fit preservation work in with archaeological work which would lead to difficulty in timing if contractors were used. Specialist contractors are used for restoration of historic paintings and painted woodwork and for special stonework preservation (£7,000 in 1981/82).

18. There is scope for use of outside contractors for construction and maintenance of ancillary structures. In 1981/82 it is estimated that out of a total expenditure of £38,382 for ancillary new works (excluding the direct labour cost) £37,854 will be expended through contractors. Comparable figures for ancillary maintenance are £52,615 and £44,115.

13(c). Transport Services (NHS): Category C (Departments generally); B/? (W.O.)

14(c). Vehicle Maintenance (NHS): Category B (Departments generally); B/? (W.O.)

19. The results of the DHSS Central Management Services Study on the relative merits of different maintenance arrangements for NHS vehicles will be made available to the Welsh Office and action in Wales then considered. Already, over 40% of the maintenance undertaken on ambulance transport in Wales is contracted out, compared with 65% for non-ambulance transport. AHA Chairmen will be invited again to consider the potential advantages of contracting out.

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15. Cartographic Services: Category A (Departments generally); B (W.O.)

20. All printing work is contracted out through HMSO, which determines which agency (including HMSO itself) should do the work. The Welsh Office is charged by HMSO for handling the work. Were the Department able to negotiate directly with the printer, the procedure would often be more efficient and the handling charge (up to 15% of the total) would be saved.

21. Less than half of photographic processing is contracted out, but the proportion is falling now that there are improved facilities for in-house work in the new building. The major constraint now is the size that can be photographed with the camera available. Work in-house saves time and cost. For example, production of proof maps from the Special Community Review artwork, essential for accurate checking purposes, would cost at least £44,000 in the private sector compared with £14,000 in-house. Time is saved because work can go directly from the drawing board to the darkroom and back.

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22. Artwork is all done in-house. Work is taken on only if it is specifically related to the functions of Welsh Office Divisions and considered by them to be essential; extraneous work and work not relevant to a cartographic function has now been dropped.

23. Outside consultants (the National College of Agricultural Engineering) were used for a training course in aerial photography.

24. All the Ancient Monuments Branch's photography is already done by contract. Estimated expenditure for 1981/82 is £25,000.

25. Cost, security and convenience are the factors inhibiting contracting out. Even where work could be contracted out at a competitive rate, difficulties would arise since much of the work requires access to Departmental records and since there are no firms in Wales which could offer work of the necessary quality. Using firms in South East England would increase communications costs. There are also specific reasons for maintaining an in-house capability: the need for recording work such as the Land Use Records and River Variation Orders and the need for a secure and priority service.

26. It is considered that the Welsh Office contracts out all that it is possible or effective to put out. External costs are monitored regularly as a check. It would be possible to contract out more Drawing Office work but only at a substantially greater cost than in-house work. 'Read across' of DOE experience is not applicable since the Welsh Office's cartographic services reflect those of many of the major functional Departments in Whitehall.

16. Legal Services: Category C (Departments generally); A (W.O.)

27. The Welsh Office has considered carefully the arguments for and against contracting out NHS litigation and conveyancing work currently done by the Legal Division. The Secretary of State endorsed recently a recommendation to retain litigation work, the privatisation of which was considered contrary to the public interest since there could be no confidence in the maintenance of the quality, promptness and consistency of advice to the NHS.

28. The advantage of having one central source of professional expertise applied in the case of conveyancing also, but the increasing backlog of case-work was a complicating factor. The Secretary of State therefore decided in favour of keeping the backlog under control by limiting the number of cases on hand to those which can be dealt with by the existing staff and putting the significant number of remaining cases out to private solicitors. There will be a review after 12 months to judge how the private solicitors are coping with a view to considering further moves in the same direction.

29. The possibility of 'reading across' from the Department of Trade's Rayner Scrutiny, which includes the option of utilising outside lawyers for prosecution work, will be examined. It has been hinted that there might be recommendations for setting up of a network of solicitors to act for Departments and for a greater use of agent solicitors, subject to certain provisions (Para 60 on page C29 of the CPRS report.).

19. Design and Supervision of Major Road Schemes: Category A (DTp); B (W.O.)

30. The communications and signalling system for the M4 Motorway in South Wales, which has been substantially completed since the early 70's, and for many other of the Welsh Office's trunk road improvement schemes, has been designed by Consulting Engineers rather than by Welsh Office staff. During this period the number of the Department's Electrical Engineers has been reduced from 4 to 2. It will be the policy to employ Consultants to the maximum extent possible in the design of the communications and signalling systems needed for the planned trunk road improvement schemes, although no further reduction in the number of Welsh Office Electrical Engineers can now be expected.

31. Reference is made in the CPRS report (para. 63ii on page C31) to the fact that the RCU Organisation has never applied in Wales and that Consulting Engineers (rather than local authorities acting as Agents) are responsible for preparation and design work on most of Welsh trunk road improvement schemes. This applies not only to the major schemes (over £1m) but to the smaller improvement schemes as well. For example, the Department has used Consulting Engineers to design and supervise a number of trunk road bridge reconstruction schemes of under £1m value and also culvert replacement schemes. In all the Department is using some 21 firms of Consulting Engineers for its road improvement schemes and also 8 firms of architects.

21(a). NHS Functions: Use of Outside Health Contractors: Category A (Departments generally); A (W.O.)

32. A circular similar to that issued in England (para. 65i on page C33 of the CPRS report) has been issued in Wales, encouraging the extension of co-operation between the NHS and the independent medical sector.

21(b). NHS Functions: Laundry Services: Category A (Departments generally); A (W.O.)

33. As in England, experience in Wales has shown that commercial laundries cannot offer as comprehensive a service at a comparable cost. There is also resistance to taking foul wash so that the NHS would still be involved in part of the laundering function by having to service foul wash before passing it on. However, AHAs will be asked to consider the use of private contractors when new capital schemes are designed.

21(c). NHS Functions: Manufacture of Blood Products: Category C (DHSS): C (W.O.)

34. Wales does not have a Blood Products Laboratory. Blood products are prepared for England and Wales, mainly at a central laboratory, from raw materials supplied by Regional Transfusion Centres. DHSS Ministers have decided that there is no satisfactory basis for commercial involvement without serious risk to the voluntary blood donor programme (para. 67 on page C34 of CPRS report).

24. Publishing: Category ? (Departments generally); B (W.O.)

35. A major recommendation of the Rayner report on the Statistical Services of the Welsh Office was that use of HMSO services for publications should cease. It was agreed subsequently to implement the recommendation by purchasing word processors and going to private printers for the statistical publications with which the word processors could not cope. Use of word processors retains the work in-house and going to a private printer with one or two publications will result only in contracting out by the WO rather than by HMSO.

- 28. Restoration of Opencast Sites)
- 29. Brucecellous Testing)
- 30. Tuberculin Production) Category ? (MAFF)
- 31. Laboratory Work for the Intervention)
- Board for Agricultural Produce)

36. Functions 28-30 primarily relate to ADAS, which is still operating on an England and Wales basis, and the Welsh Office will be kept informed of progress. Function 31 is the responsibility of MAFF alone.

- 32. Land and Estate Management : Category ? (MAFF); C/B (W.O.)

37. The Welsh Office is seeking to dispose of its land holdings. It would therefore be impracticable to consider contracting out at this stage.

38. In-house estate surveyors carry out letting of property and assessment of rents. They use the Inland Revenue valuation service as agents for purchases of monuments and claims for compensation (some 5 cases per annum). The possibility of contracting out any of this work has not been considered but any saving in staff would be marginal.

39. Land surveys are an essential part of the restoration and recording work of the Ancient Monuments Branch. Large land surveys are contracted out (at an estimated cost of £13,600 in 1981/82) whereas small surveys are carried out in-house by a staff of 2 who fit them in with other work. Further contracting out is unlikely to lead to staff savings.

40. Custodians and sales staff man 24 monuments. The possibility of contracting out is being considered by the DOE and the Welsh Office will explore the feasibility of 'reading across' to Wales.

41. The bulk of archaeological work is carried out by agents (4 archaeological Trusts, the University of Wales and the National Museum) or by casual appointment of specialists.

- 38. Ground Maintenance: Category ? (MoD); B (W.O.)

42. The largest item, grass cutting, is done by contractor at the 24 monuments in Anglesey and at Caerleon, Caerphilly Castle, Monmouth Great House and Tintern Abbey at an estimated cost of £31,000 in 1981/82). Custodians, key keepers or directly employed labour do the work at 80 other monuments. There would be no staff reduction of custodians or key keepers if the work were contracted out but there could theoretically be a saving of 2 or 2½ on directly employed labour. But there are practical disadvantages, since the employees do other work, such as checks and small repairs, and the use of contractors, even if they were attracted to working at the sites, would involve visits by supervisors. A grounds maintenance consultant is already employed at £6,000 per annum.

- 39. Pharmaceutical Manufacturing: Category ? (DHSS); ? (W.O.)

43. Comparisons between what it costs to manufacture pharmaceuticals in-house as opposed to obtaining them from commercial companies are being made in England. The Welsh Office intends to ask AHA Treasurers to co-operate in devising a standard method of costing NHS pharmaceutical operations on the lines of the English exercise (page B2 of CPRS report.).

47. Housing: Insulation Grants Appeal: Category A (W.O.)

44. As reported in the CPRS report (page B3) some progress has been made in contracting out the work on appeals into Departmental decisions on insulation grants in respect of properties affected by road schemes. The value of work undertaken in 1980/81 was £53,000 and £30,000 worth of contracts are expected to be let this year. The use of firms of architects to supervise the installation of noise insulation is likely to increase at the expense of the National Building Agency, if it closes, and the local authorities.

Functions not listed in the CPRS report

Family Practitioner Services: Category C (W.O.)

45. These services have been considered anew. The vast majority of such services are, of course already fully contracted out in that medical and dental general practitioners, chemist contractors and opticians have the status of independent contractors, their contract with the Department being a contract to provide services, not a contract of service. There is obviously no scope for further contracting out in such circumstances.

46. The exception is the Welsh Pricing Bureau, a service provided by WHTSO, which is responsible for analysing and costing prescriptions. There is a proposal that the work of the Bureau should be computerised and it could be said that the computerisation process is a candidate for contracting out: against this however is the fact that the corresponding Prescription Pricing Authority in England is already in process of being computerised and that it would be absurd for the corresponding function in Wales to be carried out differently. The only logical answer is for the Welsh Pricing Bureau to take advantage of the development work which has already been done and to adopt a similar, and fully compatible system. The service should not be contracted out.

Aerial Surveillance of Inshore Waters: Category A (MAFF, DANI, W.O.)

47. Following the disbandment of the RAF Squadron which, until earlier this year, covered UK inshore waters for purposes of aerial surveillance, Fisheries Departments (other than DAFS, who operate independently) have considered the employment of civilian aircraft. Initial estimates of the cost were less than half the £570,000 per annum cost of an MoD Sea Heron Service. A trial with a civilian aircraft is in progress with a view to proceeding to a long-term contract. Inter-Departmental financial arrangements are under consideration.

PART 2. LOCAL AUTHORITY FUNCTIONS

48. In the fields of activity within the jurisdiction of LG Division action awaits publication of the outcome of DOE's research project aimed at identifying useful examples of current contracting out practice in local environmental services. Limited scope is anticipated but the mounting of a propaganda exercise with Welsh local authorities is supported.

49. It is thought possible that private sector planning consultants might be used for the structure and local plans work of local planning authorities. Whether this possibility will be broached by DOE is not known.

50. No reference to DHSS is made in this Part of the CPRS report, which must reflect the inherent difficulties in the way of hiving off any significant parts of the functions of the social services authorities. One cannot envisage, for

example, the private sector being entrusted with the child care functions of such an authority. Minor segments of the social services function might be a different matter. Some services are already partly privatised eg boarding houses etc for mentally handicapped and other groups in care. In addition local authorities might be encouraged to entrust home help responsibilities to contractors, and the same could conceivably apply to cooking and cleaning functions in residential homes. However, repercussions on the part of the relevant trades unions could be expected and it would be unrealistic to believe that the Welsh Office could make any significant progress on these lines in the absence of a DHSS lead.

PSD

30 September 1981

12(c) Building Maintenance (NHS): Category A (DHSS(NI));? (Departments generally); B (W.O.)

51. AHAs in Wales do make use of outside contractors, especially for maintenance of specialist equipment and work which by its intermittent nature does not justify the employment of full-time staff. Routine building maintenance is carried out by direct labour, which has the advantage of giving emergency cover and flexibility. But AHA Chairmen will be invited again to consider the potential advantages of contracting out.