

● PO-CH/NL/0444  
PART A

Part - A .

**SECRET**

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**MANAGEMENT  
IN CONFIDENCE**

(Circulate under cover and  
notify **REGISTRY** of movement).

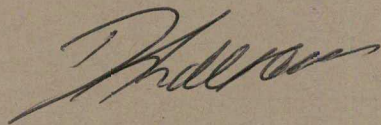
Begins: 24/6/87.  
Ends : 16/6/88 .

**THIS FOLDER HAS BEEN  
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PO CH | NL | 0444  
PT.A.

Chancellor's (Lawson) Papers:  
The Future of the Property Service Agency .

DD'S: 25 Years



2/2/96 .

PO CH | NL | 0444  
PT.A.



CH/EXCHEQUER	
REC.	24 JUN 1987 ✓ 24/16
ACTION	CST
COPIES TO	

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Major MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1P 3AG

24 June 1987

Dear John,

#### PAYMENT AND UNTYING FROM PSA

In his letter of 24 April to Nicholas Ridley your predecessor sought the agreement of colleagues to proposals concerning payment for major capital projects undertaken on Departments' behalf by the PSA, and to arrangements under which Departments would no longer be tied to the PSA for such work. Unfortunately my copy of the letter was delayed and the General Election intervened before I could reply.

I am in fact content with John MacGregor's proposals, but I felt you ought to be aware of my concern about the implications for my Departments. The running cost regime to which Departments are now subject is making it extremely difficult for the Scottish Office and the other Departments for which I am responsible adequately to discharge their existing functions, far less add new activities, and the additional Vote management responsibilities to which the repayment proposals give rise will increase the pressures they face. I also have considerable doubt about their ability to take proper advantage of the opportunities offered by untying unless additional running costs are available to strengthen the quantity and quality of their in-house professional support.

The proposed timetable for implementing the changes is an ambitious one, but despite what I said about the pressures I am prepared to make every effort to comply with it. I shall however be seeking recognition of the running costs implications in the current PES round and shall have to look again at whether April 1988 is a realistic aim, so far as my Departments are concerned, in the light of the limits which are set for departmental running costs over the next 3 years.

I am copying this letter as John MacGregor's was, to the Prime Minister, members of the Cabinet, other Ministers in charge of Departments, Sir Robert Armstrong and Sir Robin Ibbs.

*Yours ever,*  
*Malcolm*

MALCOLM RIKFIND



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Nicholas Ridley AMICE MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1P 3EB

RD CC CHANCELLOR/2  
 FINANCIAL SEC.  
 PAYMASTER GEN.  
 MR F.E.R. BUTLER  
 MR ANSON  
 MR LUCE  
 MR JUDD  
 MR SPACKMAN  
 MR GILMORE  
 MR HANTIN  
 MR TURNBULL  
 MR ROBSON  
 MR INSTONE  
 MR F.K. JONES  
 MR REYNOLTA  
 MR MEADOWS  
 MISS WILSON.

7<sup>th</sup> July 1987

*Dear Nick,*

**PAYMENT AND UNTYING FROM PSA**

Thank you for your letter of 13 May supporting the recommendation of the Treasury working group that payment and untying should be introduced from 1 April 1988 for major civil projects carried out by PSA. I have also seen the letters from Douglas Hurd and Malcolm Rifkind agreeing to these changes. I assume other colleagues are content.

We now need to announce the introduction of the new arrangements to Parliament. I propose to do so by means of an arranged Parliamentary Question. I enclose a draft question and answer, which my officials have discussed with yours. If you or other colleagues have any comments on the draft I should be grateful to have them by Thursday, 9 July so that the announcement can be made early the following week. I understand your officials would find it helpful if the announcement could be made before they meet the PSA departmental trade unions on 14 July.

I am copying this letter to the Prime Minister; members of the Cabinet; other Ministers in charge of departments; and to Sir Robert Armstrong and Sir Robin Ibbs.

*Your Ever,*

JOHN MAJOR

**DRAFT STATEMENT TO PARLIAMENT**

To ask the Chief Secretary to the Treasury whether any changes are proposed to the existing allocation of responsibilities to the Property Services Agency and to client departments for new civil works projects.

**DRAFT REPLY**

Under existing arrangements civil departments are responsible for defining their accommodation needs precisely, economically and in good time. PSA is responsible for deciding how best to meet these requirements - whether by using existing property, or by leasing or new construction. Where new construction is the agreed solution the capital cost of such projects (and the cost of the design resources associated with them) is generally met from the client department's public expenditure programme. But, with a few exceptions, this expenditure still falls on the PSA's Vote (Class XX.19). Most departments are required to use PSA exclusively to provide accommodation services.

2. From 1 April 1988 departments will be required to meet, directly from their Votes, the cost of major civil building projects which are funded from their public expenditure programmes. This will bring the treatment of such expenditure in the Public Expenditure Survey and in Estimates into line. From the same date departments will be able to test the market, and to use agents other than the PSA for design and project management of new construction where it appears cost effective and in the interests of good management to do so. These arrangements will apply to projects estimated to cost £150,000 or more. The Property Repayment Services (PRS) arrangements will continue to govern the provision of leased accommodation, minor works and maintenance.

3. These changes are part of a continuing process which is designed to clarify the respective responsibilities of client and agent to ensure completion of projects to time and within budget. The

introduction of payment will improve the incentive for the client Department to ensure, for example, that late and potentially expensive changes to specification are avoided. The introduction of competition, by untying Departments from PSA, will provide an opportunity for Departments to test other sources of supply as well as an incentive for further improvement of the efficiency of services provided by PSA.

4 Under the new payment arrangements Departments will remain accountable for the requirement; PSA will remain accountable for the services which they provide. Departments will not be required to second guess PSA's professional judgments. But the change in Vote responsibilities will enable client departments to discharge their role more effectively.

5 Under untying Departments will not be obliged or necessarily expected to test the market or to use agents other than PSA from the outset. The process is expected to be evolutionary for three reasons.

6 First, it will take time for Departments to acquire the necessary resources and skills; for some Departments, especially small Departments, or those with few building projects, it may not be economical for them to do so.

7 Second, Departments will need to satisfy the Treasury of their capacity to use alternative agencies.

8 Third, it will be necessary to take into account the effects of changes in workload on PSA. Departments will therefore be expected to agree an advance programme of work with PSA.

9 Until improvements are introduced to PSA's accounting and management systems it will not be possible for the Agency

to provide advance quotations on a comparable basis to those of outside agencies. In the interim it will be necessary for Departments to base their comparisons on the best estimates PSA can provide.

10 These arrangements will be reviewed in two years time.



12



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon John Major Esq MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	09 JUL 1987
ACTION	CST.
COPIES TO	

9 July 1987

*Dear John*

PAYMENT AND UNTYING FROM PSA

Thank you for your letter of 7 July.

I am generally content with your proposals to announce the introduction of the new arrangements, and on the content of the Parliamentary answer. I do however have two small drafting amendments to suggest.

First, paragraph 5 implies - no doubt unintentionally - that Departments may well in future be forced to use agents other than the PSA. To overcome this, the first sentence should read:

"Under untying, Departments will not necessarily be expected to test the market from the outset, or to use agents other than the PSA".

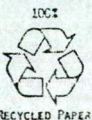
Second, I would prefer paragraph 9 to be more positive about PSA's intention to implement commercial accounts as soon as possible:

"PSA intends to move to a system of commercial accounting as soon as possible. When it does, PSA will be able to provide advance quotations on a comparable basis to those of outside agencies ...."

I am copying this letter to the recipients of yours.

*Yours sincerely  
Nicholas Ridley*

NICHOLAS RIDLEY





RF

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 10E

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 .....

10 July 1987

CH/EXCHEQUER	
REC.	13 JUL 1987 ✓ 13/7
ACTION	CST
COPIES TO	

Dear John,

PAYMENT AND UNTYING FROM THE PSA

You copied to me your letter of 7th July to Nicholas Ridley about the announcement of the new arrangements for major civil projects.

I understand that what is proposed is that, when Departments use the services of the PSA, they will in fact repay the actual costs attributed to their work by the PSA, who will not in any way be bound by their initial estimate, and that there will in practice be no greater control exercised by Departments over the way in which the work is managed. Departments will however be free to use other agents, if their quotations are lower than the PSA estimates, subject to the annual agreement with the PSA about the advance programme of work.

I should say that I would not wish to have such arrangements applied to the Defence Works programme and I would like to consider a

The Rt Hon John Major MP



different approach for MOD civil estate projects. As you will know these issues are currently under examination by a group of officials from MOD, PSA, Treasury and the MPO and I had been assuming that my position was reserved in the meantime. The proposed statement is not absolutely clear on this, referring in one instance to the civil Departments but elsewhere to civil projects. I should be grateful therefore if the announcement could make clear that the arrangements are for works projects for the civil departments.

I am sending copies of this to the Prime Minister, other members of the Cabinet and Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

Yours sincerely,

A handwritten signature in cursive script that reads "George". The signature is written in dark ink and is positioned above a horizontal line.

George Younger

FROM THE RIGHT HONOURABLE LORD HAVERS

RD



CH/EXCHEQUER	
REC.	13 JUL 1987 ✓ 137
ACTION	CST
COPIES TO	

HOUSE OF LORDS,  
LONDON SW1A 0PW

10 July 1987

Dear John,

PAYMENTS AND UNTYING FROM PSA

Thank you for sending me a copy of your letter of 7th July to Nicholas Ridley about payment and untying from PSA. I have studied the draft question and answer together with the proposals contained in John MacGregor's letter of 24th April.

I understand the concern that all departments should adopt the new repayment arrangements from 1st April 1988. Not without some considerable misgivings about the practical implications of this time-table, I am prepared to go along with that date for my Department. But this is subject to my obtaining the necessary additional manpower and financial resources, and my officials will be in touch with yours shortly about our needs in this respect. I cannot agree to proceed on any other basis. As well as that, as Douglas Hurd has already said in his letter of 6th May, the change must be well managed, and there are a number of matters that will need to be resolved to this end.

The Right Honourable  
John Major MP  
The Chief Secretary  
to the Treasury

The present division of financial responsibility between my Department and the PSA is well understood. On the other hand, whatever potential advantages are seen for Departments in acquiring direct Vote responsibility to strengthen their "ownership" of major building projects, I am concerned that the respective financial responsibilities of departments and the PSA under the new arrangements should be clear to all. The proposal to announce the new arrangements by way of an arranged Parliamentary Question is therefore welcome, and I am generally content with the draft.

There will be a need within the new Vote, for my Department to deal with annual expenditure across some 90 court building projects in different stages of development. The day to day management of this expenditure will lie within the PSA. The accounting systems within and between the two Departments will need to be improved and it remains to be seen how much of this will be possible by next April. For this reason, and also to reflect the vicissitudes inherent in the development of large capital projects, I hope that there will be some arrangements for financial flexibility in relation to the prospective new Vote.

Given the importance of the capital court building programme in containing delays and backlogs in the courts, my principal concern must be to avoid disruption, because of the transition to the new arrangements. The Courts Act 1971 formally vests in the Secretary of State for the Environment the responsibility for the provision of court buildings, and at present my Department, which lacks any staff professionally qualified in this field, depends entirely on the PSA for the range of professional and technical skills needed for the execution of the major building programme. The public importance, and the technical complexity, of modern court buildings mean that there must be a continuing role for a central core of expertise within Government at the very least to maintain consistency of standards, to formulate acceptable technical solutions and to secure necessary, and often elusive, planning approvals.

There is a considerable investment in the PSA's existing role in the execution of the court building programme, and this cannot lightly be cast aside if we are to sustain the necessary momentum in meeting the requirements for new court buildings.

Copies of this letter go to the recipients of yours.

Yours GCV.  
Michael.



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

RD

My ref:

Your ref:

The Rt Hon John Major Esq MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	15 JUL 1987
ACTION	CST
COPIES TO	

15 July 1987

Dear Chief Secretary,

I should like to comment on two points raised in George Younger's letter to you of 10 July about excluding Defence occupations on the civil estate from the payment/untying arrangements we propose to introduce next April.

When the Treasury's Interdepartmental Working Group on major capital projects considered payment and untying, they accepted that the right long term arrangement would be one under which PSA competed for departments' work against private consultants on similar terms. For this to be possible however, PSA needs to put its operations onto a commercial footing and this was one reason why we had a major study made by Deloitte on the introduction of commercial accounts in PSA. The system planned for 1 April 1988 for civil projects will as George Younger says have some limitations in respect of the payment arrangements compared with the final commercial system proposed in the Deloitte's report. But it will nevertheless take us a long way towards the ultimate goal. And crucially it will enable the untying of departments from PSA from the outset. I see this as a big step forward in terms of exposing the PSA to early competition. I am sure it would be a mistake to defer action for a number of years until the longer term developments are all in place.

I think that excluding MOD's occupations on the civil estate from the 1 April 1988 arrangements would be a step backwards.

Certainly at the present time I would find it difficult to accept that there are substantial arguments for treating MOD and civil departments' occupations on the civil estate differently. One of the major issues which arises out of the Deloitte's report on commercial accounts is that of the best ownership regime for the civil estate. It is likely that whilst commercial treatment will involve departments taking on de facto ownership responsibility for many buildings, it is also right on the same principles that a core of common user buildings should remain with PSA. We shall

need to consider carefully the best demarcation between departments and PSA responsibilities on the civil estate before deciding on the ownership rules and hence which projects departments ought to pay for.

I hope to put proposals to colleagues on this issue later this year and we shall at the same time have the results of the official study of the defence estate which George Younger mentions. While I accept that it is right for the present to exclude MOD's defence projects from the scope of the arrangements covered by the announcement, I hope that George Younger and colleagues will agree to treat MOD's civil projects on the same basis as those of other departments. If the official study of the defence estate concludes that MOD's civil projects should be handled differently that will be a new factor which we shall need to consider in the context of the management of the civil estate as a whole.

I hope it will be possible to settle this very quickly so that we can keep up the momentum planning for implementation on 1 April 1988. It is highly desirable that an announcement is made in the House and with Parliament rising on 24 July time is getting short.

I am copying this letter to recipients of yours.

Yours sincerely,  
Deborah Lamb

pp. NICHOLAS RIDLEY

(approved by the Secretary of State  
& signed in his absence).





25

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 10L

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218

21 July 1987

CH/EXCHEQUER
22 JUL 1987 ✓ 22/7
CST

Dear John,

PAYMENT AND UNTYING FROM THE PSA

I have seen a copy of Nicholas Ridley's letter of 15th July, commenting on my earlier letter of the 10th, and now your letter of 20th July.

I should say that I am at one with Nicholas in seeking the earliest untying/privatisation and I have no difficulty with the first three paragraphs of the draft reply. My concern is that the detailed arrangements set out subsequently for civil projects may not in practice facilitate untying but may rather turn out to be an obstacle. To illustrate this, a suggestion by my officials that PSA should consider charging for their civil project services on the same basis as outside consultants, eg in the form of a percentage fee, has been rejected on the grounds that it would conflict with the principle which is built into the proposed arrangements that the PSA should recover in full the actual costs

The Rt Hon John Major MP



incurred. A different arrangement from cost recovery will apparently be considered for the MOD only if the announcement is restricted to the civil departments, who I understand are content with it.

I am grateful for the assurance that the cost repayment arrangement does not apply to military projects "at present" but it has been suggested in the interdepartmental group that it might. We already have a Vote for defence works and it would seem to me a very backward step if the introduction of repayment on the lines proposed for the civil estate were effectively to exempt the PSA from the cash limit discipline on payments to contractors without giving my Department greater control over those payments, for example over the contract conditions.

MOD is a relatively small user of the civil estate and we have not been one of the main players in the development of the proposals for it. I would not like it to be presumed that we regard those arrangements as suitable for defence works, or indeed an improvement on present arrangements, and would not like to be stopped by them from considering how better to privatise as soon as possible, whether on defence work or on projects for what is currently regarded as the civil estate. (I note the possibility that the solution will lie in transferring ownership of MOD offices).



I would still prefer the announcement to refer specifically to civil departments but, on the understandings above, will not press my reservation.

I am sending copies of this letter to the Prime Minister, other members of the Cabinet and Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

Yours wls,  
George.

George Younger



10 DOWNING STREET  
LONDON SW1A 2AA

Papers  
PSE

CH/EXCHEQUER	
REC.	23 JUL 1987 257
ACTION	CST
COPIES TO	

From the Private Secretary

23 July 1987

*Den [Signature]*

*py*

PAYMENT AND UNTYING FROM THE PSA

The Prime Minister has seen your Secretary of State's letter of 10 July to the Chief Secretary and also the letters of 15 July from the Secretary of State for the Environment and 7 July from the Chief Secretary. She has noted that the Treasury Working Group on Major Capital Projects recommended further study of the applicability of the principles of payment and untying to the Defence Estate, and she hopes that the Group undertaking this and other work on future arrangements for the Defence Estate will report quickly so that decisions can be taken.

She was not, however, aware that any question existed as to the application of payment and untying to that part of the Civil Estate which is occupied by your Department. She is not clear why one part of the Civil Estate should be treated differently from others in this respect, and believes therefore that there should be no delay to the announcement from the Chief Secretary relating to the Civil Estate before the Summer Recess. She has noted that inter-relationships between different studies relating to the PSA have often led to delay in implementing recommended reforms and considers that this should be avoided on this occasion.

I am copying this letter to the Private Secretaries to members of the Cabinet and Ministers in charge of Departments, and to Sir Robert Armstrong and Sir Robin Ibbes.

*Zorn*

*Andy*

P. A. BEARPARK

John Howe, Esq.,  
Ministry of Defence.



*mmp*

10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

8/3/88

Mr Instone
EX Mr Anson
Mr H Phillips
Mr Hanlin Mr Robson
Mr Call

SIR ROBIN BUTLER

FUTURE OF THE PSA

The Prime Minister discussed this afternoon the future of the PSA with the Secretaries of State for Defence and for the Environment, the Chief Secretary and yourself.

After some discussion, it was agreed to proceed as follows:

- (i) There should be a transfer of responsibility from PSA to MoD in respect of the following defence estate functions
- defence estate management
  - certain Directly Employed Labour (DEL) operatives with specific permanent tasks (e.g. boiler operators).

The Prime Minister asked you to define, in consultation with MoD and PSA, the precise functions to be transferred.

- (ii) The PSA should make arrangements for all remaining (defence and civil) work to be untied by 1990.

(iii) The PSA should introduce commercial accounts with a view to placing all their activities on to a trading fund basis, which reflected the Agency's three activities, property ownership, project management and estate agency work (with the ultimate intention of floating off the latter two functions in due course). The trading fund regime should be introduced as soon as possible and certainly by no later than 1993.

The PSA and the Treasury should come forward with proposals to put this into effect.

- (iv) The PSA should produce a detailed plan to contract out internal PSA functions e.g. DEL and more of the design staff; the plan should include target levels for staff retained or proportions of work targeted out with dates for achievement.

(v) The PSA and the Treasury, in consultation with the MoD, should devise arrangements - both for the period after the PSA's activities had been placed on the commercial accounting basis described at (iii) above and for the interim period after untying in 1990 and the beginning of the introduction of commercial accounts - which would avoid a Department being charged with PSA's oncosts/overheads in those

~~SECRET~~

cases where it had placed contracts with contractors other than the PSA. The arrangements should operate so that the PSA's tender price comprised its total charge for services rendered in those cases where it had secured the contract; i.e. the arrangements should not permit the PSA to charge on costs/overheads in addition to the tender price which it had submitted.

(vi) PSA, the Treasury and yourself should consider whether changes were needed in present policies regarding PSA redundancies.

The Prime Minister asked you to prepare a report for her covering the action under the six headings above with a view to a Parliamentary statement (presumably by Written Answer) no later than two months' time. You should suggest at the same time how the Prime Minister might best take the opinions of the other interested Departments on the changes proposed.

I am sending a copy of this minute to the Private Secretaries to the Secretaries of State for Defence and for the Environment and to the Chief Secretary.

(N. L. WICKS)  
8 March 1988

~~SECRET~~

Ref. AO88/1451

10/5/88

MR WICKS

*Any minutes on this yet? 4 vol. See*

Future of the PSA

CHIEF SECRETARY	
REC.	11 MAY 1988
ACTION	Mr Instone
COPIES TO	Cx Mr Burton, Mr H. Phillips, Mr Newson Mr Robson, Mr Call.

The Prime Minister asked me for a report on the action being taken under the six headings discussed at her meeting on 8 March about the future of the PSA (your minute to me of that date).

2. Following the decisions reached at that meeting, much detailed and constructive work has gone ahead between PSA, MOD and Treasury. It is already clear that the practical problems which exist should, with hard work, be capable of resolution in the timescales envisaged. While it has only been possible to make a start over the last two months, the point has now been reached where an early Parliamentary Statement is both possible and necessary, and I attach to this report a first draft of such a statement, prepared by the PSA and which would most naturally be made by the Secretary of State for Environment.

3. Taking each of the six issues discussed on 8 March in turn:

i) Transfers of responsibility

4. I was asked to define the precise functions to be transferred from PSA to MOD in respect of

- a) defence estate management
- b) certain Directly Employed Labour (DEL) operations engaged on specific permanent tasks.

5. Estate Management is a well defined function within PSA, and no major problems are foreseen in implementing the transfer of function. Approximately 650 posts will transfer to MOD, plus

locally engaged staff overseas and related ancillary staff (messengers, reprographics etc). The transfer is being planned to take place on 1 October 1988.

6. "Directly Employed Labour with specific permanent tasks" are a less homogeneous group, and the planning for transfers has also to take account of the need for suitable supervision by the MOD, including arrangements covering maintenance advice and health and safety standards.

7. About 200 DEL (primarily sewerage and water operatives, and groundsmen at major sports grounds) can be transferred without a need for consequent changes to the existing MOD management structure: this move is being planned for 1 April 1989. Transfers of up to an additional 800 DEL (including such categories as boiler operatives) are planned to take place between that date and 1 April 1990, once appropriate local technical supervision and management arrangements are in place.

8. The formal transfers of functions in all cases can be achieved by administrative means, individual staff will generally transfer with their work in the usual way, and straightforward financial transfers will also need to be negotiated.

ii) Untying of all PSA work (civil and defence) by 1 April 1990

9. An essential prerequisite for untying (ie the introduction of competition to the PSA) is that client Departments should be operating a system of payment whereby they hold Vote cover themselves for their property services costs. At present, only major civil works are on a full payment system and also untied, though departments are of course charged for their accommodation under the PRS arrangements.



10. Payment for all PSA defence activities and the remaining civil activities will be introduced by 1 April 1990 at the latest. It would be ideal if it could be done simultaneously. Further work by PSA, involving the civil departments as well as MOD, will be needed to establish whether an earlier date is feasible for some activities without causing undue disruption of services.

11. Similarly, work is needed to establish the earliest date on which it will be feasible to untie both the remaining services for civil clients and all defence works. But the intention is that all civil and defence services would be untied from 1 April 1990 at the latest.

12. The precise form of untying for some activities, especially maintenance, is not yet clear. Further study is required to work up detailed arrangements, and to examine how best to deal with those areas (eg defence work overseas) where there may be particular difficulties in converting the principle of untying into practice. The present arrangements for work for the US Forces will need to be reviewed, in consultation with the US authorities.

iii) Implementation of a PSA trading fund based on commercial accounts by 1993

13. In line with the report from Deloitte's, and as broadly endorsed by the Prime Minister, PSA in agreement with the Treasury propose to reorganise into three businesses:

- a) project services (ie management of major works);
- b) estate services (ie management of minor works, and maintenance, and civil estate agency);

c) property ownership of the common user element of the civil estate (ie properties not transferred to the ownership of specific departments). It is not clear whether this business could become part of the trading fund.

14. PSA plan to have the three businesses fully operational by 1 April 1990, with shadow running before that date, and transfer of non-"common-user" properties to individual Departments also completed by that date.

15. The key requirement for the introduction of full commercial accounts (planned for 1 April 1992), Trading Fund status (1 April 1993) and the development of a commercial track record is the implementation of PSA's strategy on information technology. Purchase of new hardware will need to begin in the autumn of this year, for installation in 1990. This will require prior Treasury agreement to the strategy, and agreement with Treasury and MOD on arrangements for PSA to take over sole financial responsibility for their IT expenditure.

iv) Contracting out of internal PSA functions

16. PSA's approach to contracting out will be to do so as part of the broader policy (iii above) of developing the project services and estates services businesses on commercial lines. In particular, they intend to prune those functions which can be contracted out quickly without impairing commercial performance.

17. The Directly Employed Labour (DEL) force has been reduced from some 19,000 in 1979 to some 8,600 now as a result of contracting out. PSA's future policy will be to continue to reduce the DEL to the absolute minimum that meets client requirements; while reductions have hitherto been effected by

natural wastage, compulsory redundancies will almost certainly be required in the future (see section vi below). By 1 October 1988 PSA intend to set target dates for reduction over the next three years for both civil and defence activities, taking account in the latter case of MOD's transition to war needs and also the UK needs of the US Forces.

18. PSA also intend to reduce their design offices from 25 now (as against 50 in 1987) to above 10 or less by 1 April 1990; as planning develops, they will be able to set more precise targets for reductions in staff numbers. In addition, PSA plan to examine the scope for additional contracting out of their civil estate agency functions and in their local works office.

v) Advance Quotations by PSA

19. PSA and Treasury have devised arrangements to ensure that PSA is able after untying to quote firm prices which will avoid client Departments being faced with an undue proportion of PSA's overheads. From 1 April 1990 at the latest PSA will offer all client Departments advance quotations (including an appropriate element for overheads) to which they can be held on a similar basis as private sector consultants. It may be necessary to devise additional arrangements to ensure that an undue share of overheads is not charged to activities where untying may prove difficult in practice, though this will be related to the further detailed work on the specifics of untying.

20. PSA will separately develop estimating and pricing techniques to minimise the risks of overall overspends on the PSA Vote before the Trading Fund is established. But in the last resort, if there is a potential overspend which cannot be offset by savings, supplementary estimates may be needed in the interim period between 1990 and 1993.

vi) Changes in Policies on PSA redundancies

21. An accelerated rundown of the DEL has hitherto been rejected in view of assurances previously given that the introduction of the Property Repayment System (PRS) would not of itself lead to compulsory redundancies. Now that PRS is fully operational, that inhibition can be removed; and PSA will need confirmation that compulsory redundancies in the DEL can be effected. Indeed, in general, PSA will need to have the same ability to reduce staff (industrial and non-industrial) as any private sector consultant would have, but the precise form of the greater flexibility required will need to be assessed in the light of the Agency's overall strategy for moving to a more commercial mode of operation. This will have financial implications for which PSA does not at present have provision.

Future Handling

22. The Secretary of State for the Environment believes that this matter is of sufficient importance to warrant an oral statement and he will be consulting the business managers about that. I attach a first draft of such a statement which the PSA have prepared.

23. We also need to consider how best to consult civil departments. They will need to be closely involved in the next and more detailed stage of work. But provided they are assured of that and particularly that the detailed implication for them will be considered, the broad outline of principles we shall want to announce should cause them little difficulty. As soon as the Prime Minister has taken a decision on these proposals I suggest that the Secretary of State for the Environment should be invited to circulate the draft statement to Ministerial colleagues together with some explanation of the background.

The trade unions will be informed simultaneously with the statement being made and will be offered consultation on the staffing implications of the policy.

24. Consideration has been given to the possibility of including in the Statement some reference to PSA being designated as a potential Executive Agency under the Next Steps Initiative. The Secretary of State for the Environment has been consulted on this. His view is that the proposals outlined above add up to a formidable agenda for change and that it would be premature to consider giving PSA executive agency status until it has gone a little further towards planning how to restructure its business in the light of the Deloitte's report. Much of the preparatory work to transform PSA into three business should be relevant to decisions on executive agencies as it is towards the creation of one or more trading funds. When this work is complete, Mr Ridley will then actively consider the scope for making one or more agencies out of PSA. I think that this is the right approach, which Mr Kemp will follow up with the PSA after the announcement has been made.

25. I am sending copies of this minute to the Secretaries of State for Defence and Environment, and to the Chief Secretary.

R.B.

ROBIN BUTLER

10 May 1988

Attachment of Sir R. Butler  
minutes 10 May.

**DRAFT STATEMENT ON THE FUTURE OF PSA**

The Government have decided that the Property Services Agency should become a commercial organisation whose future will depend upon its performance in the market place. In reaching this decision, we have taken account of a report prepared by Messrs Deloitte Haskins and Sells on the introduction of commercial accounting into the PSA. Copies of that report have been placed in the Libraries of both Houses of Parliament. We have also paid especial attention to the Second Report for the Session 1986/87 which the Select Committee on the Environment prepared on the PSA under the chairmanship of my hon Friend the Member for Hornsey and Wood Green.

My rt hon Friend the Chief Secretary has already announced on 23 July 1987 (Hansard, Cols 433 and 434) from 1 April this year a new payment relationship for major civil projects between Departments and the PSA. Under this payment regime, Departments meet the cost of major construction works from their own votes, and are untied from the PSA, ie they have the freedom to use agents other than the PSA where it appears cost effective and in the interests of good management to do so. Payment and untying arrangements will now be introduced for all PSA services provided to the Ministry of Defence as well as to civil departments. The extended arrangements will be fully in place by 1 April 1990.

By 1 April 1990 also, PSA will be reorganised into three distinct businesses, as recommended by Messrs Deloitte, Haskins and Sells. Two of these will be service businesses, covering project services (broadly, design and management of major construction works) and estate services (broadly, estate agency functions on the Government's civil estate, plus management of minor construction works and of maintenance). The third business will involve civil ownership of property. PSA will continue to manage a common user element of the existing civil estate, a substantial amount however, will become the responsibility of individual Departments.

I hope to make substantial progress in implementing this re-organisation before the completion date of 1 April 1990.

In operating its businesses, the PSA will be under explicit instructions to contract out, in line with Government policy generally, functions to the private sector wherever this offers better value for money and does not impair the PSA's own commercial viability. I shall keep the progress of contracting out under continuous review.

The extension of payment and untying and the planned re-organisation into three businesses are designed to expose the PSA to outside competition as rapidly as possible; and to equip the PSA to compete effectively. In addition we have also decided that if the PSA is to operate on a fully commercial basis, it should become a Government Trading Fund, as proposed both by Messrs Deloittee, Haskins and Sells and by the Select Committee on the Environment.

In line with the timetable set out by Deloittes, I look to PSA establishing as much of their operations as practicable under a Trading Fund no later than 1 April 1993.

Finally, my rt hon Friend the Prime Minister has decided that my rt hon Friend the Secretary of State for Defence should take over responsibility in two areas. The first of these is management of the defence estate both in the United Kingdom and overseas. Transfer both of this function and of the staff needed to discharge it will take place on 1 October 1988. The actual staff involved in transfer will be settled as early as possible in the intervening period.

The second transfer relates to the industrial staff who are employed in the PSA's Directly Employed labour (DEL) force to carry out specific and permanent tasks (mainly relating to plant, equipment and grounds upkeep) in defence establishments. By 1 April 1989 some 200 industrial staff will transfer from PSA to MOD. Further staff will be transferred by 1 April 1990 as arrangements are developed to put PSA's relationship with MOD on to an untied basis.

The Trade Unions will be consulted about the staffing implications of the changes which I have described.

Planning the changes has inevitably entailed uncertainty about the future of the PSA. With this uncertainty now ended, successful implementation of a demanding programme will place a considerable responsibility on PSA staff at all levels. I am confident that PSA will rise to the challenge and prove that it can hold its own in a commercial environment.

CHIEF SECRETARY	
REC.	1 MAY 1988
	Mr Haskins,
	Cx Mr Anson
	Mr H Phillips,
	Mr Hart, Mr Robson
	Mr Cell,

BF 1915



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

CH/EXCHEQUER	
REC.	17 MAY 1988 ✓ H/S
ACTION	CST
COPIES TO	

17 May 1988

*Dear Nigel*

FUTURE OF PROPERTY SERVICES AGENCY

I am writing to let colleagues know of decisions which the Prime Minister has recently taken on the future of the Property Services Agency.

The decisions in question are set out in the enclosed draft announcement. This explains that the PSA should become a commercial organisation in respect of its business both for civil and for defence clients; and should move to Trading Fund status by 1 April 1993. It also deals with two Machinery of Government changes involving transfers of responsibility from me to George Younger.

In the draft there are several points to which I should like to draw attention. The Prime Minister has agreed that, as a first step, the new payment relationship which was established for major civil works projects on 1 April this year should be extended to cover all PSA's other activities, both defence and civil. This relationship is to be fully in place, and Departments are to have the freedom to untie from PSA for all services, by 1 April 1990 at the latest. The precise form of untying for some activities, especially maintenance, still needs to be worked out with Departments. Further work is also needed to establish whether phased implementation is practicable and to explore the general resource implications for Departments.

In setting 1 April 1990 as the final date for introduction of payment and untying, I am looking to PSA to introduce by the same date advance quotations for their services to which they will be held in the same way as private consultants. Outline work between PSA, Treasury and the MOD is encouraging, and the way is now clear for the PSA to develop the techniques on which the advance quotations will be based. I have, however, asked the PSA to consider with the Treasury and other Departments whether such advance quotations could apply earlier than 1 April 1990 for some activities.



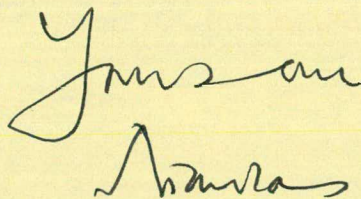
By 1 April 1990 also, PSA is to complete its reorganisation into the three businesses recommended by Deloitte. Two of these will be service business, covering project services and estate services. The third will involve the ownership of civil property. PSA will continue to act as the Government landlord, and thus will continue to manage on behalf of Government as a whole, the common user element of the existing civil estate. But a significant part of the existing civil estate will become the responsibility of individual occupying Departments. The detailed implications of this step, including the precise criteria for allocation, still need to be worked out, and the scope for phased transfers of properties to Departments before 1 April 1990 needs to be assessed. Officials from PSA, Treasury and other Departments will have to carry out a detailed examination in order to put recommendations to Ministers.

Deloitte's advice last year was that the earliest practicable date for establishing a PSA trading fund was April 1993, given the need to introduce first a system of full commercial accounts which in turn depends on implementation of PSA's Information Technology strategy. I regard the target date of 1 April 1993 as a latest date. If at all possible I should like to see the programme brought forward. In the meantime, the next key step is for Treasury and PSA officials to discuss how to take forward the IT strategy which is crucial to achieving PSA's objectives.

The matters covered by the draft and the interest which they are likely to attract seem to justify my making an oral statement (which may have to be made simultaneously by Malcolm Caithness in the House of Lords). I am particularly concerned that the announcement should be made early next week so that the very considerable work needed to plan and implement changes can be pressed forward without delay; and so as to end mounting uncertainty and rumours which can only sap staff morale. I shall, of course, discuss the form of announcement and the choice of a precise date with John Wakeham and David Waddington.

In the meantime, I should be grateful for any comments on the draft by close of play on Friday 20 May.

I am copying this letter to the Prime Minister, all other colleagues with Departmental responsibilities, John Wakeham, David Waddington, John Belstead, Bertie Denham and Sir Robin Butler.



NICHOLAS RIDLEY

DRAFT STATEMENT ON THE FUTURE OF PSA

1. The Government have decided that the Property Services Agency should become a commercial organisation. In reaching this decision, we have taken account of a report prepared by Messrs Deloitte Haskins and Sells on the introduction of commercial accounting into the PSA. Copies of that report have been placed in the Libraries of both Houses of Parliament. We have also paid special attention to the Report on PSA which the Select Committee on the Environment prepared under the chairmanship of my hon Friend the Member for Hornsey and Wood Green.

2. Last July my rt hon Friend the Chief Secretary announced that, from 1 April this year, there would be a new relationship between departments and the PSA on major civil projects. These payment and untying arrangements will now be extended to cover the range of services, defence as well as civil, offered by the PSA. The extended arrangements will be fully in place by 1 April 1990.

3. By 1 April 1990, also, PSA will be reorganised into three businesses, as recommended by Deloitte's. Two of these will be service businesses, covering project services and estates services. For the third, PSA will continue to manage, on behalf of the Government as a whole the common user element of the civil estate. A substantial amount of property, however, will become the responsibility of individual Departments. I hope to make substantial progress in implementing this reorganisation before the completion date of 1 April 1990.

4. PSA will continue to seek opportunities to contract out functions to the private sector. I shall keep the process of contracting out under continuous review.

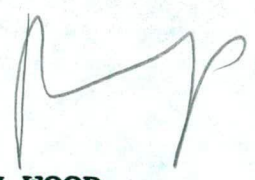
5. These changes are designed to expose the PSA to outside competition as rapidly as possible; and to equip the PSA to compete effectively. But further measures are needed if the PSA is to operate on a fully commercial basis. I have therefore decided that PSA should become a Government Trading Fund, as proposed both by Deloitte's and by the Select Committee. In line with the timetable set out by Deloitte's, I look to PSA to put as much of their operations as practicable on a Trading Fund basis no later than 1 April 1993.

6. Finally, my rt hon Friend the Prime Minister has agreed that my rt hon Friend the Secretary of State for Defence should take over responsibility from me in two areas. First, estate agency functions on the defence estate, both in the United Kingdom and overseas, will transfer on 1 October 1988. Second some 200 industrial staff who are employed in the PSA's Directly Employed Labour (DEL) force to carry out specific and permanent tasks at defence establishments will transfer on 1 April 1989. By 1 April 1990, as arrangements are developed to put PSA's relationship with MOD on to an untied basis, up to 800 more of these industrial staff will be transferred.

7. The Trade Unions will be consulted about the staffing implications of the changes which I have described.

8. With the uncertainty about the future of PSA now ended, successful implementation of a demanding programme will place a considerable responsibility on PSA staff at all levels. I am confident that PSA will rise to the challenge and prove that it can hold its own in a commercial environment.


MANAGEMENT-IN-CONFIDENCE

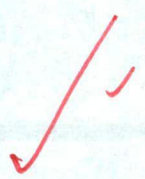


FROM: S N WOOD

DATE: 19 May 1988

CHIEF SECRETARY

cc Chancellor   
 Sir P Middleton  
 Mr Anson  
 Mr Phillips  
 Mr Beastall  
 Mr C D Butler  
 Mr Luce  
 Mr Robson  
 Mr Turnbull  
 Mr Fox  
 Mr Partridge  
 Mr Call

**FUTURE OF THE PROPERTY SERVICES AGENCY (PSA)**

The Environment Secretary's letter to the Chancellor of 17 May follows the Prime Minister's clearance of the plans for action on the future of the PSA contained in Sir Robin Butler's minute of 10 May. Mr Ridley now seeks colleagues' agreement that he should make an oral Parliamentary statement, a draft of which was attached to his letter.

2. You will recall that the Prime Minister met with you and the Secretaries of State for Defence and the Environment on 8 March and agreed the policy on the future of the PSA. Officials have been carrying forward work on the remits issued at that meeting, and plans are now sufficiently far advanced, so far as the main sponsor Departments and the Treasury are concerned, for Mr Ridley to announce the decisions in order to permit the official team to proceed with planning and implementation.

3. The main proposals referred to by Mr Ridley are the following.

**Untying of all PSA Work by 1 April 1990**

4. Departments will move over to payment for PSA activities by 1 April 1990 at the latest. Whether this will be phased or simultaneous will depend on further work. Payment is a

## MANAGEMENT-IN-CONFIDENCE

prerequisite for untying, but it is the aim to achieve untying by 1 April 1990 at the latest. Further work is being done, which will cover the practical difficulties, for example in planning the PSA's workload and with respect to the resource implications for Departments.

### Advance Quotations by PSA

5. The Prime Minister's meeting recognised the importance of ensuring that PSA could not, once untied, avoid the consequences for pressure on their overheads of losing contracts by charging extra on contracts that they won. The method chosen is for PSA to offer firm advance quotations. Further work is necessary on the details, in particular to cover areas where untying may prove more difficult in practice. It is possible that advance quotations may be introduced in some areas before 1990.

### PSA Trading Fund based on Commercial Accounts by 1993

6. Following the recommendations of the Deloitte's study, the PSA intend to reorganise their work into three businesses:-

- (i) project services (major works);
- (ii) estate services (minor works, maintenance and civil estate agency);
- (iii) property ownership of the common user estate.

7. It is intended to complete this reorganisation by 1 April 1990, and to have transferred non-"common-user" properties to Departments by then. A good deal of work still remains to be done on the details with Departments and as Mr Ridley's letter hints, the criteria for allocation of property between the common-user estate and Departments have yet to be agreed.

8. It is intended that full commercial accounts will be introduced by 1 April 1992 and Trading Fund status achieved by 1 April 1993 at the latest. We are pursuing the expenditure implications of the new information systems required with PSA.

er Matters

9. Mr Ridley's letter does not of course deal with the matters covered at the Prime Minister's meeting not of general concern to Departments. These include:

(i) Transfer of certain Defence Estate functions from PSA to MOD. This is proceeding, and is planned to complete by 1 April 1990. Some financial transfers will be needed.

(ii) Contracting-out of internal PSA functions. PSA's policy will be to reduce the directly-employed labour force (DEL) to the minimum that meets client requirements, and to increase further its use of contracting-out.

(iii) Redundancies. The reductions in DEL are likely to entail compulsory redundancies, ruled out until recently by pledges given in relation to the introduction of the Property Repayment System (PRS). We expect PSA to seek financial provision for the associated redundancy payments before announcing their plans, which they hope to do by 1 October 1988.

10. The draft statement announces the plan to introduce full payment and untying by 1 April 1990; the reorganisation into three businesses, with the hope of "substantial progress" by this date; the policy on contracting out, the process of which will be kept under review; the aim for a Trading Fund no later than 1 April 1993; the transfers of certain operations to MOD; and consultations with the Trade Unions on the staffing implications. It is Mr Ridley's preference to make an oral statement rather than a written answer. The business managers' views will be sought, and you can remain neutral on that choice. The statement reflects the agreed policy. The references to contracting out have been toned down slightly compared with earlier drafts for presentational reasons, but remain acceptable in substance.

MANAGEMENT-IN-CONFIDENCE

Recommendation

11. I recommend you to indicate that you are content with the draft statement. EOG and DM agree with this advice.

12. A draft letter is attached.

S.W.

S N WOOD

**MANAGEMENT-IN-CONFIDENCE**

**DRAFT LETTER FROM THE CHIEF SECRETARY TO:**

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1P 3EB

**FUTURE OF PROPERTY SERVICES AGENCY (PSA)**

You wrote to Nigel Lawson on 17 May with a copy of the draft of your proposed statement on the future of the PSA.

Nigel has asked me to reply. I am quite content with the terms of your proposed statement.

I am copying this letter to the Prime Minister, other colleagues with departmental responsibilities, John Wakeham, John Belstead, David Waddington, Bertie Denham and Sir Robin Butler.

**(JOHN MAJOR)**





*MP*  
PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

CH/EXCHEQUER	
REC.	20 MAY 1988
ACTION	<i>CST</i>
COPIES TO	

20 May 1988

✓  
20/5

*Dear Secretary of State,*

I have seen a copy of your letter of 17 May to Nigel Lawson about the future of the Property Services Agency. I am broadly content with your proposals and agree that you should make an oral statement to the House on Wednesday, 25 May.

My specific concern is over the implications of your proposals for the Palace of Westminster and associated parliamentary buildings. I understand that no change is, in fact, contemplated to the Allied Service basis on which works services are presently provided. However, I should be grateful if you could keep me in touch about proposals for the common user estate, as they may have implications for the Parliamentary buildings not part of the Palace itself.

In addition, I am sure that you will be questioned on this by Members when you make your statement; you may wish to reassure the House that the new future of PSA will not have any detrimental effect on the service provided, that the continuation of the present arrangement is for the moment secure, and that no future decisions will be taken without consulting the House. I know that John Belstead shares these views.

*Yours sincerely,*

*NRS Denton*

pp JOHN WAKEHAM

*Approved by the Lord President and signed in his absence.*

The Rt Hon Nicholas Ridley AMICE MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB



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GWYDYR HOUSE

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GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

20 May 1988

MANAGEMENT IN CONFIDENCE

CH/EXCHEQUER	
REC.	20 MAY 1988
ACTION	CST
COPIES TO	

20/5

FUTURE OF THE PROPERTY SERVICES AGENCY

Thank you for sending me a copy of your letter of 17 May to Nigel Lawson.

I welcome the moves to make PSA more commercially orientated, and to give Departments more responsibility for their own affairs. I am content with your proposed announcement.

I hope I can take it that departments will be fully consulted about the implementation of these changes. In addition to the service and resource implications for my Department, I will want to be aware of any proposals which might impact adversely upon local areas of high unemployment.

I am copying this letter to the Prime Minister, all other colleagues with Departmental responsibilities, John Wakeham, David Waddington, John Belstead, Bertie Denham and to Sir Robin Butler.

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment



**CABINET OFFICE**  
**OFFICE of the MINISTER**  
**for the CIVIL SERVICE**

<b>CH/EXCHEQUER</b>	
<b>REC.</b>	23 MAY 1988 ✓ 23/5
<b>ACTION</b>	CST
<b>COPIES TO</b>	

Horse Guards Road  
London SW1P 3AL

Telephone: 01 -270 5929

*mp*

*The Minister of State*  
*Privy Council Office*  
**The Rt. Hon. Richard Luce MP**

C88/2744

The Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON  
SW1 3EB

23 May 1988

*Dear Secretary of State,*

**FUTURE OF PROPERTY SERVICES AGENCY**

You sent me a copy of your letter of 17 May to the Chancellor of the Exchequer enclosing the draft of the statement which you are planning to make to Parliament on the future of the PSA.

The draft statement causes me no problems in relation to the interests of OMCS and OAL as PSA clients.

However, I note that the draft announcement does not refer to the possibility of executive agency status for the PSA under the "Next Steps" initiative. While I can see that such an announcement could be premature at this stage, PSA has many of the characteristics of a good candidate; and much of the work planned for the next few months will be relevant to decisions on agency status. I trust that once the preparatory work is completed, active consideration will be given to making one or more agencies out of the PSA. Meanwhile I hope that if you are questioned on this point in the House or by the press, you will be able to confirm that the PSA is regarded as a potential candidate.

Copies of this letter go to the Prime Minister, all department Ministers, John Wakeham, David Waddington, John Belsted, Bertie Denham and to Sir Robin Butler.

*Yours sincerely*

*Richard Luce*

RICHARD LUCE  
(approved by the Minister  
and signed in his absence)

PPS 12/2.



# H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-270 5238  
Facsimile: 270 5244  
Telex: 9413704

**PLEASE NOTE EMBARGO**

NOT FOR PUBLICATION, BROADCAST  
OR USE ON CLUB TAPES BEFORE  
15.30 HRS THURSDAY 16 JUNE 1988

16 June 1988

## IMPROVING THE MANAGEMENT OF PUBLIC SECTOR RESOURCES

"The Government cannot be committed to particular output or quality targets, irrespective of what it costs to deliver them" the Paymaster General to the Treasury, the Rt Hon Peter Brooke MP, warned today in a speech to the Chartered Institute of Public Finance and Accountancy (CIPFA).

"If costs rise rapidly there needs to be a reappraisal of those targets and the resources devoted to them."

The Paymaster General was describing the continuing improvements in the management of public sector resources.

"Value for money is not just about doing what we now do better" he continued.

"We have to start by looking regularly and fundamentally at all activities: not just to see whether they can be undertaken more efficiently, but whether they are needed at all.

"In particular, there has to be a constant testing of traditional assumptions about what has to be done by the State."

Extracts of the Paymaster's speech are attached.

PRESS OFFICE  
HM TREASURY  
PARLIAMENT STREET  
LONDON SW1P 3AG

55/88

01 270 5238

/NOTES FOR EDITORS

## NOTES FOR EDITORS

1. The Paymaster was speaking in Brighton at the annual CIPFA conference, on the theme "The Challenge of Change".
2. Elsewhere in his speech the Paymaster General noted that
  - some 1800 output and performance had been identified in the last Public Expenditure White Paper
  - value for money opportunities identified by audit services in the local authority sector had been estimated at nearly £500 million a year
  - there was a continuing need to identify and dispose of surplus public sector assets and to improve the management of those assets that remained in the public sector.

"Our fight against inflation and our approach to managing public expenditure are inextricably linked. The attack on inflation has been pursued through monetary and fiscal policy. An important element in this is the amount of cash that the public sector borrows or repays.

"It follows from this approach that we have to pay particular attention to the resources being consumed by the public sector. Two consequences would flow from excessive levels of public expenditure. First, we would be putting at risk our fight against inflation, with all the consequences that would have for both the private and public sectors and the country as a whole. Second, the private sector provides the means - through taxation - by which the public sector gets its human and capital resources, and competes with the public sector for those same resources. If, through excessive taxation, we leave the private sector with too few resources, we will not have a basis for sustainable economic growth. And, without that, the whole basis of growth in the public services is put at risk.

"It was against that background - the fight against inflation and the need to control public expenditure - that we made a very important change in 1982 in our approach to planning the public sector's finances. Some of you will recall the term "funny money". It is now widely recognised that the system of planning in volume terms, which operated before 1982, was seriously flawed. Underwriting the volume of inputs devoted to a particular programme, no matter how fast the cost of those inputs rose, had the effect of institutionalising inflation. The move to cash planning and control has been an unambiguous improvement in this respect.

"But we need also to beware of getting back onto the hook of volume planning by a different route. Much emphasis is rightly placed nowadays on the need to identify the outputs and quality which a given programme is expected to deliver. But the Government cannot be committed to particular output or quality targets, irrespective of what it costs to deliver them. If costs rise

rapidly there needs to be a reappraisal of those targets and the resources devoted to them. It is a happy property of cash planning that a reappraisal of precisely this kind is forced on departments by the system we now have.

"Value for money is not just about doing what we now do better. We have to start by looking regularly and fundamentally at all activities: not just to see whether they can be undertaken more efficiently, but whether they are needed at all. We have to review the objectives of particular services to see whether they are still needed. If they are, we need to consider:

- in what form they are needed;
- on what scale;
- who should provide them; and
- on what terms.

In particular, there has to be a constant testing of traditional assumptions about what has to be done by the state. If we do not address these fundamental questions there is a danger that we will misdirect our enthusiasm to improve efficiency.

"When we took office in 1979 the **nationalised industries** were costing some £3 billion a year in public expenditure. Much of this money was being spent on activities which could be carried out more efficiently by the private sector. It was for this reason that we initiated the privatisation programme. In all 17 major businesses have been privatised since 1979, reducing the state-owned sector of industry by getting on for 40 per cent. The improvements in productivity and profitability in the privatised industries have exceeded our highest expectations, and other countries all over the world, from Japan to Mexico, are now following our example.

"Where activities are not suitable for privatisation it is important that, as far as possible, they should be subjected to market pressures. Market testing through competitive tendering is of paramount importance here. Market testing and contracting out is being applied in the Civil Service, the NHS and local

authorities with considerable success - resulting in savings of some £160 million. Success in these terms is not measured solely by the value of services that are contracted out. We must also remember that in many cases activities are retained in-house, but at a lower cost and with improved levels of service: managers and their staff respond to the competition. The "Challenge of Change" in this area is the planned expansion in the number and range of services to be subjected to market testing, in both central and local government.

"Throughout the public sector we have been seeking to improve the **managerial framework** for planning and control. This requires that managers at all levels should have a clear idea of the resources at their disposal, and clear targets for performance. It is a policy we have been pursuing in the nationalised industries, in addition to privatisation. We have sought to clarify managers' tasks by:

- setting **clear strategic objectives**;
- establishing sound principles for **investment appraisal** and pricing; and
- setting demanding **targets** within a stable and well understood control and monitoring framework.

These measures, and the response they have evoked from managers, have made an important contribution to the great strides made by nationalised industries. Cost control is better, productivity is higher and profitability has improved. Since 1979, the average growth in productivity in the nationalised industries has been **4.7 per cent**, compared with **2 per cent** in the economy as a whole. That encapsulates both the challenge and the reward of change, and gives some indication of the scope for improvements.

"Of course I cannot comment on the Prime Minister's current review of the **National Health Service**. But I would like to stress - as the Chancellor did in his recent speech to the Leicestershire BMA - the importance of a closer partnership between the public and private sectors. If the NHS can develop better costing and management systems, and better value for



money auditing, then an expanding private sector will present an **opportunity** to the NHS, not a **threat**. NHS managers will be able to use the private sector in those areas where it can be shown, through a direct comparison with its own costs, to be cheaper and more cost-effective. This will be to the benefit of both managers and, not least, patients. The "Challenge of Change" to CIPFA members in the NHS lies in developing these systems, and highlighting areas where this partnership could be most fruitful.

"There has already been a revolution in recent years in the approach to management in the NHS. The Griffiths enquiry led to the appointment of individual general managers at each level of service. Following the Korner recommendations, improved information is being made available to all levels of management, both on their own activities and comparative performance indicators for other units and services. These are basic but essential steps for such a massive organisation. The NHS now has more resources at its disposal, and is treating more patients, than ever before. Continued success will depend on managers harnessing the energy and resourcefulness of doctors and nurses. The pilot studies to involve doctors and other professionals more fully in the use and management of the resources available to them are therefore very important.

"In central government we are taking the medicine as well as dispensing it. We have an unprecedented programme to improve financial management and value for money. Efficiency scrutinies and policy reviews of particular areas are backed up by a programme to improve the management infrastructure. The Financial Management Initiative - the FMI - has improved top management systems, and led to line managers being clearer about their **objectives** and more aware of their **costs**.

"More recent work on budgeting has carried this a stage further, and increased the emphasis on delegation. On 18 February the Prime Minister announced that the Government had accepted the main recommendations of a report by her Efficiency Unit called

"Improving Management in Government: The Next Steps". Those of you who attended yesterday morning's session by Kate Jenkins will have heard about the details. But, briefly, we have decided that to the greatest extent practicable the **executive functions** of Government, as distinct from **policy advice**, should be carried out by "Executive Agencies", which generally will remain within Government. Each agency will have a Chief Executive who will be responsible for day to day operations. He or she will operate within a clear and agreed framework of policy objectives and resources, set by Ministers - who will remain answerable to Parliament for the agency's activities. This will take forward the search for value for money by giving managers more room to exercise their personal responsibility. It is already providing a "Challenge of Change" to those involved in the creation of the first agencies.