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8 December 1983

MR COLLES

Prime Minister.

THE FUTURE OF THE CROWN AGENTS

David Hobson has cast an eye over the Treasury and Foreign Office plans for the Crown Agents in the wake of the Brunei contract loss.

The Board argue that there is a viable future for the Crown Agents if it is slimmed down. The Treasury think the assumptions on which future viability depends will prove optimistic. In that event, further Government assistance would be needed in the future. We think the Treasury are correct.

The value of the Crown Agents to the country rests principally on their procurement services which can help British exporters secure contracts overseas. The remaining services would probably best be carried out by the private sector, especially the engineering, consultancy and financial transactions; or by the Civil Service, as with the payment of public service pensions. Economies could be achieved in the latter case by transfer.

The two remedies suggested entail either closure now, which would require legislation and which would be controversial; or backing the Board until 1986. This requires Parliamentary approval to remit interest owing in 1985 and 1986. In 1986, if things went wrong, legislation would be needed to subsidise the organisation or wind it up, possibly in the run-up to an Election. The "initial period" defined in the Crown Agents Act 1979 would by then have expired.

We do not like either solution. One entails an act of faith likely to prove misplaced and delays facing realities; the other threatens some worthwhile business opportunities.

We recommend that the Board be charged with disposing of those activities that are suitable either for private sector management, or for Civil Service management, preferably transferring some staff as well as contracts and activities. The remaining procurement business serving smaller countries could remain under a very small Crown Agents operation, or this could be transferred to the PSA

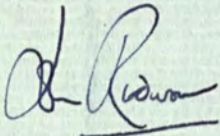
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whilst preserving the name and associations. Where the Crown Agents' name is important to part of the engineering or financial activity, a partnership arrangement with the private sector should be explored.

Tough targets for transfer of business should be set.



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