

PREM 19/1686

5051

Confidential Filing

PSA Restructuring.

CIVIL SERVICE

Wardale Enquiry.

PART ONE

July 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
20.12.83							
23/12/83.							
9/1/84.							
11.1.84							
13.1.84							
6.3.84							
12/3/84.							
22/3/84.							
26/3/84							
2.4.84							
16.4.84							
25/4/84							
2/5/84.							
12/7/84							
9/11/84							
7/12/84							
14.1.86							
29.1.86							
ENDS							

PART 1 ends:-

MEA to PM

undated

PART 2 begins:-

MEA to DOE

3-2-86

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons Paper 295: Twenty-sixth report from the Public Accounts Committee, Session 1983-84
Fraud in the Property Services Agency; The Wardale Report;
System Controls in District Works Offices

Signed Wayland Date 2 October 2014

PREM Records Team

PRIME MINISTER

PROPERTY SERVICES AGENCY ADVISORY BOARD

The Secretary of State for the Environment proposes that the PSA Advisory Board should now be wound up, and the Board agrees.

The Secretary of State's views, in the letter attached, explain that although the Advisory Board had a useful function when it was first set up in 1980, it now has really nothing to do. The Secretary of State proposes, instead, to inject private sector experience directly into the PSA Board by adding three or four non-executive directors.

Sir Robert Armstrong, as you know, has been looking at the whole question of the future for the PSA. He has provided a report which broadly concludes that the PSA under its new Chief Executive has made good progress, and that though there is still some way to go on management performance, a further fundamental review at this stage is not called for and would be counter productive. Other departments are still commenting on Sir Robert's report, and I shall be submitting it to seek your views next week.

Meanwhile there seems no reason to hold up the abolition of the now redundant Advisory Board on this account.

MEFA

Agreed *mt*

MARK ADDISON

SLHAIX



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

CF
Manor & return

24 January 1986

Dear Mark

PSA ADVISORY BOARD

Sir Robert Armstrong wrote to the Prime Minister on 14 January about the future arrangements for the PSA. One aspect not covered by Sir Robert is the future of the PSA Advisory Board which my Secretary of State has been considering with Nigel Mobbs, its Chairman, and with Gordon Manzie, the Chief Executive of PSA. This note is to let you know about some changes that they have now agreed should be made.

The Advisory Board was created by Michael Heseltine in 1980 as a means of providing the Secretary of State and the Chief Executive with authoritative private sector advice on a range of subjects, agreed annually with both. It currently has eleven members whose expertise covers a broad spectrum of activities of relevance to PSA's role in providing and managing the government estate.

There is no doubt that PSA has benefited from exposure to private sector expertise and opinion and the arrangements have worked moderately well, although the size of the Board was always probably too large. After conducting major reviews of the Agency's principal functions in its first few years, the Advisory Board's role has now become one which involved responding to proposals and initiatives taken by the PSA Chief Executive and management. This change of emphasis has been both inevitable and desirable, and makes best use of the limited time that people of the calibre that we have been able to secure are able to give. However, the Secretary of State thinks that this now needs to be reflected in changes in the way that the PSA receives outside advice.

It is in my Secretary of State's view, and that of the Chief Executive, vital for the Agency's role that it should continue to have a strong source of outside advice. However, he believes that, rather than have an Advisory Board reporting to him, it would be preferable to include 3 or 4 private sector people directly as members of the PSA Board where their advice would have more direct impact on the management of the Agency. The Secretary of State has therefore asked Mr Manzie to suggest 3 or 4 candidates from the private sector whom he might appoint to serve as non-executive directors on the PSA Board. These people will be selected to cover PSA's main functions in estate management, design and construction, and he would also want to include an accountant. He proposes to make the appointments of 3 years

duration so as to enable the expertise available to be varied to match any changes in emphasis in the Agency's work or problems, and to maintain a freshness of input. Initially, 2 of the present Advisory Board would be invited to stay on for a year or two to provide a suitable degree of continuity, but the idea would be to rotate the dates of appointment to the Board in future.

The programme of work of the present Advisory Board is virtually complete and Nigel Mobbs and his Board members agree unanimously that changes on the above lines should now be made. The Secretary of State therefore proposes to wind up the AB in the next month or so and to mark the occasion with a suitable farewell lunch or dinner to thank the members for the very considerable unpaid contribution that they have made.

The Prime Minister agreed the original proposal to establish the AB, at first only on an annual basis, and will wish to know what is now intended. The Secretary of State intends to make the arrangements known by means of a PQ.

Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

Mark Addison Esq



B

MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

The Treasury will be *convinced*
early next week. M.E.A 31/1

PROPERTY SERVICES AGENCY

I have ~~seen~~ ^{WITH MCA} a copy of Sir Robert Armstrong's minute to you of 14 January about the future of PSA.

My officials in Cabinet Office (MPO) have been involved in the work of the Interdepartmental Committee on Property Repayment Services. I believe that the options now being considered for the development of PSA's relationship with its civil clients should command the acceptance of departments in general, especially once PSA can demonstrate clear improvements in service and value for money. I therefore agree that attention should now focus on further measures to improve PSA's performance and endorse the policy outlined in Sir Robert's paragraph 23. MPO will continue to assist as appropriate.

The relationship between the PSA and the Museums and Galleries for which I am responsible in my capacity as Minister for the Arts presents a special problem. I think it likely that as a result of the current review (see paragraph 19) I shall want to propose a fairly radical solution to it. But this need not affect the general conclusions which Sir Robert now proposes.

RICHARD LUCE

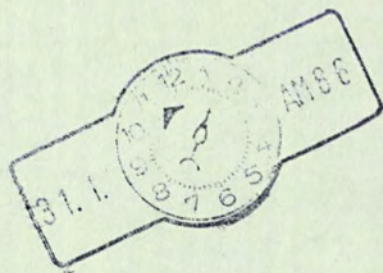
29 January 1986

CIVIL SERVICE 17182

PSA

MINISTER OF STATE POLICE COUNCIL OFFICE

COMMUNIST



D. CF. To armstrong

MANAGEMENT IN CONFIDENCE

MR ADDISON

28 January 1986

PROPERTY SERVICES AGENCY

We agree that the uncertainties relating to the future of the PSA should be resolved, and would accept the points set out in paragraph 23 of Robert Armstrong's memorandum. We attach importance to improving PSA's relationships with client departments and its standard of service, particularly with regard to efficiency and value for money.

Paragraph 18 points to requests to departments to nominate project managers to control the PSA's work on departmental capital projects such as barracks, prisons and courts. This could make an important contribution to better control of contract costs, provided regular progress meetings are held on each scheme.

Where the PSA is itself responsible for the cost of capital projects, it should itself exercise similar supervision over each contract.

There are still establishments where the working conditions provided for civil servants are unacceptably poor. Annex B refers to a minimum maintenance backlog of £90 million. The PESC round has, reasonably, not provided extra funds for this purpose. Cannot the Civil Service management find savings to enable this problem to be overcome over the next two or three

MANAGEMENT IN CONFIDENCE

- 2 -

years, if necessary from the departmental budgets of occupying departments?

We welcome the reduction in voids from 5% to 4%, and hope this can be taken further. 1% represents 1 million square feet. The PSA does not, however, have full powers to exercise a "strategic estates management rôle for the civil estate" because the measurement of voids does not include under-used properties for which departments are content to be charged rent. PSA voids therefore represent a serious understatement of the amount of property which could reasonably be vacated and sold. With the proceeds of voids, it should be possible to redevelop areas of sub-standard accommodation with modern properties, or carry out comprehensive refurbishment.

We recommend that the Prime Minister should:

1. Accept the memorandum and welcome the improvements effected by the PSA.
2. Suggest that the PSA's six-monthly report should deal with supervision of contracts, whether for clients or internal purposes.
3. Press the Civil Service management to bring working conditions for civil servants up to an acceptable minimum standard.

MANAGEMENT IN CONFIDENCE

- 3 -

4. Encourage the setting of targets for release of surplus parts of the civil estate occupied by departments, in addition to the target for release of PSA's own surplus.

5. Request a brief six-monthly report on progress against target, with disposal of surplus properties and with replacement or refurbishment of sub-standard office accommodation.

David Hobson →

DAVID HOBSON

CIVIL SERVICE

PSA

7/82

[Faint handwritten signature]

[Faint mirrored text, likely bleed-through from the reverse side]



CR

Manor & Co

CSBG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

24 January 1986

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Yours sincerely

Sue Vandervord

MISS SUE VANDERVORD
Private Secretary

Mark Addison Esq

CIVIL SERVICE
PSA

7/82



**Foreign and Commonwealth Office**

London SW1A 2AH

Telephone 01- 273 3524

P Joce Esq
10 Downing Street
LONDON SW1

Your reference

Our reference

Date 21 January 1986

Dear Sir,

PROPERTY SERVICES AGENCY

1. You are the only other person I know who is involved in authorising payment to the PSA for works carried out at official residences.
2. My concern is with Chevening and we are of the opinion that we might not necessarily be getting value for money. Our experience has been that their final bills are very considerably higher than the initial estimates and it is difficult for them to produce an account that will withstand close scrutiny.
3. We are not helped by the wording of the initial undertaking that we are obliged to sign before work will commence. It is much too open-ended, to the detriment of ourselves, as the client, and to the advantage of PSA.
4. We have no option but to employ PSA when it comes to the installation of electronic protective measures, but feel that we might, with advantage, seek some alternative when it comes to building works.
5. Have you any experience that you can share with us? I have tried Security Department but they very rarely commission work to be done at their expense in the UK.

Yours ever
Seven

Col P A W G Durrant
Protocol Department

CA/50

Ref. A086/143

PRIME MINISTER

Property Services Agency

Your meeting on 29 March 1984 on the role and future of the Property Services Agency (PSA) (recorded in Mr Barclay's letter of 2 April 1984) invited me, in consultation with the Secretary of State for the Environment, the Chief Secretary and the Minister of State, Privy Council Office, to set in hand certain further work as a basis for Ministerial decisions on the future of the Agency.

2. It was also agreed that the immediate priority for the new Chief Executive was to improve the quality of management and to promote changes in the nature of the Agency and its relationships with clients and the private sector; and that there could be significant benefits from greater devolution to Departments (coupled with tight control of budgets), more competition with the private sector, and further contracting out, although it was recognised that it would be necessary to resist the natural tendency of client Departments to acquire their own works organisations as PSA's direct involvement diminished.

3. At the direction of the then Secretary of State for the Environment, a paper on the future role and structure was worked out, and was about to be sent to you when he left office. I --- attach a copy of the paper herewith. This did not seem to me wholly to meet the requirement that Ministers had in mind at their meeting in March 1984, and I mentioned to you my thought that we should arrange for a further study to be undertaken by a current or recently retired Permanent Secretary.

4. On further reflection, however, and after discussion with the new Secretary of State, the Chief Executive of the PSA and Sir Robin Ibbs, I have come to the conclusion that the work already done on the preparation of the paper, together with action in hand in the PSA and in the Interdepartmental Committee on Property Repayment Services (PRS), provides sufficient basis for discharging the remit from your meeting last year, provided that very clear directions are given by the Secretary of State on what is expected in output terms from the Agency. In coming to this conclusion I have also had in mind that uncertainty about the future of the PSA has been overhanging it for some considerable time. From the point of view of the effectiveness and morale of the Agency, there would be much to be said for bringing this uncertainty to an end.

5. The present position can be summarised as follows.

Restructuring

6. The former Chief Executive proposed that the Agency should be divided between Defence and Civil, and that there should be two tiers of regional management rather than three.

7. On the division between Defence and Civil, it became clear that a clean division was not feasible: there would inevitably remain some primarily "defence" offices undertaking "civil" work, and vice versa. The division would have involved two separate maintenance organisations, and considerable difficulty in making the "civil" organisation effective. I do not believe that the division would make for greater efficiency: probably the reverse.

8. The new Chief Executive has actively pursued the possibility of reducing the number of tiers in regional management of the PSA. District Works Offices in the Agency are being brought more into line with the changing workload and

demands of clients. The functions carried out at two of the tiers (Area and Region) are to be amalgamated. This will result in the closure of about 20 offices with considerable savings in overheads; shorter lines of communication; more effective management of Districts; and a strengthening and concentrating of the design capability in fewer offices.

Functions and Contracting Out

9. The main functions of the PSA are:

1. management of the Government estate;
2. management of new building work;
3. management of maintenance work;
4. management of design work.

The last three functions are undertaken mainly for Government Departments but also for outside clients, notably the United States Air Force and the national museums and galleries.

10. It is important that for each of the four functions clear objectives and output targets should be set against which performance can be measured.

11. There seems to be general agreement that strategic control of the Government estate can most economically and effectively be managed centrally; no-one is arguing that this function could or should be privatised. There may well, however, be scope for delegating some operational management. There could usefully be some experiments on this, both departmentally and regionally, and these could include making use of the private sector.

12. The other functions have increasingly been contracted out in recent years. The current situation is that 100 per cent of all new building work and 85 per cent of all maintenance is placed with the private sector, and the proportion of design work undertaken by private consultants has increased from 1/3 to 2/3. The PSA do not believe that it would be possible to reduce the design work undertaken within the Agency much further without impairing its ability to recruit and retain staff of sufficient quality to supervise the large building programme.

13. The effect of these changes and other efficiency savings has been that staff numbers have reduced from 35,200 in 1979 to 24,000 in 1985. The 15 per cent of maintenance work still remaining in-house is done by a reduced directly employed labour force of 10,200. Reductions have been achieved largely through voluntary redundancy and natural wastage, in line with Ministerial policy. The PSA management would like to use more compulsory redundancy, particularly with directly employed labour who are employed in Departments where their presence is inhibiting the development of PRS, but Ministers decided that this should not be done because of the assurances given to staff. Because of these assurances PSA will not be making directly employed labour compulsorily redundant at MOD establishments where PRS-type arrangements are being introduced. It is important, however, that PSA should bring forward plans for continuing the run down of numbers, including ways of redeploying some staff, possibly to the private sector, as an alternative to allowing the assurances to result in stagnation.

Management

14. Since your meeting in March 1984, Mr Gordon Manzie has been appointed Chief Executive and Mr Bryan Jefferson, a former President of the Royal Institute of British Architects, has been recruited from the private sector at Deputy Secretary level as Director General of Design Services. By next March all nine

Regional Directors in England and Wales, except London, will have been replaced by younger officers in mid-career since Mr Manzie became Chief Executive.

15. Management has been tightened up, following the Wardale/Touche Ross Report and the National Audit Office reports on the Agency, with special emphasis on personal accountability and responsibility of managers. The Agency have taken steps to strengthen internal audit, including the recruitment on term appointments of seven chartered accountants from the private sector; to speed up the programme of systems audit; to reinstate a rigorous staff inspection programme; and to introduce a new management audit of District Works Offices (District Management Reviews). The Chief Executive will be reporting on the effectiveness of these steps.

Relations with Clients

16. The PSA's civil clients have frequently accused the Agency's staff of insensitivity, and the management has therefore been devoting a good deal of time to trying to change attitudes through a series of visits and talks to the staff. The Chief Executive has visited over 100 offices in his first 18 months in post. On the defence side also, much effort has been devoted to improving liaison and procedures and getting better value for money.

17. The main thrust towards changing relations with civil clients will emerge from the Interdepartmental Committee on Property Repayment Services. The initial PRS arrangements established following recommendations by Lord Rayner gave Civil Departments freedom to carry out minor jobs under £500. This was extended to £1,000 in 1984. The Committee is now considering three options, a "traditional" one based on the existing arrangements which some smaller Departments prefer, a "standard" one which would increase the present delegation to

Departments and gives them greater control of internal works in their offices, and a more "radical" option, favoured by two or three Departments only, which might extend delegations for works to as much as £100,000 or more. The Chief Executive is content with the increased delegations to Departments in the standard option, favoured by the majority of Departments, and is also content that there should be experiments with the radical option, involving Departments who want it, so long as all concerned can be satisfied that it is economic and will not lead to wasteful duplication of effort. The Interdepartmental Committee has worked much more effectively since it was enlarged to give more Departments a say in future policy, following a meeting of Permanent Secretaries on PRS which I chaired earlier this year, and the introduction of closer liaison between the Treasury, the Cabinet Office (MPO) and the PSA. Sir Robin Ibbs and I believe it would be helpful if the PSA provided some guidelines on good practice for obtaining value for money on maintenance, including private as well as public sector experience, and distinguishing between what is right regionally and in Central London.

18. Departments are also being given a stronger interest and involvement in major new projects by being asked to nominate, for each new project, a project manager whose business it is to agree a clear definition of the project and to control the Department's performance so as to ensure that it does not generate long delays or increased costs by unnecessarily altering specifications or demanding refinements after the project has been agreed and the contract placed.

19. The relationship with the national galleries and museums is under review and is likely to lead to a substantial reduction of PSA's role with them.

Fraud and Corruption

20. Fraud and corruption are still problems in the Agency, and will attract more publicity in the coming months when some of the long-running cases involving PSA staff and contractors including those brought to light by the News of the World will come to the courts. But there has been a vigorous attempt by the management to identify and sort out fraud and corruption since the appointment of the new Chief Executive. This was recognised by the PAC in their 19th Report when they welcomed "PSA's acknowledgment of the seriousness of the situation, and the new attitude of determination to rectify it ...".

Conclusion

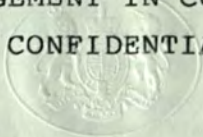
21. This minute and the attached paper show that considerable steps have been taken to improve the Agency's performance since the appointment of the new Chief Executive, although (as he and his senior colleagues are well aware) a great deal more has still to be achieved. The question for Ministers to consider is whether there needs to be further fundamental study of the role and functions of the Agency, or whether the role and functions as now defined and established are acceptable, provided that the process of management change and reform which is under way continues to be vigorously pressed forward, and steady improvement in performance displayed.

22. I have discussed this with Sir Robin Ibbs. We both think that, while there are some arguments in favour of further fundamental review, that would inevitably take some time and prolong uncertainty, and that at the moment the balance of the argument does not justify giving priority to a further fundamental review. After the uncertainty resulting from the period when Mr Alfred was Chief Executive and from the corruption cases and the Wardale/Touche Ross Report, there are strong management arguments for bringing the period of

uncertainty to an end, so that the management can concentrate with confidence on pursuing the process of improving management and performance upon which they have embarked in the last 18 months. Sir Robin Ibbs and I both accept that there should continue to be central strategic management of the Government estate, and think that under the new Chief Executive the Agency has made and is making steady progress both on contracting out new works, maintenance and design work and on improving management efficiency. On balance, therefore, both of us recommend that Ministers should endorse the policies now being pursued, provided that the Secretary of State and the Chief Executive maintain the momentum of change and improvement in management performance. In order to monitor that, we consider that the Chief Executive should be asked to submit progress reports every six months to the Secretary of State for the Environment, with copies to you, the Chief Secretary, Treasury, the Minister of State, Privy Council Office, Sir Robin Ibbs and me. These should include as far as possible output measures against specific targets. I understand that the Secretary of State agrees that this is the right way to proceed.

23. If this is accepted, you are invited to endorse the policy being pursued to improve the Agency's overall performance, and in particular to agree that:

- (i) the Agency should continue to deal with both the military and civil estates as at present;
- (ii) the Agency should continue to have a strategic central estates management role for the civil estate; and should explore the scope for delegation of operational management;
- (iii) the Agency should develop proposals that would make possible renewed reduction in numbers of staff;



- (iv) the management should proceed with the amalgamation of two tiers of management responsibility and better communications in the Agency;
- (v) the work of the Interdepartmental Committee on Property Repayment Services should continue in order to allow further devolution of responsibility for works services to individual Departments;
- (vi) the PSA should provide guidelines on good practice for obtaining value for money on maintenance;
- (vii) the Chief Executive should report progress every six months on improvements in the Agency's management and performance.

24. I am sending copies of this minute and the attachments to the Secretary of State for the Environment, the Secretary of State for Defence, the Chief Secretary, Treasury, the Minister of State, Privy Council Office, the Director of the PSA and Sir Robin Ibbs.

RA

ROBERT ARMSTRONG

14 January 1986

PROPERTY SERVICES AGENCY

FUTURE OF PROPERTY SERVICES AGENCY (PSA)

At the meeting on 29 March last year Ministers agreed that the first priority should be to improve the Agency's management attitudes and control systems in response to criticisms made by the Public Accounts Committee following the Wardale/ Touche Ross (WTR) Report.

2. Since then Mr Manzie has been appointed as Chief Executive and he has already made substantial progress in implementing major action plans on both WTR and the National Audit Office Reports on Building Maintenance. Annex A explains the scope of the changes that are being made in response to the Reports and other initiatives to improve the Agency's management control and information systems.

3. It was also agreed at the meeting that further consideration should be given to the future role, aims and objectives of the Agency taking account of the options considered in the Cabinet Office paper that was discussed.

4. The Crown Suppliers are not considered in this submission, and a separate review has now been carried out to examine whether the whole or part of their activities should be privatised or, if not, whether their status within the public sector should be changed. The review team's report was submitted to Ministers on 11 November.

CHANGE ACHIEVED TO DATE

5. PSA's role has changed significantly under the policies that the Government has been pursuing since 1979. Major changes have included the establishment of the Property Repayment

Service (PRS), greatly increased contracting-out of design, the relaunch of PSA Supplies as the Crown Suppliers and staff reductions of just over 30 per cent. During this same period the workload of the PSA has increased substantially, and the Agency has become much more a management organisation for the accommodation needs of Governments, increasingly using the private sector for execution of tasks, and devolving to clients responsibilities within their competence including the complete transfer to the Foreign and Commonwealth Office of responsibility for the diplomatic estate. The Agency has, however, retained the essential central strategic role of managing effectively the Government's property and construction interests which include a civil estate of 10.2 million square metres and a total new planning and construction programme (Civil and Defence) of about £5 billion, two-thirds of which is for the Ministry of Defence (MOD).

FUTURE ROLE OF THE AGENCY

6. Following the meeting of Ministers in March last year the key issues to be addressed about the future role of PSA were the extent to which contracting out and transfer of responsibility to Departments could be further pursued beneficially, and what arrangements would be likely to meet the Government's drive for efficiency and value for money. The then Secretary of State set the following major aims for the Agency, as a framework for establishing more detailed proposals -

MAJOR AIMS

1. Improved attitudes and performance at all levels and the introduction of new systems of control and management information.
2. Maximum use of the private sector where economical and efficient.

3. Transfer to Departments of responsibilities which do not force them to build up their own expertise uneconomically.
4. Value for money for all functions whether undertaken in-house or by the private sector.
5. Changes to PSA's organisation and structure to match changes in manpower and workload and to meet criteria for improved management.

IMPLEMENTATION OF PLANS

7. Having agreed these broad aims, the next stage was to produce a clearly defined programme of action reflecting them. Having consulted Sir Robin Ibbs and members of the Efficiency Unit the Chief Executive produced a detailed "business plan" setting out for each PSA function - estate management, maintenance and design - some objectives, targets and timescales by which progress will be made on each aim. This plan is at Annex B.

ISSUES FOR DECISION

8. The key issue for decision reflected in the plan is PSA's future relationship with its two major groups of clients - Civil, including a number of repayment bodies, and Defence, who, in addition to the three Services and the Procurement Executive, include the United States Air Force.

CIVIL CLIENTS

i. PRS Clients

9. PSA's present central estate management role for the Civil estate enables it to make the best use of property by

maintaining flexibility as the needs of Departments fluctuate (most private sector organisations adopt a similar approach). However, since the inception of PRS and the Financial Management Initiative, the question has been raised whether Departments could take greater responsibility for their accommodation. The scope for this would need to be tested against the extent to which Departments would be able to take more decisions that enhanced their accountability without the need to duplicate expertise available within PSA and still get value for money. The balance of argument leads to a clear conclusion that the central estate should continue to be centrally managed. It is only by central management that Departments' legitimate operational requirements can be met with the maximum economy, opportunities found for achieving substantial savings through rationalisation of our holdings, liabilities to landlords kept to the minimum, the value of the assets preserved by timely preventive maintenance, and continuous pressure maintained to secure the prompt disposal or re-use of space which becomes surplus to Departments' requirements.

10. Without departing from the principle of central management, there is greater scope for transferring further responsibilities to Departments. Proposals for the development of PRS have now been circulated for comment to client Departments. Subject to appropriate safeguards these will give a larger measure of responsibility to Departments in respect of minor new work, and non-structural maintenance including internal decoration.

ii. Other Civil Clients

11. As the Business Plan explains, PSA also serves a large number of other Civil clients, some Government and some Government-related. The principal clients are British Telecom (BT), the Manpower Services Commission, the Health and Safety Executive and national museums and galleries coming under the Office of Arts and Libraries (OAL). With the privatisation of

BT there will be a phased withdrawal of PSA work for them (except Crown Suppliers) and following a report of the Select Committee on the Arts, PSA and OAL are conducting a review to determine whether more responsibility for works matters should devolve to museum and gallery directors. Similar considerations may apply elsewhere. When the major BT and OAL issues have been settled it is proposed to conduct a review of PSA's work for all other Civil clients to establish new guiding principles as appropriate to determine long-term policy. As several Departments will have an interest it will be necessary to consult them as well as clients themselves.

MINISTRY OF DEFENCE

12. The former Chief Executive's restructuring proposals to split the Civil and Defence activities of PSA were subsequently set aside. There would be no advantage now in pursuing separation of MOD work: that would involve greater upheaval and costs, both financial and in resource terms, than the restructuring proposals themselves. Such a move would also result in a serious loss of advantages from economies of scale, particularly in the Agency's 156 District Works Offices where the separation of work would often result in unviable offices covering ineffectively thinly scattered Civil accommodation in extremely wide territory.

CONTRACTING OUT POLICY

14. PSA now contracts out all major new construction, 85 per cent of maintenance, and has greatly increased contracting out in the design field, as well as in contracting out some estate management and maintenance management functions. The plan for the future proposes further initiatives, in the form of experiments, to assess the potential for contracting out of wider maintenance management and MOD estate management functions. This experimental approach is necessary to ensure

that any application on a wider scale would represent an efficient and cost-effective service to Departments. The initiatives will therefore be carefully monitored against suitable criteria of efficiency and value for money.

MAJOR DEVELOPMENTS IN PSA MANAGEMENT CONTROL AND
INFORMATION SYSTEMS

This Annex describes the major initiatives being taken by the Agency to improve systems of management control and management information. PSA has used a number of such systems for over a decade and for the past five years has operated the MINIS system to ensure that agreed objectives are followed throughout the Agency. Nevertheless in an organisation in which a large proportion of expenditure and resources are in the hands of the United Kingdom Territorial Organisation (UKTO) comprising a network of over 200 offices, there is a need to develop more effective nationally applied systems if the centre is to retain an appropriate degree of control while allowing proper delegation in line with Financial Management Initiative objectives.

LONG-TERM STRATEGY

2. The PSA Executive Board has endorsed the recommendations of consultants for a long-term information strategy for the Agency. The detailed development and implementation will be the responsibility of a recently appointed Director of Information Technology. Two important elements of the strategy will be the provision of an Agency-wide communications network and a disciplined approach to corporate data management. Some progress has already been made in both these areas. A telecommunications group, with responsibility for voice and data communications, has been formed to manage the PABX replacement programme and to provide suitable network facilities. A Data Administrator has also been appointed.

INTERIM ARRANGEMENTS

3. A large number of immediate improvements are being made to aid effective management control, and especially to assist decision taking in the maintenance and estate management fields. All 156 District Works Offices in the United Kingdom have in the last year had microcomputers installed to hold key information on works programmes, financial information, and works orders. Each Estate Office now has access to a computerised information system (CERIS) which holds information to help in the management of PSA's 13,000 separate accommodation holdings.

NEW DEVELOPMENTS IN ADMINISTRATIVE RESOURCE CONTROL

4. As a start to developing longer-term arrangements the Agency's existing management information systems for control of resource costs are being reviewed with the aim, inter alia, of improving cost comparisons and forecasting of resource requirements. The initial aim will be to establish a basis for more delegated budgeting of administrative resources.

5. A further related initiative is in hand to achieve a merger of Works and resource costs within the vote accounting system. This should enable a better balance to be achieved between work programmes and the associated administrative costs, and enhance overall control.

CONTROL OF MAINTENANCE

6. This is the area that has received the greatest attention to date and the following paragraphs describe the major elements of action plans being implemented in response to several reports on maintenance control arrangements.

7. The maintenance organisation in the UKTO has been the subject of three major reviews, in the recent past, the Rayner

review of resource control in District Works Offices, the Wardale Touche Ross (WTR) Report, and the Public Accounts Committee (PAC) Report on it, and the National Audit Office (NAO) Report on building maintenance and the subsequent PAC Report. These reports resulted in major action plans and over 60 recommendations have been implemented. The actions arising from the three reports are closely linked and principally affect the UKTO and the Directorate of Home Regional Service (DHRS). They are therefore being co-ordinated by a committee of senior staff under a Deputy Chief Executive who will keep all related initiatives under review. This note summarises very briefly the most important subjects for change.

i. Improved Financial Control

A new budgetary system for maintenance is being tested in three complete Areas to run through the financial year 1985-86 and with a view to deciding the most suitable national system to be introduced as soon as possible thereafter. A number of national improvements to aid financial control are being introduced in the meantime.

ii. Other System Changes

A number of other changes affecting contractual, certification, checking and stores procedures are being implemented to improve efficiency and provide greater assurance of the probity of PSA's transactions.

iii. Management Inspection and Review

A new system of District Management Reviews was introduced from 1 April 1985, following selected trials, to provide a co-ordinated review of all the major functions of a

District - technical, administrative, financial and procedural. Other checks and controls will be tightened up to increase their effectiveness as management aids.

iv. Setting of Priorities

Better central guidance has been issued to assist the UKTO in the setting of maintenance priorities as part of the initiative to obtain better value for money and ensure that limited funds are used to best effect across the estate.

v. Performance Measurement

Maintenance Unit costing and standard costing are being further developed as a means of comparing the costs of different maintenance operations and of assisting in estimating and monitoring some maintenance expenditure.

vi. Management Attitudes

An overriding requirement which comes out of the WTR and NAO Reports is the need for changes in attitudes of managers and staff at all levels. There is a need for a more positive approach in managing staff and resources through more rigorous monitoring and reviews of performance as a normal feature of management. There is also a need for managers to instil in those taking decisions about provision of PSA services the requirement to apply more deliberately tests of priority and value for money and to consider the justification of decisions taken. Such changes of attitude and approach are difficult to secure and will require sustained effort by senior management. As one approach to the problem PSA Board members and senior staff are undertaking an extensive programme of visits to UKTO offices, which number some 200, to press these vital needs.

8. As paragraph 7 indicates, many of the recommended changes have already been completed. The Action Programme on the NAO Report and the outstanding WTR and Rayner recommendations will be pursued urgently over the coming year and many more will be fully implemented. Others, such as the national budgetary control system which involve Pilot Studies will take longer to implement but the programme represents the best progress that is possible in each case given the particular needs and the resources available.

"BUSINESS PLAN" FOR PSA

This Annex describes PSA's proposed "business plan" to meet the major Ministerial aims for the Agency set out in paragraph 6 of the main paper. The plan considers in turn the main functions undertaken, and the principal objectives, specific targets, and timetables for action on each which will be closely reflected in the Agency's separate MINIS Statements for each Directorate and Region. It also describes proposals that are being pursued to achieve some modest organisational and structural changes to reflect changing circumstances of both PSA and its clients. Changes in management control and systems changes are described separately in Annex A.

FUNCTIONS OF PSA

PSA's major task is to provide, manage and maintain the Government's estate to meet the operational requirements of its clients in a way that optimises the use of property and minimises overall costs. This involves the following four main functions:

- A. Estate management.
- B. Maintenance.
- C. New design.
- D. Procurement through the Crown Suppliers who operate as a trading fund independent of the other functions. (The Crown Suppliers are to be subject to a separate major review and they are not dealt with further in this Annex.)

A. ESTATE MANAGEMENT

1. COSTS AND RESOURCES

PSA manages the Civil Estate comprising some 9,000 holdings and 10.2 million square metres and the Defence Estate covering some 692,000 acres. About 600 professional and technical staff are employed in these tasks.

2. OBJECTIVES

Civil Estate

- i. Managing, developing and maintaining the Civil Estate to provide for accommodation for the operational needs of Government clients as economically as possible within agreed standards.
- ii. Minimising the size and total cost to the taxpayer of the estate.
- iii. Rationalising Departments' holdings to achieve i. and ii. above and to improve the operational efficiency of clients.
- iv. Meeting the needs of "repayment" clients according to their instructions.

Defence Estate

- v. Managing, developing and maintaining the Defence Estate on behalf of MOD to agreed standards of performance, costs and time.
- vi. Meeting particular operational needs including transition to war requirements.

For Both

- vii. Securing the timely disposal of surplus land and property.

3. TARGETS

(1) IMPROVED PERFORMANCE

- i. Allied office estate reduced by 0.4 million square metres between 1979 and 1984.

Target: to reduce by a further 0.1 million square metres by June 1986.

(This target is based on the current known demands of clients and on their co-operation in achieving economies through rationalisation schemes.)

- ii. Surplus space on the Civil Estate December 1983: 5 per cent.

Targets:

- a. to reduce surplus space to 4 per cent by June 1986;
- b. to establish minimum surplus space achievable;
- c. to establish a strategy for achieving b.

(A scrutiny approach is being examined for b. and c.)

- iii. Rationalisation of Civil Estate in London yielded savings of £30 million 1979-84.

Target: to increase savings in London to £50 million by 1988.

iv. Defence Estate disposal for 1983-84 valued at £42 million.

Target: Defence Estate disposal for 1985-86 £39.5 million.*

v. Civil Estate disposals for 1983-84 valued at £10 million.

Target: Civil Estate disposal for 1985-86 £19 million.*

*Achievement of these targets depends in many cases on Departments releasing accommodation or land by the dates they forecast.

(2) USE OF PRIVATE SECTOR

Defence Estate

PSA has proposed, and MOD have agreed, the management of a selected Defence agricultural estate should be placed with private agents to compare costs and performance. Planning is in hand for an experiment which will be completed by mid-1987.

(3) TRANSFER OF RESPONSIBILITY TO CLIENTS

i. CIVIL CLIENTS - REVIEW OF PRS ARRANGEMENTS

PSA has conducted a review of PRS with the aim of making recommendations to Ministers on the precise future division of responsibility for accommodation matters between it and Civil clients. The Secretary of State has now written to colleagues about the development of PRS, and proposals have been circulated for comment to client Departments.

A multi-Department Review has also just been completed into Departments' responsibilities for handling of accommodation matters and this will also inform final decisions about the respective roles of PSA and Civil Departments.

ii. OTHER CIVIL CLIENTS

PSA also serves a large number of other Civil clients, Government and Government related. The largest of these include BT, MSC, HSE and museums and galleries sponsored by the Office of Arts and Libraries (OAL). There are two major initiatives for change already happening: following the privatisation of BT, PSA has proposed a phased withdrawal from their work (except Crown Suppliers); and following a Select Committee of the Arts review a joint PSA/OAL study is considering the issues involved in greater devolution of responsibility to museums and galleries for works services.

The remaining clients represent only a small proportion of PSA's work but nevertheless represent a significant demand on PSA's constrained resources. It is therefore appropriate to conduct an interdepartmental review to determine if any more general changes should be made in the provision of services by PSA to this group of clients. This should ideally begin when the OAL study is completed; target mid-1985.

(4) VALUE FOR MONEY

An assessment of value for money of estate management must involve many judgmental issues. However, there are some more specific means by which it is demonstrated:-

- i. A sizable number of PSA rent reviews have been put out to agents to handle to establish comparisons of performance. No overall measurable difference in the levels of settlements achieved has been evident.
- ii. PSA's resource costs measured in PSA's staff costing system (PATOCAP) can be compared with the notional fees which private agents would charge and overall PSA's costs are substantially lower.

B. MAINTENANCE

1. Costs and Resources

PSA will spend some £720 million on the maintenance of the Civil and Defence Estate in 1985-86 with over 80 per cent of the work being undertaken by private contractors. To identify, plan and manage the operation PSA employs about 5,000 staff in a network of over 200 UKTO offices.

Annex A describes, inter alia, important changes that PSA is already making in the way it manages the maintenance functions. This section concentrates on strategic changes for the future.

2. Objectives

- i. To maintain the estate in suitable condition to meet the operational needs of clients.
- ii. To minimise long-term running costs by timely maintenance and execution of "spend to save" initiatives where appropriate.

3. Targets

(1) IMPROVED PERFORMANCE - CIVIL ESTATE

The above objectives have not been met recently when maintenance funds have been less than required. The consequences of insufficient funds are inefficiencies for clients' operations and increased long-term costs. Ministers have asked for further evidence of the scale of the shortfall and in order to define the problem PSA has taken two major initiatives:

- a. development of a three-year forward maintenance programme to demonstrate funding requirements for essential work;
- b. identification of the backlog of maintenance which is now estimated at a minimum of £90 million.

Production of information of a. and b. was substantially completed last autumn and discussions began with the Treasury about increased provision progressively to tackle these related problems. These have not to date produced the extra funds required to make a significant start in removing the backlog in 1985-86 and the issues will be pursued again shortly in the coming PES discussions.

(2) USE OF PRIVATE SECTOR

NEW TYPES OF MANAGEMENT CONTRACTS - CIVIL AND DEFENCE ESTATES

As a further extension of management contracting PSA is proposing, on a trial basis, to give to contractors or consultants wider responsibilities for defining and executing the maintenance of some selected estates, such as a group of Married Quarters (MQs) or office buildings. Some new initiatives are already in progress and several further options will be tried in 1985-86 with a view to reaching firm conclusions within two years. An experimental approach is necessary because past efforts to establish management contracts either yielded uneconomic offers or resulted in shortcomings of performance.

(3) TRANSFER OF RESPONSIBILITY TO DEPARTMENTS - CIVIL AND DEFENCE

As from April 1984, under an extension of PRS, Civil Departments became responsible for most maintenance work up to £1,000,

representing some 25 per cent of total maintenance expenditure. This new limit is to some extent arbitrary but is based on the view that maintenance work up to this level can be handled without detailed technical knowledge. However, some Civil clients would like to see the £1,000 limit further extended and proposals for achieving this are included in the review of PRS mentioned earlier. MOD have taken part in successful experiments which give them comparable responsibility to PRS clients and the arrangements are now being institutionalised at certain station duty establishments, and further experiments are to be conducted at operational establishments.

TRIAL WITH INTERNAL DECORATION TRANSFER TO CIVIL DEPARTMENTS

As part of the separate review of PRS PSA has suggested that a few selected Departments should assume responsibility for decisions on internal decorations in certain buildings from 1 April 1985 leaving them to decide whether to use PSA or another agent to arrange execution. If this trial is successful it could be extended to other Departments.

(4) VALUE FOR MONEY - CIVIL AND DEFENCE ESTATES

Several means are available for providing an indication of value for money.

- i. PSA'S resource costs measured in PATOCAP produce performance indicators that enable the resource costs of different offices to be compared.
- ii. Limited information is available about the private sector's resource costs in undertaking maintenance, but, based on quotations received from three national contractors, they seem generally to be much higher than PSA's costs. Further comparisons of costs are proposed.

- iii. Certain tasks such as maintaining MQs can be subject to a unit costing approach. PSA is examining the wider application of this approach to the estates.
- iv. A major programme of new District Management Reviews beginning in April 1985 will examine District performance more comprehensively with emphasis on value for money aspects.

C. MAJOR NEW DESIGN

PSA manages a programme of major new design approaching £5 billion in total value which has risen in volume by about 30 per cent over the last two years largely as a result of growing Defence and law and order programmes. About two-thirds of this work is for MOD and one-third for Civil clients. About 1,600 staff are employed in-house in the function and over 50 per cent of work is now carried out by outside consultants (architects, quantity surveyors etc).

Objectives

- i. Achieving timely and appropriate solutions to client requirements within agreed cost limits.
- ii. Setting and achieving suitable standards of design quality; and developing standard solutions where appropriate.
- iii. Minimising ongoing maintenance costs.
- iv. Developing effective procedures for commissioning work to achieve high standards of performance from external consultants with a minimum use of in-house resources.
- v. Competing on design and fees to enhance quality and improve value for money.

Targets

(1) IMPROVED PERFORMANCE

Under Ministerial policy, in-house major new design has been reduced from about 65 per cent in 1979 to about 40 per cent by April 1985 together with an accompanying reduction in design staff numbers from about 2,500 to about 1,600. Staff reductions have had largely to be achieved by natural wastage which has produced imbalances between the various design disciplines. At the same time, 17 separate major design offices have been maintained (7 at HQ and 10 in the UKTO). In addition PSA's ?M Area Offices each has limited design capacity to execute mainly smaller schemes. Maintaining design capacity in so many separate units is inevitably producing problems of keeping up efficient production and two particular needs have been identified to improve performance.

- i. establish the correct size and balance of disciplines of HQ and UKTO design office having regard to future ratio of in-house to out-house workload;
- ii. establish the long-term number and location of design offices that PSA should operate.

The newly-appointed Director General of Design Services is examining these needs as a top priority drawing on some work already undertaken on the size and composition of design offices. The report on this major task will be available by about the middle of 1985.

(2) USE OF PRIVATE SECTOR

The proportion of design work with the private sector reached about 60 per cent in April 1985. It will increase by a further 5-10 per cent in the following year. It is unlikely that,

assuming present workload, the proportion given to consultants could be increased further without putting at risk the ability of in-house staff to deal with essential security work and the provision of effective consultant liaison capacity (see also (3) below).

(3) VALUE FOR MONEY

PSA's staff costs measures through PATOCAP are compared with the notional fees of consultants and on this basis most offices show a significant surplus.

In 1982 a study was conducted with participation by independent outside accountants which concluded that overall PSA's in-house design costs were about 20 per cent lower than those charged by consultants. The advent of fee competition may change this differential; it is too early to draw any firm conclusions but the position will be carefully monitored, and a further review of comparative costs will be undertaken.

EVOLUTIONARY STRUCTURAL CHANGES IN THE AGENCY

A number of evolutionary structural changes are under consideration or have recently been decided upon to meet the changing circumstances and workload of the Agency including the greater use of private sector resources. Any significant changes of this sort, which are a necessary and ongoing process in most organisations, had to be put off during the two-year period when major restructuring was being considered. The major review of PSA's design offices has already been mentioned above (C(1)) and the following are the other major issues that are being pursued.

i. UKTO Office Boundary Changes

Changing patterns of work, such as the loss of BT work that is already happening, and is likely to continue, require that the loading of Regions, Areas and Districts should be examined and any necessary adjustments made. Regional Directors are currently considering such adjustments that will enable workloads and resources to be more evenly matched and a start has been made in implementing the changes to take effect in the year 1985-86 financial year.

ii. Study of SE Region

As part of the above process PSA is undertaking a study of the SE Region where, principally, the loss of Navy work at Chatham requires a more fundamental examination of future arrangements. This is providing an opportunity to consider radical structural changes such as the removal of a tier of management or integration with an adjoining Region, and the closer integration of Works and Estimates functions. The study will be completed in mid-1985 with a view to starting to implement changes during 1985-86.

iii. Headquarters Organisation

PSA has already made changes in the Headquarters arrangements for managing the UKTO. This has involved the creation of a much stronger management inspection and review capability within the Directorate of Home Regional Services so that the Deputy Chief Executive has better control of, and information on, the activities of Regions.

CONFIDENTIAL

Other changes in HQ organisation have also been made to make single Directorates responsible respectively for all aspects of the management of the Civil and Defence Estates. This will in turn allow for greater integration of estate management and works activities throughout the organisation.

SUMMARY OF RECOMMENDATIONS

The following is a summary of the main recommendations and points for decision.

- i. PSA should retain the central management responsibility for the Civil Estate, but:
- ii. Civil Departments should assume increased responsibility for determining non-strategic new works and maintenance, the detailed arrangements for which to be pursued separately in the context of the further development of PRS. Ministers will be consulted separately about this shortly.
- iii. PSA should continue to meet MOD's estate management and works requirements, subject to developments to extend MOD's responsibilities for undertaking minor works and maintenance.
- iv. PSA's services to non-Government public bodies should be reviewed to determine the extent to which this role should continue.
- v. Experiments should be conducted to test the scope for and cost-effectiveness of more contracting out of estate management and maintenance management functions.
- vi. Studies should be finalised to determine organisational changes in the Agency to match its changing role and to secure improved efficiency and value for money of its main functions.
- vii. Continued emphasis should be given to developing the Agency's management control and information systems.



NBP 11
ST 7/12

CP PO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

7 December 1984

Dear Andrew

You may have read in the press reports of the arrest of ⁵ PSA staff in connection with allegations of corruption. These are the same cases that were reported some weeks ago in the News of the World.

The police have also arrested five contractors on the same allegations. All ten men are being held for questioning but will probably be released before the weekend. The police will then report to the DPP, who will consider the question of charges.

There may well be considerable public interest in all this, and you may like to have an idea of what the allegations are about. Briefly, a group of contractors appear to have been involved in a ring for the purposes of tendering for work from PSA, and possibly other public agencies. PSA staff may well have been in collusion with them both to ensure that only those in the ring were invited to tender and to pass work below standard. In return, they got favours from the contractors - eg free holidays. There may be considerable sums of money involved.

By arrangement with the police, who are anxious at present that the names of those detained are not revealed, PSA are not issuing any statement, but are referring all enquiries to the police.

I am copying this to Richard Hatfield in Sir Robert Armstrong's office.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

Andrew Turnbull Esq

17-2007

John [unclear]

CONDICIOL

-7 DEC 1984

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Secretary of State for the Environment

David

PSA

Sub
12/11

we spoke. The
Chief Executive's
statement below is
the 'line to take'.

Andrew Arsen

9/11

PS/Secretary of State

See of State
There is a risk this
story will break this Sunday,
so you will want to be aware.
We have warned Noto.

PSA: ALLEGATIONS OF STAFF RECEIVING FAVOURS FROM CONTRACTORS

1. Further to my minute of earlier today, ^(below) we have now seen the journalists from the News of the World.

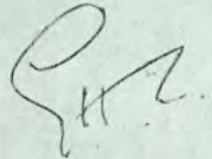
2. The News of the World have evidence that several PSA staff - including two DWOs - went on a holiday to Miami organised by a contractor employed by PSA. The staff concerned claim that this was a group travel arrangement and that they have paid the costs of the holiday to the organiser. Nevertheless, even at the very best, there is evidence of appalling errors of judgement. At the worst there may have been collusion with contractors, and the News of the World claim that they have some evidence of such collusion happening (although not necessarily with the people on the Miami holiday).

3. The News of the World propose to print this story on Sunday. Although they suspect that there may be evidence of other favours being granted by contractors to staff, they will probably restrict the story to the Miami trip and the particular contractor involved. But this will be damaging enough. Mr Manzie gave them the annexed statement from him to use emphasising our determination to investigate and stamp out behaviour such as this. We also gave them an extract from the staff rules making it clear that relations of this sort between staff and contractors are not allowed.

4. The News of the World say they have copies of contractual documents which will show collusion between contractors to extract higher prices than necessary from PSA; they may also show collusion between PSA staff and contractors. We cannot carry out investigations into this until we have these documents; the News of the World have promised to make them available to us on Monday.

5. When we have these documents we will report to Ministers how we propose to carry out this investigation. There is no doubt that the allegations are very serious and must raise doubts about the behaviour of staff well outside the five involved in the Miami trip. If they could be - at the most charitable - so stupid it may well be that others have been so. It is particularly disheartening to find this lack of sense or scruple still occurring after the great efforts made by Regional and senior management in the Agency to get over to the staff the lessons of the WTR Report.

6. The Press Office have been briefed to deal with any enquiries over the weekend, and have instructions to speak to me if any problems arise.


G H CHIPPERFIELD
DCE.1

9 November 1984

cc PS/Mr Gow
PS/Sir George Young
PS/Chief Executive
Mr M J Ware
Mr A R Atherton
Mr M V Hawtin
Mr A J Aveling
Mrs E M Causley-Cooper
Mr D A McDonald
Mr V Shroot

STATEMENT MADE BY THE CHIEF EXECUTIVE PSA TO
NEWS OF THE WORLD REPORTERS ON ALLEGATIONS OF CORRUPTION
BY PSA STAFF IN LONDON

Thank you for coming to see me. I am grateful for the information you have provided about the possible acceptance by staff of favours from contractors. We in PSA are determined to stamp out behaviour which falls below the highest standards of the public service. To do this we need evidence and information from any source. I can assure you the evidence you have given us will be followed up thoroughly. If there is evidence of possible offences the papers will be put to the Director of Public Prosecutions.

SOFS - to see

PS/Secretary of State

PSA: ALLEGATIONS OF STAFF ACCEPTING FAVOURS FROM CONTRACTORS

1. Ministers will want to know that we have just learnt of serious allegations of PSA staff in London receiving favours from contractors. The News of the World are proposing to run a story on this; their reporters are coming to see the Chief Executive, Mr Ware and PSA senior staff this afternoon to ask about our procedures. Mr Manzie will impress on them their duty to give us as full information as possible to allow any possible irregularities to be pursued.

2. We will report back to Ministers after the meeting.

GH

G H CHIPPERFIELD
DCE.1

9 November 1984

cc PS/Mr Gow
PS/Sir George Young
Chief Executive
Mr A R Atherton
Mr M V Hawtin
Mr A J Aveling
Mr M J Ware
Mr J E G Quinlan
Mr D A McDonald
Mr V Shroot

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12 11 10 9 8 7 6 5 4 3 2 1



for
c.c. June Brewer

cc MASTER SET

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

Chief Executive, Property Services Agency

The Prime Minister discussed with you this afternoon your minute of 22 March (A984/915).

On the question of Ministerial responsibility, the Prime Minister said that she could think of one or two of her colleagues who would make an excellent job of Ministerial responsibility of PSA, but she was not at present minded to make it into a separate department because she shared your view that there was unlikely to be enough work at political level to occupy a full-time Minister of the quality required. In any event, she did not think that a Ministerial post in charge of the PSA should carry Cabinet rank, and that would reduce its attraction to potential holders of the post.

The Prime Minister would like to find a suitable candidate for the post of Chief Executive of the PSA as soon as possible from within the Civil Service. She concluded, after discussing the names with you, that the front-runners were Mr. Geoffrey Chipperfield, Mr. Kenneth MacDonald and Mr. Gordon Manzie. She suggested that you should discuss these names with the Secretary of State for the Environment, who might interview any of the three whom he did not already know, and see whether this led to an agreed recommendation.

E. E. R. BUTLER

2 April 1984



a MASTER SET

10 DOWNING STREET

From the Private Secretary

2 April 1984

PROPERTY SERVICES AGENCY

The Prime Minister held a meeting on 29 March about the Property Services Agency. The papers before the meeting were Sir Robert Armstrong's minute of 6 March (to which was attached a note by the Cabinet Office entitled "PSA - Structural Change and Future Role"), and your Secretary of State's minute of 23 March. Those present at the meeting, in addition to your Secretary of State, were the Secretary of State for Defence, the Chief Secretary, the Minister of State, Privy Council Office, Sir Robin Ibbs, Sir Robert Armstrong and Mr. Redwood, of the No. 10 Policy Unit.

Your Secretary of State said that following the departure of the former Chief Executive there was now an opportunity to consider afresh both the Agency's role and the priorities which should be set for its management. He judged that it would be wrong to proceed with restructuring of the PSA along the lines which had been favoured by Mr. Alfred: the costs would be substantial and the benefits were questionable. Since restructuring had first been proposed, the Wardale/Touche Ross Report on Fraud and Corruption in the Agency had been received. The PAC had been considering the Agency's response, and their Report was expected to be critical. In these circumstances, the immediate management tasks were to restore public confidence, to improve the internal administration of the Agency, and to raise the morale of those who worked for it.

The future role of the Agency was a matter for collective consideration. Among the important questions which arose were the extent to which estate management could be devolved to Departments; the scope for "untying" certain categories of work, leaving Departments free to choose between the PSA and the private sector; the degree of further contracting out (it was already considerable in some areas); the future relationship with PSA's "repayment clients"; and the possible privatisation of the Crown Suppliers.

/ In discussion

In discussion it was agreed that priority should be given to improving the quality of management within the PSA, although changes in the relationships between the Agency, Departments and the private sector were desirable and should not be overlooked. There could be significant benefits from greater devolution to Departments (coupled with tight control of budgets), more competition with the private sector, and further contracting out. At the same time, it would be necessary to resist the natural tendency of client Departments to acquire their own works organisations as PSA's direct involvement diminished.

It would be necessary to examine the scope for change function by function, and on the basis of more facts than were at present available. In order to undertake such an examination, the senior management of the Agency would need external support, probably from consultants, but with some help also from the Efficiency Unit.

It was argued that there was a potential conflict between the objectives of improved management and higher morale on the one hand, and an increased element of private sector involvement on the other. To maintain morale in an organisation which was being run down was a formidable task. But for as long as particular activities remained in the public sector, the response to criticisms of the Wardale/Touche Ross variety would be to build in additional controls, which would themselves increase costs.

Summing up, the Prime Minister said that further work was required before decisions could be taken on the future role of the Agency. She invited Sir Robert Armstrong, in consultation with the Secretary of State for the Environment, the Chief Secretary and the Minister of State Privy Council Office, to set the necessary work in hand. Meanwhile, the priority for the new Chief Executive was to improve the quality of management. This would be a demanding task, and if he was also to promote changes in the nature of the Agency and its relationships with clients and the private sector, he would need both clear Ministerial objectives and a degree of external support.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office), Paul Cann (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

(DAVID BARCLAY)

John Ballard, Esq.,
Department of the Environment.

DRAFT LETTER TO JOHN BALLARD, DEPARTMENT OF THE ENVIRONMENT

C O N F I D E N T I A L

PROPERTY SERVICES AGENCY

The Prime Minister held a meeting on 29 March about the Property Services Agency. The papers before the meeting were Sir Robert Armstrong's minute of 6 March (to which was attached a note by the Cabinet Office entitled "PSA - Structural Change and Future Role"), and your Secretary of State's minute of 23 March. Those present at the meeting, in addition to your Secretary of State, were the Secretary of State for Defence, the Chief Secretary, the Minister of State, Privy Council Office, Sir Robin Ibbs, Sir Robert Armstrong and Mr. Redwood, of the No. 10 Policy Unit.

Your Secretary of State said that following the departure of the former Chief Executive there was now an opportunity to consider afresh both the Agency's role and the priorities which should be set for its management. He judged that it would be wrong to proceed with restructuring of the PSA along the lines which had been favoured by Mr. Alfred: the costs would be substantial and the benefits were questionable. Since restructuring had first been proposed, the Wardale/Touche Ross Report on Fraud and Corruption in the Agency had been received. The PAC had been considering the Agency's response, and their Report was expected to be critical. In these circumstances, the immediate management tasks were to restore public confidence, to improve the internal administration of the Agency, and to raise the morale of those who worked for it.

The future role of the Agency was a matter for collective consideration. Among the important questions which arose were the extent to which the State management could be devolved to Departments; the scope for "untying" certain categories of work, leaving Departments free to choose between the PSA and the private sector; the degree of contracting out (which was already considerable in some areas); the future relationship with PSA's
/"repayment

"repayment clients"; and the possible privatisation of the Crown Suppliers.

In discussion it was agreed that priority should be given to improving the quality of management within the PSA, although changes in the relationships between the Agency, Departments and the private sector were desirable and should not be overlooked. There could be significant benefits from greater devolution to Departments (coupled with tight control of budgets), more competition with the private sector, and further contracting out. At the same time, it would be necessary to resist the natural tendency of client Departments to acquire their own works organisations as PSA's direct involvement diminished.

It would be necessary to examine the scope for change function by function, and on the basis of more facts than were at present available. In order to undertake such an examination, the senior management of the Agency would need external support, probably from consultants, but with some help also from the Efficiency Unit.

It was argued that there was a potential conflict between the objectives of improved management and higher morale on the one hand, and an increased element of private sector involvement on the other. To maintain morale in an organisation which was being run down was a formidable task. But for as long as particular activities remained in the public sector, the response to criticisms of the Wardale/Touche Ross variety would be to build in additional controls, which would themselves increase costs.

Summing up, the Prime Minister said that further work was required before decisions could be taken on the future role of the Agency. She invited Sir Robert Armstrong, in consultation with the Secretary of State for the Environment, the Chief Secretary and the Minister of State Privy Council Office, to set the necessary work in hand. Meanwhile, the priority for the new Chief Executive was to improve the quality of management. This would be a demanding task, and if he was also to promote changes in the nature of the Agency and its relationships with clients

/and

and the private sector, he would need both clear Ministerial objectives and a degree of external support.

I am sending a copy of this letter to Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office HM Treasury), Paul Cann (Lord Gowrie's Office), Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.



GR

Please type as letter
to JB fms.

10 DOWNING STREET

From the Private Secretary

→
2/4

MR. HATFIELD
CABINET OFFICE

As discussed with Sir Robert Armstrong,
I enclose a draft record of the Prime Minister's
meeting on the PSA. I should be grateful if
you could let me have his comments as soon
as possible.

Vanessa Cummings

pp David Barclay

30 March 1984

*Contact - one copy
amendment of both
pages!*

DRAFT LETTER TO JOHN BALLARD, DEPARTMENT OF THE ENVIRONMENT

C O N F I D E N T I A L

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SECRET

26 March 1984
Policy Unit

2.

PRIME MINISTER

PROPERTY SERVICES AGENCY

You now have before you a formidable weight of paper setting out the options for the PSA. These short notes might help you in ruling out some of the more extreme and silly propositions.

Aims and Principles

The challenge is to provide a better service at lower cost which involves reducing the work force, but staff cuts should not be the prime aim.

The figures on the PSA performance are disappointing. 4.7 per cent empty accommodation (on the office % of 88m.sq.ft) is too high. It should be brought down to below 2 per cent. The amount of office accommodation shed between 1979 and 1983 is disappointing in view of the fall in Civil Service numbers. Two prime aims for the new PSA organisation should be a reduction in the amount of void space, and a continuing reduction in the size of the estate at least in line with the decline in Civil Service numbers.

The third aim should be to raise the overall standards of accommodation which are poor, whilst making some economies in the size of accommodation made available, particularly at the higher levels in many London departments. By commercial standards, the space provided is large, but also very scruffy. Savings and improvements could be made by concentrating on this problem.

Now that Mr Alfred has gone, there is a chance to bring in a good manager for the PSA and set him targets. It may also be right to think about a transfer for Mr Chipperfield, Mr Alfred's number two who always disagreed with him, back to the DoE, should Alfred's successor be uneasy about him.

Narrowing the Options

The PSA's role as a provider of buildings. There is no point in forming a separate property company and selling the buildings off collectively or individually. It would be dearer for the Government to lease rather than to own its own properties. The existing policy

SECRET

of concentrating staff in owned rather than leased properties, and surrendering leases whenever possible, is the correct one.

The Wardale/Touche Ross proposals should be taken up with more alacrity. It is vital that a good management information system be introduced more rapidly to improve the quality of the buildings whilst reducing costs. This should concentrate on giving managers the correct information that they need about the relative costs of accommodation throughout the public sector (maintenance costs as well as capital), and the options available in the market for them to be constantly upgrading and lowering the costs of the estate.

← One tier of management has to go: this should be a necessary part of sharpening the control over the service and reducing the overhead costs. Any new manager should be told clearly that he is empowered to do this on his own authority as part of his cost containment programme.

In the field of maintenance all of the work should be put out to competitive tender, with the PSA winning any work where it has a clear cost advantage. The amount of work that has to be kept in-house for security reasons should be kept as small as possible.

There is no great advantage in splitting the MOD off separately. A central organisation should have cost advantages, and it is up to management to try and deliver these.

The Crown Suppliers also needs a more vigorous shake-up from competitive forces. Any department which can buy an item more cheaply directly rather than through the Crown Suppliers should be enabled to do so where it cannot at the moment. No sanction should be given for recruiting new purchasing officers in the departments: it should be done using existing staff. Those running the Crown Suppliers should regard it as a great criticism if they cannot capture the bulk of departmental work as they should be operating on big-scale rebates given the volume of business which they control. They should be free to maintain or extend their business links with other non-departmental bodies, both to improve their volume of purchasing, and to test their prices in the market.

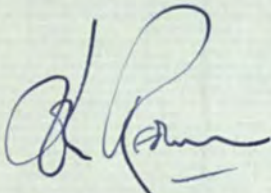
My early observations of Government buying tell me it is done slowly, badly and with little success in lowering the price to the

buyer. It would often be cheaper and quicker to go down the road to a discount store than to order something through the PSA. A management information system should again bring this to light. The PSA should report on the prices of its leading items sold to the departments compared with a typical discount price to the retail customer in the stores. The Crown Suppliers should also be able to develop better relationships with British manufacturing industry, and to pursue an informed domestic buying policy along the lines of Marks & Spencer. It may need strengthened management to assist in this process. Both PSA and Crown Suppliers will need outside commercial people.

Conclusion

The first steps must be:

1. To set out clear and simple objectives separately for Crown Suppliers and PSA, as outlined in this paper.
2. To move rapidly to the appointment of a new senior manager for the PSA and to consider strengthening the management of Crown Suppliers. It may also be desirable to transfer Mr Chipperfield back to DoE from the PSA.
3. To set tough targets for cost reduction and quality improvement for the property estate of the Government, whilst reaffirming the desirability of owning rather than leasing premises.
4. To open maintenance and supplies to full competition.



JOHN REDWOOD

MT



Prime Minister⁽²⁾

PRIME MINISTER

FUTURE OF PSA

The future of the PSA will be discussed at your meeting on Thursday. But in view of its length you may like to look at this minute setting out Mr Jenkins's views over the weekend. He favours short term concentration on Wardale/Touche Ross criticisms, and a longer term study of PSA's role.

1. We are to meet on 29 March to discuss Sir Robert Armstrong's minute of 6 March. I found this minute and the paper on which it is based extremely valuable. In particular, it pointed up much more clearly than anything I had seen hitherto to the risks and costs of proceeding with restructuring without first having agreed the Government's objectives for the PSA. Even before the paper came round DOE Ministers were already having serious misgivings about the practicability of proceeding with restructuring in the time scale advocated by Mr Alfred; the meeting you held on 19 December 1983 indicated clearly that other colleagues shared these misgivings; now, in the light of the arguments in the paper, I do not wish to argue that we should press ahead as Mr Alfred was recommending.

DWB
23/3

2. Indeed, in the written Answer (attached at Annex A) which I issued on March 13 announcing the reasons for Mr Alfred's departure, I have already said that further work on restructuring would be suspended and this has been done.

3. There is a second important issue which has come to the fore since the Cabinet Office paper was circulated. At two hearings of the Public Accounts Committee held on 27 and 29 February, it became clear that the PAC are strongly critical of the PSA's response to the Wardale/Touche Ross Report ("WTR") on fraud and corruption in the Agency. While we have yet to receive their report, there is little doubt that it will reflect the criticisms made at the hearing. The report will

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therefore strengthen the public perception of PSA as an organisation which has recently been managed less than competently, and one which, on account of its size, diversity of functions and unclear objectives, is in need of redirection.

4. In these circumstances therefore I consider that the immediate task of PSA must be to make a more effective response to the WTR criticisms, reinforced as they will almost certainly be by the PAC, and seek to regain the confidence of customers, suppliers and the public. Although there certainly was some substance in Mr Alfred's view that changes in management attitudes can be more effectively achieved if they flow from the general shake up which restructuring would have involved, I believe that this is no longer apposite. I believe, and in this I am supported by Nigel Mobbs, Chairman of the PSA Advisory Board, that any form of major restructuring as a means of securing the change of attitudes is now a dead letter. Instead, PSA management will need to devote more effort directly to implementing the recommendations of WTR and working to secure the changes in management attitudes which that report called for. In my view, this work (which has been going on though heavily overlaid by the restructuring proposals) should now continue as a top priority.

5. In parallel with this, Ministers need to decide as quickly as possible which options, or mix of options, as set out in Sir Robert Armstrong's minute, we wish to pursue. In particular we need to determine the future role of the PSA. Management and staff need clear objectives to work to, and an end to uncertainty. These are essential if efficiency and effectiveness are to be restored.

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6. In coming to a view on these central questions, colleagues should bear in mind the enormous and complex task of the Agency and the great extent to which it already uses the private sector. Details are in Annex B. The crucial point is that the services PSA performs are services that Departments must have. At the moment PSA provides them centrally as an agent for other Departments, although with a direct responsibility to the Treasury for some aspects; if PSA did not provide these services, Departments would have to do so themselves, providing the necessary organisations to do so, and being separately responsible to the Treasury for the work.

7. My predecessor laid down the Government's initial objectives for the Agency back in 1980, and these are set out in Annex C. Substantial progress has already been made, notably in reducing staff numbers. We now need to review and, I believe, bring those objectives up to date. In particular we need to settle the responsibilities for the maintenance and management of the Government civil and defence estates. Do we want centralised estate management, an integrated design and maintenance organisation, and unified control over the bulk of civil maintenance funding? Or do we want to disperse these activities to Departments? The answer depends crucially on whether we think that it would improve matters to increase the responsibility of Departments for managing their own affairs (as FMI might imply) recognising the inevitable risk of duplication, lack of expertise and the difficulty of setting and adhering to common standards.

8. It is possible to argue that the centralised provision of services within PSA is essential to minimise expenditure

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on the estate and to maximise the gains from common design and maintenance policies. However, the results have not prevented much criticism of the Agency as summarised in paragraph 3 of Sir Robert's letter.

9. Sir Robert's letter and the Cabinet Office paper do not give a final answer to the question 'centralisation or dispersal?'; they do however point to some of the important factors which we will need to have in mind. Before we can form a concluded view, I believe we need more detailed information on, for instance,

(i) the implications of increasing further Departments' maintenance responsibility under PRS;

(ii) the implications of transferring total maintenance responsibility to Departments;

(iii) the implications of transferring whole or partial estates responsibility to Departments.

10. If we are to have much greater use of the private sector by contracting out to private companies, something which I am sure we all would favour in principle, we need much more information on the implications, particularly the costs, of contracting out (with or without untying) (a) design, (b) management control of maintenance, and (c) estates management.

11. We need also to consider whether PSA should cater solely for Government Departments or whether it should continue to serve other bodies. At present a wide range of bodies, ranging from museums, to British Telecom, get help from PSA. We could limit this help to a core of Government Departments who cannot help themselves. But this could have serious consequences for some of the other clients. Again,

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I suggest we need further information on the effects of withdrawing services from the 'repayment clients' before we can decide. Many such clients undoubtedly value PSA's services and would be loth to look elsewhere.

12. In the light of our views on these points we would then have to take a view on whether a central estates body, like PSA, is needed at all, and if so, whether it should cover both the Civil and Defence estates and what its precise structure should be.

13. The final question is the cost and timescale of getting from where we are now to the desired solution.

14. Some of the information necessary to answer these questions is in Sir Robert Armstrong's paper; but for other information, further work will be needed.

15. There remains the quite separate matter of the longer term future of the Crown Suppliers (formerly PSA Supplies). This organisation, nearly 2,000 strong, is still part of the PSA but, as a Trading Fund, it is required to act commercially and make a return of at least 5% on its assets. Under its new strategy which I announced publicly in January it aims to secure an increasing proportion of the public sector market and so reduce unit costs for all its customers. Already more than half its business is 'optional'. This proportion is expected to increase as Departments are given greater freedom to buy where they choose and as the Crown Suppliers find new business in the public domain. I believe that we should now begin seriously to consider whether the Crown Suppliers could be privatised during the life of this

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Government. I recognise that the Financial Secretary has already expressed some doubts whether it would be in the public interest to transfer this activity to the private sector. I nevertheless suggest that, as a separate exercise from the review of the main part of the Agency, we should seek outside advice from a merchant bank or other financial experts about the prospects for successful flotation during the next 3 years and what intermediate steps might be taken to create the most attractive package for the market.

16. In conclusion I invite colleagues to consider:-

(i) whether we should now ask PSA management to concentrate
on WTR;

✓ (ii) whether we wish now to consider radically the future
of PSA;

(iii) if so, whether the points above are those that need to be considered;

(iv) if so, how future work should be taken forward;

and, as a separate matter,

(v) whether outside advice should be sought about the prospects for the successful privatisation of the Crown Suppliers.

J H Gallet
for P J

23 March 1984

Approved by the Secretary of State and
signed in his absence.

ANNEX A

75

Written Answers

Written Answers to Questions

Tuesday 13 March 1984

ENVIRONMENT

Property Services Agency

Mr. Watson asked the Secretary of State for the Environment if he will make a statement about the top management of the Property Services Agency.

Mr. Patrick Jenkin: The appointment of Mr. Montague Alfred as chief executive of the Property Services Agency ended yesterday.

Mr. Alfred appeared before the Public Accounts Committee on 27 and 29 February 1984 on matters including the Wardale Touche Ross inquiry into recent cases of fraud and corruption in the agency. When I learnt of the line he had taken in answer to questions, I reluctantly concluded that his answers were inconsistent with the Government's policy on the Wardale Touche Ross report, as set out in a statement I issued on 5 October 1983. It did not seem to me that Mr. Alfred could in these circumstances remain in the Government's service, and his three-year service contract, due to run to the end of this year, has been terminated by mutual agreement. I very much regret this, and would like to thank Mr. Alfred for his services as chief executive since he joined the agency in 1982. Until a successor is appointed, the permanent secretary of my Department, Sir George Moseley, will act as the accounting officer of the agency and the Crown suppliers.

The proposals which Mr. Alfred had put forward for restructuring the agency have already been the subject of wide consultation; many hon. Members have expressed interest in them. It had become evident that the proposals raised questions about whether the existing objectives of the agency should be modified and that questions must be answered before decisions are taken on management and structure. For this reason Ministers are not yet ready to take decisions on restructuring. It is clear, in any event, that the original timetable envisaged for implementing the restructuring proposals is now impracticable. I have therefore instructed the agency to suspend those aspects of contingency planning geared to that timetable.

I am very well aware that the prospect of restructuring has been causing much uncertainty among staff. The Government will make a further statement on the future of the agency as soon as possible.

PSA: ESSENTIAL FACTS

ROLE

1. PSA provides managers and maintains the property used by Government including defence establishments, offices, courts, laboratories, national museums, training centres and some Government-related bodies such as the CAA.

OBJECTIVES

2. PSA's prime objective is to meet the operational requirements of its clients economically and in accordance with standards and costs agreed with the Treasury and Departments.

For the major "common-user" office estate - some 88m sq ft - this requires that PSA manages it as an entity so as to maximise the use of property and minimise total costs.

RANGE OF SERVICES

3. PSA provides 3 major services:

- i) Design of new buildings and supervision of the construction which is undertaken wholly by private contractors.
- ii) Maintenance of buildings military and other installations, largely by use of private contractors.

iii) Estate management of the Civil and Defence estates. In the case of the Civil estate this involves strategic decision taking on eg build, purchase, and leasing options. For the Defence estate PSA provides an advisory service to MOD.

SCALE OF ACTIVITY

4. PSA spends nearly £2 bn annually as follows:

	83/84	£'s M
New Construction	820	
Maintenance	685	
Rents and Services Charges	220	
Fuel, furniture, transport	100	
	<hr/>	
	1825	

USE OF PRIVATE SECTOR

5. Nearly 80 percent of total expenditure is with the Private Sector, eg:

- 100 percent of construction work
- 80 percent of maintenance
- 50 percent of major new design
- (this figure is set to rise to 60 percent)

ORGANISATION

6. To fulfil its tasks PSA's organisation comprises:

8 Headquarter Directorates	-	Central management, policy and major design
10 Regional Offices	-	Management of Areas and maintenance programmes, estate management, delegated design
34 Area Offices)	- Planning and execution of minor works and maintenance programmes.
)	
150 District Works Offices)	

STAFFING

7. At 1.4.84 PSA employed 13,900 non-industrial staff to perform the following functions:-

Major capital projects	2,400
Minor projects and maintenance	8,250
Estate management	950
Design support and advice	500
Central functions, finance, establishments, etc	1,800
	<hr/>
	13,900
	<hr/>

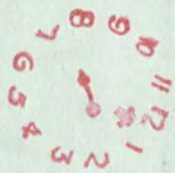
(this represents an 19 percent reduction compared to April 79).

PSA also employs 11,700 industrial staff mainly engaged in operational requirements for the MOD estate. (36 percent fewer than in April 1979).

- (1) Full use of private sector rather than in-house resources.
- (2) Development of the central estate management role, operating as a large property portfolio with regular valuations.
- (3) PSA services to be put on a repayment basis as soon as practicable, costs to be carried by the Departments who use those services.
- (4) Methods of working with the private sector to be geared to -
 - (a) reducing PSA's involvement in detail
 - (b) developing PSA's "procurement" role
 - (c) improving private sector capability and performance.
- (5) Continuing staff reductions as these measures take effect but without resorting to compulsory redundancy: any cases where such redundancy was considered unavoidable to be referred to the Secretary of State.

Civil Service July 82

PSA Wardale



23 MAR 1984



Prime Minister

22/4

These may be a first opportunity to have a go at this at the end of the meeting tomorrow morning?

Ref. A984/915
PRIME MINISTER

(I really think) should see Patrick Juhani Juhl - M

Chief Executive, Property Services Agency

FEB 22.3.

This minute is written after discussion with a number of Permanent Secretaries, but before consultation with the Secretary of State for the Environment, since the decision about the succession to Mr Alfred will depend partly on whether there is any change in the arrangements for Ministerial responsibility for the Property Services Agency (PSA).

2. On the question of Ministerial responsibility, I think that there are three options:

- (1) to leave the PSA where it is, as part of the Department of the Environment, within the ultimate responsibility of the Secretary of State and in the day-to-day charge of a Minister of State;
- (2) to make it into a separate Department ("the Ministry of Works") with its own Minister either inside or outside the Cabinet;
- (3) to brigade it under Treasury Ministers as a central agency, alongside the Stationery Office and the Central Computer and Telecommunications Agency (CCTA).

3. The third option looks logical, but I believe is defeated by size and numbers: I do not see how Treasury Ministers (or the Permanent Secretary) could find the capacity for any effective supervision of an agency the size of the PSA.

4. The second option - a separate Department - would have something to commend it, if the PSA was continuing much as now. But there are two arguments against it:

- (1) if Ministers decide either to privatise large parts of the PSA, or to put defence lands and works across to the Ministry of Defence, what remains will not be substantial enough to warrant a separate Department;



- (2) in all but exceptional times, the PSA does not offer enough work at political level to occupy a full-time Minister.
5. I believe, therefore, that the right course is the first option: to leave the PSA where it is, as part of the Department of the Environment, at least until whatever decisions Ministers take about its future have been taken and implemented.
6. If that is accepted, then we have to find a successor for Mr Alfred as Chief Executive within the present framework.
7. At your meeting the other day the Secretary of State seemed to be minded to go for another outsider. I believe - and consultation with colleagues has reinforced this view - that that would be a mistake, for the following reasons:
- (1) In the circumstances it is important to make an early appointment. It could take months to find and bring in a suitable outsider.
 - (2) We are where we are partly because we have had an outsider who had no experience of the public service, and partly because he was (not to put too fine a point on it) not up to the job. A good enough outsider would certainly be very expensive, if we could find him.
 - (3) Part of the Public Accounts Committee's criticism of the management of the PSA has been in effect that, because it is part of the public service, it cannot be run like a private sector contractor.
 - (4) The morale of the PSA has become very low (though it has improved a little since Mr Alfred's departure). I believe that it would be strengthened by the appointment of an existing civil servant, if a suitable one can be found.
8. In present circumstances, with a crisis of morale, a need to follow up the criticisms of the Wardale Touche Ross report, and the probability of Ministerial decisions which will change the role, size and shape of the PSA, there would be much to be said



for bringing in someone who has an established position as a Permanent Secretary, with the standing, authority and experience that that implies. Given the criticisms of existing management, I doubt whether it would be politically practicable to appoint a successor from within the present PSA management.

9. Two existing Permanent Secretaries stand out as having combinations of qualities that would suit them for this post. If neither of them is possible, there are three Deputy Secretaries who could, I believe, do the job on promotion.

10. The Permanent Secretaries are:

Sir Anthony Rawlinson (58), Joint Permanent Secretary,
Department of Trade and Industry

Mr P J Harrop (58), Second Permanent Secretary, Department
of the Environment

11. The Deputy Secretaries are:

Mr John Caines (51), Department of Trade and Industry

Mr C W France (49), Ministry of Defence

Mr A G Manzie (53), Department of Trade and Industry

12. I attach curricula vitae for all these people.

13. Either of the Permanent Secretaries would have only two years to go to retirement. In the circumstances, however, I am not at all sure that that is a disadvantage. Whoever goes in is going to have two main tasks, both of which are difficult but finite, and both of which ought to be completed within two years. He is going to have to "clean up" the organisation and restore morale after the Wardale Touche Ross report; and he is going to have to plan and put into effect whatever changes in the role, size and shape of the organisation are made necessary by Ministerial decisions on the future of the PSA. There would be something to be said for putting in as Chief Executive someone with the capacity to perform these two tasks, but with only two years or

SENIOR STAFF IN CONFIDENCE



MANAGEMENT IN CONFIDENCE

so to go, but not to commit ourselves either to the individual or to the grading beyond that but to leave ourselves free to review the longer-term requirements for the job in two years' time.

14. The colleagues whom I have consulted concur in my view that, if Sir Anthony Rawlinson could be persuaded to take this on, he would be the best of the candidates I have identified. Though he has never had to manage an organisation anywhere near as big as the PSA, he has been an effective manager of those organisations of which he has been in charge. He has considerable personal authority and toughness. He is very intelligent. He is not highly creative (I am not sure how much that matters in this context), but he has proved his capacity to take on and carry out a task with clear objectives which he is assigned. His drive and energy are undiminished. The main difficulty would be that (as we know to our cost) it would be difficult to persuade the present Secretary of State to accept him.

15. If Sir Anthony Rawlinson were appointed, he would remain a full Permanent Secretary "blocking" a Second Permanent Secretary post. He should report direct to Ministers, not through Sir George Moseley. He would be (as Mr Alfred was) an Accounting Officer in his own right.

16. You will know that the Secretary of State for Trade and Industry is anxious to bring to an end as soon as possible the arrangement whereby he has two Permanent Secretaries, in order that he can get on with reorganising and reunifying his Department. As the "City" opening which I thought I had identified for Sir Anthony Rawlinson has lately faded somewhat, his move to the PSA would conveniently deal with that problem. But that would be an added bonus: apart from that, and even if he had to be replaced in the DTI, I should still think that he was the best choice for the Chief Executive of the PSA in present circumstances.

17. I do not suppose he would welcome the move, or be easily persuaded to make it. I think that you would have to see him

SENIOR STAFF IN CONFIDENCE



MANAGEMENT IN CONFIDENCE

yourself, and urge upon him the challenge of the job, his duty to take it, and the importance you yourself placed on his taking it on. It might be necessary to make it clear to him that he could not stay in his DTI job for the rest of his career, and that it would not be easy to find a comparable job for him anywhere else in the public service (the unspoken alternative being structural early retirement).

18. If it were not possible to proceed to the appointment of Sir Anthony Rawlinson, my colleagues and I would favour the appointment of Mr Peter Harrop. He has not the same degree of personal authority - some would say abrasiveness - as Sir Anthony Rawlinson; he is a quieter man, but he is intelligent, competent, effective and tough. He has proved his capacity in a variety of jobs in the Department of the Environment, the Treasury and the Cabinet Office. He has not worked in the PSA (and so is not tarred by current criticisms of its management), but is much respected in the Department of the Environment. He would have the advantage of enjoying the trust and good opinion of the Secretary of State for the Environment and (I understand) of Mr Gow and Sir George Young.

19. Of the Deputy Secretaries, I should prefer not at this stage to move Mr France, whom we should like in due course to move to the Department of Health and Social Security to be groomed as a successor to Sir Kenneth Stowe in 1987. Of the other two, my colleagues and I are inclined to prefer Mr Manzie to Mr Caines: Mr Caines is intellectually the abler man, but his manner and his abrasiveness - sometimes verging on arrogance - put people's backs up. Mr Manzie is capable and tough, and better with people; if he is less brilliant, he has good judgment and common sense. But in the circumstances I should prefer to go for Sir Anthony Rawlinson or Mr Harrop.

20. I should like to have an opportunity of discussing with you, in the light of this minute, both the Ministerial responsibility for the PSA and the choice of a successor to Mr Alfred as Chief

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Executive. In the light of that discussion I would have a further discussion with the Secretary of State for the Environment, and then report back to you.

RA

ROBERT ARMSTRONG

22 March 1984

SENIOR STAFF IN CONFIDENCE
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Mr Christopher France (Ministry of Defence)

Mr Christopher France, who is 49, was educated at East Ham Grammar School and New College Oxford. He joined the Treasury as an Assistant Principal in 1959. After holding various posts at Assistant Principal and Principal level he was promoted to Assistant Secretary in 1971 with responsibility for expenditure control and was Private Secretary to the Chancellor of the Exchequer from 1973-1976. He was subsequently promoted to Under Secretary in charge of the Public Enterprise Group and in 1977 became Principal Establishments Officer. After a year on loan to the Electricity Council he returned to the Civil Service in 1981 on promotion as Deputy Secretary in charge of Military Personnel and Logistics in the Ministry of Defence.

Mr Peter Harrop (Department of the Environment)

Mr Harrop, who is 58, was educated at King Edward VII School, Lancs, and Peterhouse, Cambridge. He joined the Ministry of Town and Country Planning (later Ministry of Housing and Local Government) as an Assistant Principal in 1949. After holding various posts at Assistant Principal and Principal level he was promoted to Assistant Secretary in 1963 dealing with local government. In 1971 he was promoted to Under Secretary and appointed Chairman of the Yorkshire and Humberside Economic Planning Board and Regional Director, Department of the Environment. From 1973 to 1976 he was seconded to the Treasury as Head of the Public Enterprise Division and on return to the Department of the Environment he took charge of the Inner Cities Directorate. He was subsequently promoted to Deputy Secretary in 1977 dealing with environmental pollution. After a spell on loan to the Home Affairs Secretariat of the Cabinet Office between 1979 and 1980 he returned to the Department of the Environment in 1980 and took up his present post as Second Permanent Secretary in 1981.

Sir Anthony Rawlinson (Department of Trade and Industry)

Sir Anthony Rawlinson KCB, who is 58, was educated at Eton and Christ Church, Oxford. He joined the Civil Service as an Assistant Principal in 1951 and was promoted to Principal in 1955 dealing with aspects of overseas finance. In 1958 he was seconded to the Atomic Energy Authority as Private Secretary to the Chairman, returning to the Treasury in 1960, where he was promoted Assistant Secretary in 1963. In 1968 he became Under Secretary in charge of General Finance and in 1972 on promotion to Deputy Secretary became Head of the Treasury Delegation, Washington. After a period on loan to the Department of Industry, first as a Deputy Secretary then as a Second Permanent Secretary, he returned to the Treasury as Second Permanent Secretary in charge of Public Expenditure. In April 1983 he was appointed Permanent Secretary, Department of Trade and subsequently joint Permanent Secretary of the new Department of Trade and Industry in June 1983.

Mr John Caines (Department of Trade and Industry)

Mr John Caines, who is 51, was educated at Westminster and Christ Church, Oxford and joined the then Ministry of Supply in 1957. As a Principal he held posts concerned with the electronics industry and with aviation overseas policy, including a spell as Civil Air Attache, Middle East. Mr Caines was promoted Assistant Secretary in 1968 and was Head of the Civil Aviation and Fuel Policy Divisions before becoming Private Secretary to the Secretary of State. He was promoted Under Secretary in 1974 and in 1977 became the Secretary of the National Enterprise Board on secondment, returning in 1980 on promotion to Deputy Secretary he became Chief Executive of the British Overseas Trade Board. After a short spell on loan to the Central Policy Review Staff in 1983 he returned to his present post concerned with Industrial and Commercial Policy.

Mr Gordon Manzie (Department of Trade and Industry)

Mr Gordon Manzie, who is 53, was educated at Edinburgh Royal High School and the London School of Economics. He first joined the Civil Service in 1947 as a Clerical Officer in the Scottish Home Department. After National Service in the Royal Air Force he held a number of posts in the Ministry of Supply, Ministry of Aviation and Department of Trade being promoted Principal in 1964 and Assistant Secretary in 1971. As an Assistant Secretary he was responsible for Telecommunications Finance and Policy until 1974 when he was promoted to Under Secretary responsible for the Regional Organisation of the Department of Industry. In 1978 he transferred to the Scottish Office where he was responsible for Industrial Development. On promotion to Deputy Secretary in 1980, Mr Manzie returned to the Department of Industry where he was responsible for Industrial Planning and Commercial Policy. He took up his present post concerned with Industrial Sponsorship in 1981.

David - copy of
the draft press
notice has gone
into box.



Private Secretary to Secretary of State
for the Environment

DMB
13/3

Bernad.

I attach a copy of
the text of a press notice
issued today, with together
with Q & A, on the
termination of Mr. Alfred's
appointment as Chief Executive
of the PSA.

A copy has gone to David

Barclay.

IJS

12/3.

DRAFT PRESS NOTICE

The service contract of Mr A M Alfred, Chief Executive, Property Services Agency has been terminated, by mutual agreement, with the Department of the Environment. Mr Alfred's appointment as Chief Executive ended today. An announcement about the appointment of a successor will be made in due course. Meanwhile Sir George Moseley, Permanent Secretary of the Department of the Environment is being appointed Accounting Officer and will chair the Agency's Executive Board.

NOTE FOR EDITORS:

Mr A M Alfred was appointed as Chief Executive PSA on a service contract for a three year period from 1 January 1982.

Q AND A BRIEFING

- Q. Does this mean that Mr Alfred's restructuring plans have been shelved?
A. No, Ministers have yet to make a decision on these proposals. The plans based on Mr Alfred's proposals are not the only options that Ministers will consider.
- Q. What about the present provisional target on 1 April for implementing restructuring?
A. It is clear that this is no longer realistic, and the timetable will be reviewed in the light of Ministerial decisions on whether or not restructuring should go ahead.
- Q. Why is it so essential for Mr Alfred to go when his contract had only 9 months to run?
A. The Secretary of state regards the task of following up the Wardale/Touche Ross report as of the highest priority. He came to the conclusion, following the recent PAC hearing, that that task should be placed in other hands.
- Q. Was he sacked?
A. His contract was terminated by mutual agreement.
- Q. On whose initiative?
A. I am not prepared to discuss that.
- Q. Why is Mr Alfred leaving?
A. The Secretary of State and Mr Alfred are agreed that this is the right course.
- Q. Was the Prime Minister consulted?
A. Yes.
- Q. Will he get compensation?
A. Yes. The amount is still under consideration.
- Q. Why any compensation at all?
A. The contract for his services had nine months to run. Arrangements such as those involving Mr Alfred are rare in the Civil Service. But compensation for loss of income or fee under a period contract, would be normal in similar circumstances in outside employment.
- Q. Has Mr Alfred's departure anything to do with his recent appearances before the PAC?
A. The PAC have yet to report. I cannot discuss this or any other aspect of Mr Alfred's performance of his duties.
- Q. Any questions about successor?
A. There is nothing I can add to the press statement.
- Q. Had Mr Alfred's leaving anything to do with fraud and corruption which is rife in the Agency?
A. There is no question of Mr Alfred's personal involvement in any such cases. The sole issue has been to ensure that the top management of the Agency has the confidence of the Secretary of State in following-up the findings of the Wardale/Touche Ross Report.



10 DOWNING STREET

Cawline

Meeting please:

Structure of the ~~the~~ PSA
(RTA's minute of 6 March)

1 hour in about 3 weeks
time.

Please invite:

Chancellor or Chief Secretary

S/Environment

S/Defence

Lord Gowrie

Sir Robin Ibbot

RTA

Dm/s
12/3

67



huc

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD
CABINET OFFICE

RESTRUCTURING THE PROPERTY SERVICES AGENCY

The Prime Minister was grateful for Sir Robert Armstrong's minute of 6 March, which covered a report on the options for PSA's future role, and their implications for structural change.

The Prime Minister has decided to hold a meeting on this subject, and we will be in touch with you and others to find a time.

I am sending a copy of this minute to John Kerr (H.M. Treasury), Richard Mottram (Ministry of Defence), John Ballard (Department of the Environment), Paul Cann (Lord Gowrie's Office) and Sir Robin Ibbs.

(David Barclay)

12 March, 1984

Subject as noted

CONFIDENTIAL AND SENIOR STAFF IN CONFIDENCE

MR. BARCLAY

CF: May I have the record of the last meeting on this please?

PROPERTY SERVICES AGENCY

*Dms
12/3*

The Prime Minister discussed with the Secretary of State for the Environment and Sir Robert Armstrong this morning the papers attached to Sir Robert Armstrong's minute of 6 March. The Prime Minister agreed that the Secretary of State for the Environment should take whatever action he now considers necessary in relation to Mr. Alfred's appointment. I believe that the Secretary of State will tell Mr. Alfred on Monday 12 March that Mr. Alfred has lost his confidence.

In the light of this, the Prime Minister felt that there was no point in proceeding with restructuring PSA for the time being. This would have to await the appointment of a new Chief Executive. Nevertheless, there should be a meeting to discuss Sir Robert Armstrong's report of 6 March, attended by those who received copies of it. I have agreed with John Ballard that this meeting ought to be arranged in about three weeks, by which date Mr. Alfred's future should be clearer.

In considering possible successors to Mr. Alfred, the Secretary of State said that he was considering two alternatives - either that PSA should continue as a separate agency with a top manager who should report to the Secretary of State (not through the Permanent Secretary of the DOE) or the existing management with a specific Minister in charge (similar to the Minister of Works of former times). The Secretary of State was inclined to favour an outsider for the Chief Executive if the PSA were to remain a separate agency but said that he would be willing to consider a civil servant if a suitable one could be produced: Sir Robert Armstrong was inclined to favour a civil servant. It was agreed that the Secretary of State and Sir Robert Armstrong would discuss possible candidates further.

Could you please find a date for a meeting on ^{*Sir Robert's report*} ~~the subject~~ in about three weeks?

9 March 1984

R.R.B.



Ref. A084/696

PRIME MINISTER

At your meeting on 19 December 1983 you asked me to prepare a further paper as a basis for decisions on the Secretary of State for the Environment's proposals for restructuring the Property Services Agency. The attached report has been written in consultation with the Property Services Agency, the Treasury and the Efficiency Unit. It sets out four broad options for the PSA's future role, and discusses their implications for structural change.

2. There are three main questions for decision:

- (a) The future role of the PSA (paragraphs 7-23). There are two choices. Responsibilities can be centralised on the PSA as now (Option 1) or given to individual Departments (Options 2, 3 and 4). Services may be provided in house by civil servants or bought in from the private sector. All four options allow for further shifts of work to the private sector.
- (b) The treatment of defence work (paragraphs 24-26 and Annex B). The main choice is between shared arrangements for both civil and defence work as now and transfer of defence work (either estate management on its own or estate management and works) to the Ministry of Defence. But there are subsidiary choices. Defence work may be separated out organisationally within the PSA (the restructuring proposals). Ministers may decide that they want to transfer defence work (some or all) to the MOD now, or that they may want to defer decision to some future date.

And, in the light of the answers on (a) and (b):

- (c) The structure of the Property Services Agency (paragraphs 27-30). The choice is between leaving things as they are, the Secretary of State's proposals for dedicated civil and defence sections of the Agency, a slimmed down organisation with the removal of a management tier without



dedication, or moves towards separating out specific services or groups of services again without general split between civil and defence work.

PSA's Future Role

3. The key question is the future role of the PSA. It is difficult to judge how well PSA meets the central objective of optimising Government expenditure on accommodation needs. But we have clear indications that things are not right. The Advisory Board believes the management structure is confused; the Wardale-Touche Ross report revealed serious deficiencies in management systems and attitudes; the Treasury is unhappy with standards of financial planning and control; and some Departments complain that PSA is not sufficiently responsive to their needs. Morale in the organisation is low. In terms of the Government's own philosophy PSA is also an oddity, employing substantial numbers of civil servants on work for which there is in most cases already substantial capacity in the private sector.

4. If Ministers want to reduce the number of civil servants employed on accommodation, all four options provide a possible future. The tests are cost-effectiveness and practicability. I would doubt whether the extremes of Options 3 and 4 would meet those tests. It is almost certain to be more economical to have the Government's main estate centrally owned and managed. Nor is it clearly established that more substantial or total use of the private sector for other areas of PSA work and more substantial untying of Departments in these areas would make for better cost-effectiveness. The only evidence we have comes from the work of limited experiments carried out over the last few years which suggest that private sector provision would probably be more expensive. Experience also suggests that it is not likely to be worth Departments building up their own expertise: it tends to create unnecessary duplication of resources and efforts.

5. Whatever view Ministers take, however, it is, as the paper makes clear, impossible to reduce the present in-house workforce quickly without compulsory redundancies - which would be



expensive and controversial - or one of the privatisation routes, which would also be controversial and possibly expensive too.

Treatment of Defence Work

6. Separate treatment of defence work (whether organisationally within PSA or by transfer to the Ministry of Defence) might be thought to clear the way for privatisation or more contracting out on the civil side, in the sense that defence work is more likely, because of security considerations or its specialised nature, to need in-house capacity. That is certainly true of some defence work, but there is no reason to suppose that the majority of defence work cannot be carried out (as indeed it already is) by the private sector. Some of us doubt the practicability of simply handing over the management of defence work to a contractor under a management contract: considerations of accountability and security apart, the sheer scale of the business is well beyond the scope of existing contractors. A stronger argument for separate treatment is that it would break PSA's existing workload into units of more manageable size. The advantages of that have to be set against the disadvantages of losing the ability to switch staff between the civil and defence sides (which might become more important as overall numbers decline).

Structure of the PSA

7. Ministers will make their own judgment about the extent to which planned restructuring will improve PSA's management and performance. The PSA believes that it will shorten management reporting lines, sharpen accountability and make it easier to change management attitudes. Others see the case for simplifying the management structure but believe this can be done without splitting the organisation on a customer basis. PSA has so far rejected the idea of cutting out one of the tiers of management without dedication on the grounds that, although it shortens lines of command, it would still not give a straight line of responsibility to clients. Others would argue that, although it is essential for clients to have a clear point of contact in the organisation, the client's basic interest is in the particular



service he is being given. On that argument clear responsibility lines for delivery of services are more important than single lines of responsibility to a particular client.

8. But the main question is whether restructuring will help or hinder the decisions Ministers take about PSA's future role.

9. PSA believes that a restructured organisation would be a better base from which to move towards the more radical options described in the paper. I would not want to argue with that judgment, but there is a question of timing. If Ministers want to see radical changes in the lifetime of this Parliament, then there is no time to restructure first. Restructuring will take two years to implement and a few years to settle down and show its full benefits; and the effort put in to making restructuring work would be diverted from work on more radical options.

10. It seems to me therefore that the choice has to be between:

- (i) going for one of the more radical options, and abandoning the restructuring proposals;
- (ii) the more evolutionary approach - restructuring and the removal of a management tier - proposed by the Secretary of State for the Environment and the Chief Executive of the PSA, which would allow the cost-effectiveness and practicability of more radical change to be tested over a longer timescale;
- (iii) abandoning the restructuring proposals and simply eliminating a management tier - an option favoured by the Treasury, I believe, but regarded by the Chief Executive of the PSA as likely to cause as much turbulence and dislocation as his own proposals.

11. If Ministers favour in principle going for one of the more radical options, I think that more work will have to be done before definite decisions are taken, with a view to establishing that the eventual economic benefits can be expected to outweigh the costs, turbulence and dislocation involved. It would be better for effort to be concentrated on that work than to be diverted into restructuring.

CONFIDENTIAL



12. I am sending copies of this note and of the report to the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for the Environment, the Minister of State, Privy Council Office, and Sir Robin Ibbs.

RIA

ROBERT ARMSTRONG

6 March 1984

CONFIDENTIAL

PROPERTY SERVICES AGENCY: STRUCTURAL CHANGE AND FUTURE ROLE

Note by the Cabinet Office

Ministers asked at their meeting on 19 December for more information on the relation between changes in the structure of the Property Services Agency (PSA) and possible changes in its role and objectives. This paper, which has been prepared in consultation with the PSA, the Treasury and the Efficiency Unit, describes the part now played by the PSA (excluding the Crown Suppliers) and its relation to the Government's general objectives, and considers four options for its future role and their implications for the current restructuring proposals. The restructuring proposals themselves are summarised at Annex A.

PRESENT ARRANGEMENTS AND GOVERNMENT OBJECTIVES

2. The Government spends around £1½ billion a year on its accommodation needs, some £1 billion on defence and some £½ billion on civil needs. The present arrangements give the main responsibilities on the civil side and significant responsibilities on the defence side to a central agency, the PSA, which has the three-sided role of disinterested friend, setter of standards, and direct provider of services. The PSA has substantial in-house capacity to carry out this role, but since 1979 has contracted out an increasing amount of work to the private sector. Its 25,600 staff provide a range of services to Departments and other public bodies - supervision of and execution of minor works and maintenance (8,000 and 12,000 staff respectively - virtually all of the latter are industrials), design, commissioning and supervision of major works (2,400 staff), estate management (950) and general professional advice (500). The remaining 1,800 staff provide central support (finance, establishments and computing services).

3. The broad arrangements are:

a. Office and general accommodation

i. The PSA runs the estate and decides when to buy, lease or sell. It is responsible for all major new works and also for most minor works and maintenance. Under the Property Repayment System (PRS) it recovers the cost of the latter from Departments through a standard charge, which also covers average market rents and rates.

ii. Departments are responsible for formulating their own accommodation requirements (eg location and type of accommodation) subject to standards laid down jointly by the PSA and the central Departments. They are also now responsible for most minor works and maintenance costing under £500 (£1,000 from April this year).

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b. Specialised accommodation (courts, prisons, museums, laboratories)

i. The PSA is responsible for all new works and in some cases (eg courts, laboratories) also owns and maintains specialised properties on Departments' behalf.

ii. Departments are responsible for formulating requirements for new works and for seeking PES provision. In some cases (eg prisons) Departments are also responsible for maintenance and minor repairs.

c. Defence estate

i. PSA is responsible for carrying out all new works and maintenance. It also advises the MOD on the management of the defence estate, including acquisition and disposal.

ii. The MOD is responsible for formulating its requirements for new works, drawing up specifications jointly with the PSA, and for seeking PES approval. MOD owns the estate and is responsible for all decisions on use, acquisition and disposal.

c. Repayment clients

PSA also provides some services on a repayment basis to other bodies within the public sector.

4. The Government's objective is to provide accommodation arrangements which cost the taxpayer as little as possible consistent with maintaining the value of the assets, while allowing the Government activities they serve to be carried out efficiently and economically. There are two other tests which stem from the Government's economic policies. One is that work should not be carried out in the public sector if it can be done equally well and cost-effectively in the private sector. The other is that assets should in general be held in the public sector only if they are essential to the economical and effective working of Government.

5. How well the present arrangements measure up to these requirements is not easy to assess. On the plus side there are some good opinions of the PSA and a few objective measures:

Size of estate. The total office estate has been reduced by $4\frac{1}{2}$ per cent since 1979 which, given the inevitable timelags, compares quite well with the 8 per cent reduction in numbers of non-industrial civil servants. In London, where reletting is easier than in the provinces, the office estate has fallen by 11 per cent over the same period. The PSA has also reduced the amount of vacant office space it holds from 5.8 per cent in 1979 to 4.7 per cent in 1983.

Productivity. PSA's non-industrial staff numbers have fallen by 18 per cent since 1979 against a real terms increase in workload of around 20 per cent. Of the reduction only about 7 per cent is attributable to contracting out.

Costs. Cost comparisons with other organisations are very difficult. But a 1982 official working group (whose membership included the Treasury, as well as an outside accountant and quantity surveyor) concluded that in-house design costs were up to 20 per cent lower than present scale fees. In-house costs for maintenance supervision, lease renewals and rent renewal work also seem to be lower than quoted rates outside.

Contracting out. Substantial amounts of PSA work are contracted out to the private sector - all of construction, 80 per cent of maintenance and 50 per cent of design. Overall 80 per cent of PSA's annual expenditure is spent directly in the private sector.

Fuel consumption on the civil estate has been reduced by 45 per cent since 1972 against a national average of about 10 per cent (and 30 per cent on the defence estate where the funding responsibility rests with MOD).

6. But on the minus side, there are other, mainly subjective points:

Size of PSA. The number of civil servants employed in PSA to meet the Government's accommodation needs (although 40 per cent lower than 1972) is still very substantial. PSA employs 4 per cent of all civil servants and ranks sixth amongst the Departments or separate parts of Departments listed in the manpower count. Some people question whether the Government needs such substantial in-house capacity when many companies in the private sector keep only a very small central capacity and contract out the rest.

Financial planning and control. The Treasury, who look to the PSA to ensure that accommodation needs are met efficiently and economically, say that its present performance, particularly in financial planning and control, does not measure up to what is expected.

Quality of service. Some Departments find the PSA slow to respond to their needs and believe they would get a better answer if they were able to take more of their own decisions, or if the PSA were forced to compete for their business with the private sector.

OPTIONS FOR CHANGE

7. In considering options for change the two basic questions are those which face any large organisation with a need for accommodation services: whether to provide in-house capacity or

MANAGEMENT IN CONFIDENCE

to contract out and whether to centralise responsibility or to place it on individual parts of the organisation. The main considerations are likely to be cost-effectiveness and manageability. The answers are not necessarily straightforward. An in-house organisation may for example be a cheaper option in terms of the direct cost of the services but the Government may take the view, as many private sector companies do, that its overall performance may suffer if it takes on activities outside the mainstream of its business. Similarly common service arrangements may give all the theoretical cost and efficiency advantages of shared overheads and expertise, flexibility and single-minded management of assets, but produce an organisation which the management believes is too large or too diffuse to be managed effectively.

8. Various suggestions for changes in the arrangements were made in the course of earlier Ministerial exchanges. They can be conveniently grouped under four main headings:

OPTION 1: A better status quo (PSA as now but more contracting out).

OPTION 2: PSA in competition (untying by Departments).

OPTION 3: PSA privatised.

OPTION 4: No PSA.

Each option has a different set of advantages and disadvantages. But they are not mutually exclusive and none of them precludes separate treatment of PSA's work on the defence side. This aspect is discussed further in paragraphs 24-26 below and Annex B.

OPTION 1: A BETTER STATUS QUO/MORE CONTRACTING OUT

9. Under Option 1, PSA's basic role would remain as now but it would contract more work out to the private sector where appropriate and sensible. This would be consistent with developments of PRS to give further marginal shifts of responsibility to Departments.

10. The scope for further contracting out varies according to the particular PSA service. The PSA already contracts out all construction work. Of the other services:

i. Maintenance. Over 80 per cent of maintenance work (by value) is already contracted out and PSA works direct labour forces have fallen by 40 per cent since 1979. If in-house capacity were limited to work with special requirements such as security, continuous shift working or speed of response, where contracting out may not be practicable or cost-effective, the works labour force could fall from 10,300 now to around 8,000 or less (with the majority of work concentrated on the defence side). Using natural wastage only that figure could be reached in about five years.

ii. Design. The PSA contract out about 50 per cent of design work. There are certain kinds of design work on the defence side where there is no private sector expertise or where there is a case for having the continuity of knowledge or expertise provided by an in-house team (eg feasibility studies for Trident). There is also a basic minimum of work - the PSA say this is about a third of all design work - which the PSA need to do to give them the ability to assess the quality of work they contract out, maintain their own expertise and give proper advice to customer Departments on the composition of their programmes. If the introduction of fee competition amongst outside consultants this year reduces the apparent gap between in-house and out-house costs there could therefore be scope for further reductions in design staff. PSA's present planned reductions would increase the percentage of work contracted out to about 60 per cent.

iii. Estates work and maintenance supervision. In-house costs for both activities seem to be cheaper on the basis of past assessments. But there is a possibility that larger-scale contracting out than so far anticipated could lead to different conclusions. The numbers involved in commissioning and supervision of major and minor works and maintenance are certainly substantial.

11. This option could reduce PSA in time to perhaps less than half its present size. But it would be slow time if natural wastage only were used (natural wastage produces a net annual reduction of at most 5 per cent) and the net cost to Government could on current evidence be higher.

OPTION 2: PSA IN COMPETITION/UNTYING AND TRANSFER OF RESPONSIBILITY TO DEPARTMENTS

12. Under Option 2 Departments would be responsible for a wider range of their accommodation needs and would also be free to choose PSA to provide services or to go direct to the private sector.

13. On the civil side, development of the existing PRS system is already making some changes in the respective responsibilities of Departments and the PSA. But this option involves a more radical shift of responsibilities and has a potentially major effect on PSA's role and objectives, depending on the basis and range of services on which PSA is assumed to compete for business. The options for services range from transferring responsibility for maintaining buildings Departments occupy - on something like a repairing lease from PSA - to more radical untying which would allow Departments to go outside PSA for new works and property requirements.

14. Changes in departmental responsibilities could also include the transfer of all responsibility for defence estates and works to the Ministry of Defence (see paragraphs 24-26 below and Annex B).

MANAGEMENT IN CONFIDENCE

15. Whatever the responsibilities transferred, PSA's role and the basis on which it could compete could take two forms:

- a. PSA could bid for every contract and be required to take up any business which the private sector did not want or which Departments did not want to take on themselves. In that case PSA would as now aim to meet Departments' needs at the lowest possible cost to the Government and could retain its other role as Departments' disinterested friend and adviser.
- b. PSA would only bid for business which gave them a chance of profit. In that case the service would be run on a trading fund basis with an agreed target rate of return. In this case PSA would simply be another competitor for a Department's business and Departments would need to look elsewhere in Government for expert and disinterested advice.

Under both options PSA would need to change its basis of accounting to enable it to quote a "price". At present it simply recovers cost actually incurred.

16. The advantages of this option are that it would expose PSA to outside competition and would put the choice between using in-house or outside capacity in the hands of Departments who would have no practical reasons for preferring to use PSA rather than the private sector. The tests would simply be cost to the Department and quality of service. Its disadvantages are that the perceived cost to individual Departments might not in all cases adequately reflect cost to Government as a whole and that it would weaken central controls on departmental spending (a point picked up in a December 1983 PAC report in relation to the transfer of responsibility for the Diplomatic Estate to the FCO). The impact on Civil Service manpower is difficult to assess. Tight manpower controls could certainly prevent Departments building up large "PSAs" of their own. But Departments would need some capacity to let contracts and monitor performance and under sub-option b. there would also need to be some central expert capacity to watch the Government's interest. Resource planning and pricing for PSA would be complex and difficult. Under sub-option a. it would be virtually impossible to match PSA's capacity exactly to its new market. In some cases too the wider Government interest might require PSA to quote a below cost price to maximise use of PSA staff and resources.

OPTION 3: PSA PRIVATISED

17. Option 3 is the privatisation of all or some of PSA's present assets and services. Services could be grouped together as a trading activity, with or without their accompanying assets, and, after a necessary period to establish a trading record, sold to the private sector on the lines envisaged for the Royal Ordnance Factories or via management buyouts. Alternatively work now carried out by the PSA could be managed under contracts let after competition, with former PSA staff being re-employed by the contractors, if that were part of the contract.

18. As with Option 2, there are several possibilities:

a. Privatisation of specific services without assets (eg PSA Design, PSA Maintenance).

b. Privatisation of the property function and services. Services and properties might be put into a new company or companies which would compete for both Government and other private sector business. Departments might initially keep their existing occupations on leases from the new company, but in time would be free to go to the market and buy or lease the accommodation best suited to their needs.

c. Franchising. Private sector companies could be invited to bid for a block or blocks of PSA work at fixed prices for a period of, say, five years. This approach could involve either the management of existing PSA units for a fee or the performance of their functions, perhaps using former PSA staff, for an all-in price. The contractor would of course want the right to hire and fire such staff.

19. The main advantage of this option is that it would provide a quicker way than natural wastage of reducing PSA's workforce and, in theory, an easier - though still controversial - way than through compulsory redundancies which offered no prospect of continued employment. It would also ensure the availability of some initial continuity of service expertise to the Departments that wanted it. But it raises the same questions as Option 2, of which this is in many ways an extension, and some of the questions on Option 1. On current evidence outside services (whether provided by a privatised bit of PSA or an existing company) are likely to be more expensive, unless the injection of new privatised PSA services into the existing market, combined with more Government business, changed the market's structure sufficiently to make it more competitive and bring fees down. Central control over spending on services would also be weakened with the loss of PSA to look after the wider Government interest. The Government would of course retain expenditure and standards control to ensure that accommodation and estate needs were being met as economically and effectively as possible, but such controls would be blunter without PSA as an instrument. Departments would also need some expert capacity of their own as under Option 2, the amount depending on the risks they were prepared to take.

20. Sub-option b. has the additional advantage in theory of providing some immediate receipts from asset sales. On the other hand all the evidence suggests that it is cheaper for the Government to own the property it occupies. To sell property and then rent it back at high prices is likely to be a very bad economic deal. In so far as it might be worth while to realise assets by selling property, the Government is more likely to raise bigger sums by selective disposal, than by attaching a very mixed (and esoteric) portfolio of assets to a trading company with no certain future in the long term. This sub-option would therefore only be worth considering seriously if Ministers believed that

the private sector would be so much better at managing the assets that the efficiency savings would outweigh any cost penalties.

OPTION 4: NO PSA

21. Option 4 would be the total shift to individual Departments of the responsibility for meeting their accommodation needs with a presumption in favour of private sector provision.

22. Under this option Departments would directly own or lease the property they occupied and take all decisions about future acquisitions, disposals and improvement, subject only to general expenditure and standards control laid down by the centre (which might be provided by the equivalent of a division in the Treasury). They would look to the private sector to provide the bulk of accommodation services, or provide capacity in-house if that were considered more cost-effective. All Departments would need some expert capacity to allow them to let contracts and monitor performance. Large Departments (DHSS, MOD, etc) might provide such capacity themselves. Small Departments might look to large Departments (on a repayment basis) or form their own small common services organisation.

23. This option is essentially Option 2 carried to the extreme and it has the same advantages and disadvantages in larger measure. A workable scheme could no doubt be devised, but there would be losses of central control, losses of the bargaining power the Government can exercise on the market as a bulk purchaser, and a risk of the reappearance of some of the existing PSA numbers in departmental packets around Whitehall. The PSA also point out that such thorough decentralisation of property services is almost unknown in large corporations in the United Kingdom private sector. The Government could not get to this option overnight without draconian measures, and without serious disruption of existing services. But it could be the end result of Options 2 and 3.

THE DEFENCE ESTATE

24. The idea of giving more responsibility to Departments (Options 1-4) is of course equally applicable to defence work. A transfer of defence works and estates responsibilities to the Ministry of Defence can, as noted earlier, simply be regarded as a sub-option of Options 2 and 3. Similarly, some defence work can be carried out by the private sector - indeed much already is. But the restructuring proposals assume and the MOD themselves believe that defence works and estates are different in scale and also, despite some similarities, in kind from most civil needs and that a case for separate treatment can be made.

25. Annex B, which has been prepared by the PSA in consultation with the MOD, sets out the basic arguments for and against transfer back of works and estates responsibilities to the MOD. The main arguments for transfer are elimination of some duplication of effort now and a closer match between defence needs and

MANAGEMENT IN CONFIDENCE

accommodation services. The main arguments against transfer are the advantages of independent and critical management, and those of pooled resources and flexibility of deployment. The case for keeping works within PSA is perhaps better supported than the case for keeping estates management work in which MOD already plays a substantial role.

26. For the purposes of this paper, the main points of relevance seem to be:

i. A decision to transfer defence work to MOD assumes that the scale of defence needs and the special nature of some of the work justifies special treatment, and that defence needs on their own are substantial enough to produce the usual benefits of common service arrangements.

ii. If however PSA's assumptions about the scope for and advantages of switching manpower between civil and defence works in some cases are right (and these are inherent in the decision to keep some cross-working between and common services for civil and defence sides under the proposed restructuring) there is some risk of increasing the cost of provision and also of increasing the numbers of civil servants engaged in its management.

iii. Very much more substantial contracting out of defence work after the transfer could, as on the civil side, only happen quickly if Ministers were prepared to take radical steps to reduce the current staff numbers (eg by compulsory redundancies or by negotiating transfers of PSA staff to private sector contractors), which would themselves be controversial and difficult and could lead to some disruption in service. If Ministers decided on a transfer now, initially at least existing PSA staff would have to transfer to MOD.

iv. Such contracting out would, on past experience, be more expensive than current costs, even though the balance of cost advantage might shift towards the private sector. The more thinly spread the in-house organisation, the harder it is likely to be for it to provide a cost-effective service. Without the ability to switch between civil and defence work some PSA offices or ex-PSA offices would probably not be viable.

RESTRUCTURING AND THE OPTIONS

27. All four options provide the opportunity substantially to reduce the Civil Service manpower now employed to meet the Government's accommodation needs. But there could be cost penalties and there are considerable difficulties in getting there quickly. Any major change in PSA's role would involve transitional disruption and cost, and any change which involved the loss of Civil Service jobs would produce trouble with the trade unions which could disrupt essential services to Government.

MANAGEMENT IN CONFIDENCE

No substantial reduction could be achieved quickly without compulsory redundancies or transfer of people and jobs to the private sector through privatisation. Natural wastage alone would reduce PSA manpower to only half its present size by the end of the century. If Ministers wish to pursue any of the options therefore they need to be satisfied that the current restructuring proposals, which are themselves strongly opposed by the unions, which cost some £12 million to implement and which PSA accept will cause some transitional disruption, are either fully justified in their own right, or on the critical path to the chosen option.

28. Clearly to incur the costs and turbulence of restructuring PSA now would not be consistent with a decision eventually to dismantle it under Option 4. But there is a difference of view about the relevance of restructuring to Options 1, 2 and 3.

29. The PSA argument runs as follows:

i. The restructuring proposals are primarily designed to make PSA more effective and to give a better service to Departments. The Chief Executive and the Advisory Board believe that they can be justified on that basis alone, but also believe that they would move PSA to a position where Options 1, 2 and 3 could be pursued more effectively. While recognising the call on management's time, they argue that it is easier to change managerial attitudes at a time when structure is changing and people are going to new posts.

Option 1

ii. DOE Ministers have been pursuing vigorously the scope for contracting out since 1979. If Ministers now decide to push this harder still, PSA management needs to be capable of assessing the benefits of contracting out different kinds of work, and of concentrating in-house capacity where it is clearly essential. The split between defence and civil work and the introduction of commercial style accounts will make this easier.

Option 2

iii. If Ministers decide to move towards Option 2 a client-based organisation and commercial accounts would again be helpful. PSA would itself perform better because of its simpler management structure, and services to civil and defence clients would be more readily identifiable. The role of the proposed property manager would be particularly important because he would have responsibility for overall estate management and for ensuring that the "repairing leases" granted to Departments imposed cost-effective maintenance requirements.

Option 3

iv. Option 3 would be similarly consistent as a development of Option 2. In particular the operation of a property

MANAGEMENT IN CONFIDENCE

manager with responsibility for a defined portfolio of civil properties or even a civil controlling tier with associated district works offices would be candidates for transfer into the private sector with the people involved.

30. The counter arguments are:

i. The restructuring proposals would take a substantial amount of PSA management's time over the next few years. At the same time PSA will be putting in better management systems, improving the working of the new PRS system, and seeking to change management attitudes as recommended by the Wardale-Touche Ross report. The PSA will find it difficult to run so many changes at the same time and with equal success. To add the extra work and problems involved in pursuing the radical Options 2 and 3, and even the less radical Option 1, looks quite unrealistic.

Option 1

ii. Under Option 1, PSA would be looking closely at the scope for further contracting out of work. That in itself would be controversial with the trade unions. It is also arguably more useful to look at the relative costs of providing specific services (whatever the customer Department) than at the cost to a particular client of a package of services, not all of which may be capable of being contracted out. Better management information systems are the key requirement, and, on this argument, restructuring secondary.

Option 2

iii. That argument applies even more strongly under Option 2 in which Departments are allowed to untie from PSA for some services.

iv. The detailed work necessary to put this option on to a workable basis would need substantial management time and effort, which would, if restructuring went ahead, be heavily occupied.

v. More significantly the restructuring proposals themselves cannot hope to reflect the pattern of work and reduced quantity of PSA work - both in terms of responsibilities and of the execution of responsibilities - which may result from untying but are as yet unknown.

Option 3

vi. Similar arguments apply to Option 3. A restructured PSA may, as PSA management believes, eventually provide a good base from which to privatise some or all of PSA's services. But time and effort spent on restructuring would

MANAGEMENT IN CONFIDENCE

not be available for simultaneous implementation of privatisation. If Ministers decided to go for privatisation via trading companies for example (ie 3a.) the sensible course would seem to be to start reorganisation on these lines now.

RETURN OF DEFENCE WORK

31. Restructuring in its present form does not produce a complete split between the defence and civil sides. There would still be some cross-working, some common services and staff interchange. A decision to return PSA's defence works or estates to the MOD either now or at some future date therefore also affects the decision on restructuring, whether or not the return is accompanied by one of the radical options for reducing the size of the PSA.

32. If Ministers decide to return either defence works or estates to MOD now there are two possible approaches. They could go ahead with the proposed restructuring as the first stage of the necessary separating out of work. The organisation would then need to be adjusted at some future date to allow complete dedication and to take account of MOD's own thinking. Alternatively the plans could be reviewed now by MOD and PSA and adjusted to allow transfer at a single move. The arguments for the first course are that a postponement would produce further uncertainty, further weaken staff morale, and increase the trade unions' opposition. The arguments for the second are that a two-stage approach involves two periods of disruption and the risk of some abortive reorganisation.

33. If Ministers do not want to decide now to return defence work to the MOD, but do not want to rule a decision out, similar arguments apply. On the one hand Ministers would have an organisation with defence work already largely separated from civil work. If a decision were taken at some future date to transfer the work to MOD and if the organisation was in line with MOD's thinking, the amount of abortive work as far as defence needs are concerned should be small. On the other hand Ministers would need to be satisfied that a further reorganisation to meet the needs of civil Departments satisfactorily would not impose significant further costs and disruption.

March 1984

PSA RESTRUCTURING PROPOSALS

The main elements of the proposals are (under a single Chief Executive, and with a common PEO, PFO and professional support services):

- a. To divide the management organisation into two, one responsible for work for defence clients, and the other for work for civil clients (the Civil Property Directorate or CPD), thus providing, for each client group, a single line of management control. There would however be some cross-working between the civil and defence sides at district works office level (with about 17 per cent of civil work being carried out by defence DWOS).
- b. To reduce the number of management tiers by one by merging the 10 Regions and 34 Areas into 28 new Controlling Tiers.
- c. To develop the way the civil estate is managed; in particular to create locally based property managers responsible for all aspects of the maintenance and management of defined properties.
- d. To introduce "commercial style" management accounts incorporating property based delegated budgetary control systems.
- e. To change the organisation of the major design offices within the context of the two client based organisations.

DEFENCE WORKS SERVICES AND ESTATE MANAGEMENT: PROS AND CONS OF
TRANSFER TO MOD

I. BACKGROUND

The Defence Estate covers some 246,000 hectares (600,000 acres) in the United Kingdom and 125,000 hectares (300,000 acres) overseas (the figures exclude land over which rights less than occupation exist) with a great variety of usage including airfields, storage depots, firing ranges, dockyards, radar sites, barrack complexes (including 80,000 married quarters, messes and clubs) and research establishments. Title is held by the Secretary of State for Defence and all costs are chargeable to the defence budget. Management, however, is shared with PSA in a complex way.

Works Services

2. For Works Services, running at somewhat over £1,000 million a year divided roughly equally between capital works and maintenance, the position is broadly as follows:

- a. for major capital works the allocation of financial resources and the justification of the broad requirement are MOD responsibilities; the specification of the detailed requirement (because no clear line can be drawn at this stage between requirement and implementation) is a shared responsibility; and the placing and supervision of contracts a PSA responsibility;
- b. for minor capital works the requirement is the responsibility of MOD financed by allocations from Defence Vote 4 by PSA to officials in the UKTO, who work with the Services locally, under parallel delegations of authority;
- c. maintenance is, in principle, a PSA responsibility but since MOD controls the funds available, responsibility is in effect shared.

Estate Management

3. There is quite a different division of responsibility in relation to the management of the Defence Estate. MOD is financially accountable for all transactions and responsible for the size and shape of the estate, for decisions on what land will be acquired and retained and for what purpose, and for decisions on what land will be disposed of. MOD depends on the PSA, however, for advice on land transactions, for day-to-day management and for the acquisition and disposal of property. These transactions involve expenditure of some £70 million per annum and an income of some £13 million; apart from property disposals which have realised £160 million in the last three years. No significant acquisitions are contemplated except for some training land which is in short supply (the acquisition of land in the Falklands is exceptional and does not affect the main argument).

MANAGEMENT IN CONFIDENCE

4. About 450 PSA staff are employed on estate management tasks. The Lands Division of the Ministry of Defence has 42 staff.

II. LOCATION OF WORKS SERVICES

5. The arguments for moving works services from PSA to MOD are that it would:

i. eliminate undue double handling and lead to quicker decision taking;

ii. provide a direct line of approach to policy branches and undivided Ministerial responsibility;

iii. enable the organisation and its systems to be tailored more precisely to those of the Services, to identify overall costs more readily and improve understanding and control; and

iv. permit a new approach involving almost total reliance on contractors for property management, planning, design, construction and maintenance, accepting any risks associated with reduced supervision.

6. The arguments for leaving them with PSA are:

i. The exercise of the critical function by PSA in spending MOD money.

ii. MOD is already a large Department and additions could be expected to bring diseconomies of scale, not the reverse.

iii. Entirely separate civil and defence works in PSA and MOD would lack the common professional and other services, career structures and the opportunities of staff to interchange and learn from each other which PSA can offer as an entity. Complete division would therefore be less effective overall, bringing further diseconomy.

iv. "One should stick to one's last". PSA is more likely effectively to deploy the expertise and resources needed in this area than a Department where it would form a small and relatively minor part of the activities.

v. Overall, a common approach across the public sector for important initiatives in maintenance, standardisation, value for money and other fields.

III. LOCATION OF ESTATE MANAGEMENT

7. The arguments for moving Estate Management back to MOD are:

i. as above for Works (paragraph 5i.); plus

ii. that it would reunite policy, accountancy, and agency into a common Lands Directorate which would at once be responsible for all MOD estate holdings and transactions.

MANAGEMENT IN CONFIDENCE

8. The arguments for leaving Estates Management with PSA are:
 - a. the general arguments set out in paragraph 6 (although these need to be modified to an extent by the more limited nature of the estate management function and the more substantial role which MOD plays in it); plus
 - b. the opportunity, under PSA's restructuring proposals, to integrate estate management and works services more effectively if that is seen as a desirable objective.

1) Mr Butler ^{RRB} to see



2) Prime Minister: Mr Jenkin has asked for a word with you tomorrow about this (with RIA). He will want to concentrate on Mr Alfred's position, but if you have time you may like to look at the policy background set

Ref. A084/695

MR BUTLER

Property Services Agency: Restructuring out in the attached minute especially para 10. DRB 8/3

I attach a submission to the Prime Minister and a report prepared in pursuance of the remit laid upon me by the Prime Minister's meeting on 22 December 1983.

2. In considering this the Prime Minister should be aware that the Public Accounts Committee (PAC) has been investigating the Property Services Agency, particularly in relation to the deficiencies of management revealed by the Wardale-Touche Ross report. The publication of that report went fairly quietly, partly because other events at the time overshadowed it. But the PAC investigation will reopen the matter; and the investigation has not (from the Government's point of view) been going well: the PAC has elicited from Sir Geoffrey Wardale particulars of further deficiencies not dealt with in the Wardale-Touche Ross report, and I am told that Mr Alfred's two appearances before the Committee were disastrous. The Secretary of State for the Environment says that he "lost his cool" and "has blown it", saying all the defensive things that he was advised not to say. The result is likely to be a report which will be extremely critical of the management of the PSA.

3. Mr Alfred has clearly forfeited the confidence of the Secretary of State, who believes that he may be obliged to ask Mr Alfred to resign (or even to dismiss him), if Mr Alfred does not decide for himself that he ought to resign, even before his appointment expires at the end of 1984.

4. I am considering as a matter of some urgency how we should replace Mr Alfred, if that is what happens. The other point to have in mind is that, if there is indeed a risk that Mr Alfred will have to resign shortly, it would probably be better that Ministers should not take decisions on proposals for restructuring which are very much of his devising and which his successor might wish to change.

RIA

ROBERT ARMSTRONG

6 March 1984

David Barclay Esq



With

the Compliments of

Sir Clive Whitmore KCB CVO

Permanent Under-Secretary of State

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MANAGEMENT-IN-CONFIDENCE



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PERMANENT UNDER-SECRETARY OF STATE
SIR CLIVE WHITMORE KCB CVO

PUS/84/28
3/5

Brus
16/1

13 January 1984

Dear Robert,

PSA RESTRUCTURING

Thank you for sending me a copy of your letter of 9 January to Monty Alfred.

I believe Chris France has already been in touch with Mrs Flanagan offering himself as the MOD point of contact for this study. This is simply to confirm that he will act in that capacity.

I am sending copies of this letter to the recipients of yours.

Yours sincerely,

Clive

Sir Robert Armstrong GCB CVO
Cabinet Office
Whitehall
London

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C. NO
QUEEN ANNE'S GATE LONDON SW1H 9AT

11 January 1984

2 letters

*nbpm
Doub
11/1*

RESTRUCTURING OF THE PSA

Thank you for sending me a copy of your letter of 3 November to Nigel Lawson on this subject. I commented on these proposals in July and have since reviewed the position in the light of the further correspondence and discussions that have taken place.

Your Department will be aware that the Home Office has taken a close interest in the proposed reorganisation and that it has played a fairly prominent part in the discussions. This reflects our large, diverse and widely scattered estate and the absence of a regional structure of our own. For these reasons, and because the timely provision and upkeep of suitable accommodation is so essential to our future efficiency and effectiveness, it was obviously important to assess the operational effect of the changes and ensure that our property interests were properly protected.

Initially, at the time of the consultations in the early part of last year, we were very apprehensive that restructuring combined with client dedication would produce larger catchment areas, with a resulting loss of accessibility and a consequential risk to standards and to the level of service provided at present. More recently, however, the PSA have modified and improved their proposals, provided further information and given several important assurances and undertakings. In particular, we welcome the introduction of property managers and the latest form of organisational dedication which includes operational flexibility at the level of the district - albeit on the strict understanding that the system of crossworking would not involve civil clients having to compete with or receive less priority than the Ministry of Defence and on the basis that the new arrangements would be monitored both by PSA management and by the controlling tiers reporting to the Civil Property Directorate. We also derive some comfort from the statement that most local links would be preserved, with no reduction in the professional and technical resources available, and from the assurance that reorganisation would enhance the service which the PSA can provide to their civil clients generally.

Accordingly, while the Home Office sees the disadvantages of a radical change of this kind so soon after the introduction and further development of PRS, we are broadly content with what you have in mind. But I agree with Michael Jopling that the implementation programme should be realistic and not too ambitious and that every effort should be made to reduce the disruption to a minimum.

I am copying this to Nigel Lawson and to the other recipients of your letter of 3 November.

2 letters

The Rt Hon Patrick Jenkin, MP

CIVIC SERVICE
P&A Reconstructing
July '82



D M Barclay Esq



CABINET OFFICE

With the compliments of
Sir Robert Armstrong GCB CVO
Secretary of the Cabinet
and Head of the
Home Civil Service

70 Whitehall, London SW1A 2AS

Telephone 01-233 8319



*nbpm
for PSA re-structuring file*

JMB

9/

70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A084/79

9 January 1984

We discussed on 6 January my proposals for giving effect to the remit laid upon me at the Prime Minister's meeting on 19 December on PSA restructuring.

I have asked Mrs E C Flanagan (Cabinet Office Machinery of Government Division) to take the lead in the preparation of a draft report in fulfilment of the remit. There will clearly need to be a major input from the PSA itself, from the Treasury and from the Efficiency Unit. You agreed that Mrs Flanagan should look to Mike Hawtin from the PSA; Alan Bailey has agreed that she should look to Bill Hopkinson from the Treasury; and Robin Ibbs has agreed that she should look to Christopher Joubert from the Efficiency Unit. These people will be Mrs Flanagan's points of contact for the purpose of preparing the draft report, and will constitute with her a group for that purpose. Each will need to be supported as appropriate within his own organisation. You said that, particularly when the group began to consider possible structural changes, Hawtin might wish to look to one of the consultants for support. That will be up to Hawtin, of course; but he will be the member of Mrs Flanagan's group. I have not proposed to have anybody from the Ministry of Defence on the group; but of course the Ministry of Defence has a major interest, and I have asked Mrs Flanagan to keep the Ministry of Defence informed as the draft report progresses, so that there can be an input into the work from the Ministry of Defence. I should be grateful if Clive Whitmore would let me know to whom Mrs Flanagan should look for this purpose.

You explained to me the need to deal with this draft report with great urgency, if we were to minimise the risk of abortive work on restructuring inside the PSA. I have asked Mrs Flanagan to do her very best to complete the draft report in time to submit it to me (with copies to other Permanent

/Secretaries

A Montague Alfred Esq

Secretaries concerned) on 27 January. I would envisage myself holding a meeting in the week beginning 30 January, with a view to submitting the report to the Prime Minister and her colleagues by the end of that week and with a view to a meeting of Ministers in the week beginning Monday 6 February.

I am sending copies of this letter to Alan Bailey, Clive Whitmore, Robin Ibbs and David Barclay.

ROBERT ARMSTRONG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

23 December 1983

Dear David

PSA RESTRUCTURING

attached

*Just
29/12*

Thank you for your letter of 20 December. Could you note that the figure for maintenance expenditure in the 12th line of ante penultimate paragraph should be £600m, not £600,000.

A copy of this letter has gone to the recipients of yours.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

David Barclay Esq

Civil Service : PSA Restructuring July '82

29 DEC 1982
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cc MASTER SET



FILE

dal/ku

10 DOWNING STREET

From the Private Secretary

20 December 1983

Dear John,

PSA RESTRUCTURING

The Prime Minister chaired a meeting on 19 December to consider your Secretary of State's proposals for restructuring the PSA, which were set out in his letters of 3 November to the Chancellor of the Exchequer. In addition to your Secretary of State, the meeting was attended by the Secretary of State for Defence, the Chief Secretary, Sir Robert Armstrong, Sir Robin Ibbes and Mr. Alfred.

Introducing his proposals your Secretary of State said that he was hoping that the meeting would reach firm conclusions on the way forward. The possibility of restructuring the PSA had been under consideration for some time, and the absence of a final decision was creating management difficulties for the Chief Executive.

Your Secretary of State said that the complicated existing structure of the Agency resulted from the merger of civil, army, navy and air force property services. It had been criticised for being too slow, and in the opinion of the Advisory Board it was too centralised. The Wardale/Touche Ross report had criticised management systems and attitudes. Five separate issues arose from his proposals: dividing the organisation into two parts, civil and military; eliminating a tier of the management structure; providing locally based property management for the civil side; improving financial management and control; and reorganising the design offices. The proposed restructuring would provide clearer lines of command, more definite identification of responsibility and a better design organisation. Staff numbers would be reduced, and grouped into more manageable units. Responsibility for the affairs of a single client would be concentrated, rather than divided as at present.

Your Secretary of State said that these were substantial advantages, but as with any major structural change there would also be transitional costs. The current estimate of the cost was £11 million over 2 years, with a payback period of 3-4 years. There would in addition be a degree of turbulence - it was fair to say that some senior managers thought that this would be considerable. There would inevitably be some dislocation of services to clients.

/ Concluding,

da

Concluding, your Secretary of State said that despite the fact that some aspects of the proposals were sub-optimal (for example the remaining element of cross-working) he was convinced that the advantages of the proposed restructuring far outweighed the disadvantages. He judged that there was a powerful case for proceeding. It was important also to bear in mind that the essential changes in PSA management attitudes would be easier to secure if they were accompanied by structural reform. Moreover, the proposals would form a convenient stepping-stone if Ministers were to decide at a later stage to return PSA's military services to the Ministry of Defence and to increase the exposure of the civil side to the disciplines of competition and the private sector.

Commenting, the Chief Secretary said that although he welcomed the proposed removal of a management tier, he felt that the case for dividing the Agency into two had not been made out. Such a re-organisation could lead to rigidity, and would distract management from the urgent task of improving standards within the Agency. The Secretary of State for Defence said that he agreed with your Secretary of State that the Agency in its present form was much too big. This had been the source of endless criticism. He broadly supported your Secretary of State's proposals, especially the removal of a tier of management. If following the division of the Agency it was decided to return military services to the Ministry of Defence he would not object. It would be his intention in those circumstances to put the maximum amount of work out to the private sector by means of a management contract. However, he was not actively seeking the return of military services to his Department - for the present, the priorities should be to provide the maximum degree of privatisation and the maximum element of competitiveness tension.

The Prime Minister said that having studied the papers and heard your Secretary of State's exposition she remained sceptical of the proposed re-organisation. The link between the Agency's objectives and the specific changes proposed had not been adequately demonstrated; and no alternative options for achieving these objectives had been put forward. There had been no real discussion outside your Department of what the Government's objectives for the PSA should be. She had substantial reservations about the performance of the PSA, and she was not convinced that its present role and scale of operations should be maintained. She welcomed the proposals for eliminating a management tier, reducing staff numbers, introducing more commercial accounts and providing a better service to clients; but she did not see why these improvements needed to be accompanied by the division of the Agency into two parts.

Sir Robin Ibbs agreed that the present situation was unsatisfactory, but re-organisation in itself was seldom the answer to defective performance. If the ultimate intention was to move the PSA towards the private sector, it was by no means clear that a two-way split was either the best or the only way of achieving this. The Chief Secretary suggested that it might be helpful to see how private sector companies handled their property services; Unilever, for example, offered its subsidiaries centralised services, but they were free to go out to tender if they felt that they could thereby obtain better value for money. He saw a case for a similar approach within Government, with Departments being given much greater freedom to choose who should provide their property services.

Your Secretary of State argued that the fundamental question in considering the role of the PSA was whether it made sense to have a single body to manage the Government aspect in the interests of the Government as a whole. This arrangement inevitably led to conflict between the PSA's judgement of overall efficiency, and departmental aspirations. If despite past objections the Treasury would be prepared to see a major change in the financial relationship between the PSA and Departments, then the whole context of the debate on structure would be shifted. He personally would welcome greater devolution of responsibility to Departments.

Mr. Alfred said that the removal of a tier of management could not be achieved in the absence of restructuring. The basic difficulty was the lack of a clear line of management responsibility for the affairs of individual clients. The object of the proposals was to retain the advantages of merging army, navy and air force services, while separating out the large and complex civil side. Independent studies had shown that PSA design services were by no means expensive by private sector standards. This was despite the size of the operation; 2,000 people were employed on design work, supervising expenditure of £1.7 billion a year on construction (of which £1.1 billion related to defence). Maintenance expenditure of £600,000 a year was supervised by 4,000 District Works Officers, at an average on-cost of 12%. Currently 100% of work on construction, 50% of design work, and 83% of maintenance work was contracted out. The Prime Minister commented that this level of expenditure was extraordinarily high. It underlined the case for departmental Ministers taking a close look at their expenditure on property.

Summing up the discussion, the Prime Minister said that she was not prepared to agree to your Secretary of State's proposals on the basis of the arguments advanced so far. She invited Sir Robert Armstrong, in consultation with the Department of the Environment, the Treasury and Sir Robin Ibbs, to prepare a further paper. It should start by considering the PSA's role and objectives and go on to consider the case for structural changes as a means of achieving those objectives. A range of options should be put forward, related as appropriate to a range of different definitions of Government objectives for the PSA, and particular attention should be paid to demonstrating the links between objectives and possible changes.

I am sending copies of this letter to Richard Mottram (Ministry of Defence), John Gieve (Chief Secretary's Office), and to Richard Hatfield (Cabinet Office), Sir Robin Ibbs (Efficiency Unit) and Mr. Alfred.

Yours sincerely,

David Barclay
David Barclay

John Ballard, Esq.,
Department of the Environment.



From the Secretary of the Cabinet

Mr Burslem

A couple of amendments to suggest, designed mainly to ensure that the next round of discussions be extended to objectives as well as structures, and is not limited to the PSA's own definition of its ~~st~~ objectives.

RWA

20.8.66



10 DOWNING STREET



From the Private Secretary

20 December 1983

PSA RESTRUCTURING

The Prime Minister chaired a meeting on 19 December to consider your Secretary of State's proposals for restructuring the PSA, which were set out in his letters of 3 November to the Chancellor of the Exchequer. In addition to your Secretary of State, the meeting was attended by the Secretary of State for Defence, the Chief Secretary, Sir Robert Armstrong, Sir Robin Ibbes and Mr. Alfred.

Introducing his proposals your Secretary of State said that he was hoping that the meeting would reach firm conclusions on the way forward. The possibility of restructuring the PSA had been under consideration for some time, and the absence of a final decision was creating management difficulties for the Chief Executive.

Your Secretary of State said that the complicated existing structure of the Agency resulted from the merger of civil, army, navy and air force property services. It had been criticised for being too slow, and in the opinion of the Advisory Board it was too centralised. The Wardale/Touche Ross report had criticised management systems and attitudes. Five separate issues arose from his proposals: dividing the organisation into two parts, civil and military; eliminating a tier of the management structure; providing locally based property management for the civil side; improving financial management and control; and reorganising the design offices. The proposed restructuring would provide clearer lines of command, more definite identification of responsibility and a better design organisation. Staff numbers would be reduced, and grouped into more manageable units. Responsibility for the affairs of a single client would be concentrated, rather than divided as at present.

Your Secretary of State said that these were substantial advantages, but as with any major structural change there would also be transitional costs. The current estimate of the cost was £11 million over 2 years, with a payback period of 3-4 years. There would in addition be a degree of turbulence - it was fair to say that some senior managers thought that this would be considerable. There would inevitably be some dislocation of services to clients.

/ Concluding,

Concluding, your Secretary of State said that despite the fact that some aspects of the proposals were sub-optimal (for example the remaining element of cross-working) he was convinced that the advantages of the proposed restructuring far outweighed the disadvantages. He judged that there was a powerful case for proceeding. It was important also to bear in mind that the essential changes in PSA management attitudes would be easier to secure if they were accompanied by structural reform. Moreover, the proposals would form a convenient stepping-stone if Ministers were to decide at a later stage to return PSA's military services to the Ministry of Defence and to increase the exposure of the civil side to the disciplines of competition and the private sector.

Commenting, the Chief Secretary said that although he welcomed the proposed removal of a management tier, he felt that the case for dividing the Agency into two had not been made out. Such a reorganisation could lead to rigidity, and would distract management from the urgent task of improving standards within the Agency. The Secretary of State for Defence said that he agreed with your Secretary of State that the Agency in its present form was much too big. This had been the source of endless criticism. He broadly supported your Secretary of State's proposals, especially the removal of a tier of management. If following the division of the Agency it was decided to return military services to the Ministry of Defence he would not object. It would be his intention in those circumstances to put the maximum amount of work out to the private sector by means of a management contract. However, he was not actively seeking the return of military services to his Department - for the present, the priorities should be to provide the maximum degree of privatisation and the maximum element of competitiveness tension.

The Prime Minister said that having studied the papers and heard your Secretary of State's exposition she remained sceptical of the proposed reorganisation. The link between the Agency's objectives and the specific changes proposed had not been adequately demonstrated; and no alternative options for achieving those objectives had been put forward. She had substantial reservations about the performance of the PSA, and she was not convinced that its present role and scale of operations should be maintained. She welcomed the proposals for eliminating a management tier, reducing staff numbers, introducing more commercial accounts and providing a better service to clients; but she did not see why these improvements needed to be accompanied by the division of the Agency into two parts.

There had been no real discussion about your department of what the Government's priorities for the PSA should be.

Sir Robin Ibbs agreed that the present situation was unsatisfactory, but reorganisation in itself was seldom the answer to defective performance. If the ultimate intention was to move the PSA towards the private sector, it was by no means clear that a two-way split was either the best or the only way of achieving this. The Chief Secretary suggested that it might be helpful to see how private sector companies handled their property services; Unilever, for example, offered its subsidiaries centralised services, but they were free to go out to tender if they felt that they could thereby obtain better value for money. He saw a case for a similar approach within Government, with Departments being given much greater freedom to choose who should provide their property services.

/ Your

Your Secretary of State argued that the fundamental question in considering the role of the PSA was whether it made sense to have a single body to manage the Government aspect in the interests of the Government as a whole. This arrangement inevitably led to conflict between the PSA's judgement of overall efficiency, and departmental aspirations. If despite past objections the Treasury would be prepared to see a major change in the financial relationship between the PSA and Departments, then the whole context of the debate on structure would be shifted. He personally would welcome greater devolution of responsibility to Departments.

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David Barclay

John Ballard, Esq.,
Department of the Environment.

related
as
appropriate
to
different parts
of the
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of different
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of Government
activities
for the PSA,



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

16 December 1983

Dear Lord Chancellor

PSA RESTRUCTURING

Thank you for your letter of 9 December in which you raise your doubts about PSA's ability to ensure that adequate resources and priority will be devoted to the small proportion of work (11%) that will be carried out for you by Defence-managed District Works Offices. The use of cross-working was among the main issues closely examined in designing the restructuring proposals and perhaps I can further explain why I am satisfied that under the arrangements you will continue to receive a fully effective service.

First, I think it is important to recognise the Civil CTs alone will be fully responsible to you for meeting all your needs and for agreeing priorities with you. Second, where a Defence DWO is asked to execute a proportion of Civil work that work will be a built-in feature of its workload for which staffing resources will be provided. In many cases Defence DWOs doing Civil work will retain the same staff that they have at present, often to serve only Civil clients in a particular location. In practice, therefore, there should be a fewer problems of priorities between Civil and Defence work than at present. You will note that in my letter of 23 November I spoke of "defence managed" DWOs; rather than "defence dedicated" as you have chosen to call them. At DWO level, the management objectives will be as they are now; to meet the needs of clients in the most effective way given limited resources. And this will apply equally to both Defence and Civil clients, whether the DWO is managed by the Defence Organisation or the Civil Organisation.

You recognise that there need be no difficulties on annually programmed services which normally represent the bulk of the work of DWOs other than minor day to day maintenance. You are, however, concerned that new or changed requirements arising during a year, which may be urgent, may not be given adequate resources or priority. Dealing with such eventualities is, of course, already the stock in trade of PSA Districts who have to balance the various demands from clients, and the present basic approach will continue to ensure the same level of fairness and responsiveness in meeting requests for services in crossworked territories.

When an unforeseen need is reported by the client the Civil CT will immediately consider the funds required to meet it and will discuss the programming and priority of the case with its counterpart Defence CT who manages the DWO that will be responsible for its execution. Any problems or differences would be raised at this early stage and from what I have said above problems of resource should be no different from that at present. If however, there were difficulties for the Defence DWO in providing the necessary priority for technical input the Civil CT would carry out the planning and preparation of specification etc and use the DWO simply to order and supervise the work, an arrangement which would be most unlikely to cause resource problems. Civil CTs will in any event carry out any significant design work. As we have already explained, we shall also set up formal arrangements for Civil CTs to monitor work undertaken by Defence DWOs at least as closely as work executed by their own DWOs. This level of dedicated "Civil" oversight, should if anything, enhance our ability to look after the needs of civil clients.

The cross-working arrangements need to be seen in the context of PSA retaining central management at Headquarters capable of resolving any problems of resource balance between the Defence and Civil dedicated management organisations. Any problems which could not be resolved between 2 CTs could be referred to Headquarters for resolution but I would expect the need for this to be highly exceptional. In considering the control of resources it is also worth pointing out that at present PSA already uses a wide variety of outside agencies including consultants and contractors to carry out a large proportion of its work. These arrangements do not produce any special problems and I find it difficult to see that the use of a Defence DWO as a further agency to carry out a very small proportion of your work under clearly agreed arrangements should present difficulties.

Your final question whether our proposals achieve an adequate degree of separation of Civil and Defence work at DWO level is one that was considered at length, and on balance it was concluded that the arrangements proposed were likely to be the most effective means of providing locally-based client services. In most urban areas we have, of course, proposed Civil DWOs some of which will execute a small proportion of work for Defence clients. In the rural areas where Civil work is thinly spread it would sometimes be possible to achieve a higher degree of DWO dedication to Civil work but this would usually involve creating very large DWOs whose staff would have to cover very wide territory and the conclusion we reached was that such arrangements would be less efficient for both PSA and our clients. We shall, however, keep the arrangements under review and we would be very willing to consider further adjustments if better solutions offered themselves to particular client needs.

✓ I am copying this letter to the recipients of yours together with my earlier letter.

Yours sincerely

I. J. Gallant

for PATRICK JENKIN

Agreed by the Secretary of State and
signed in his absence.

CONFIDENTIAL

PRIME MINISTER

PSA RESTRUCTURING

The basic proposals are:

- (i) dividing the PSA into two parts, one civil and one defence
- (ii) cutting out one tier of the present management structure
- (iii) introducing commercial accounts on the civil side

Opinions are divided on the merits of these proposals, with the Policy Unit in favour, Sir Robert Armstrong against, and Sir Robin Ibbs agnostic. All are agreed however that the central issue is one of confidence in Mr. Alfred. Since he will be present, frank discussion of this aspect could be difficult. You may need to reconvene a smaller group of Ministers to consider his position, if the consensus is to reject his proposals.

Papers are attached as follows. You will wish to look in particular at those marked with an asterisk:

- *A Personal note from Sir Robert Armstrong
- *B Brief by Sir Robert Armstrong
- *C Note by the Policy Unit
- *D Note by Sir Robin Ibbs
- E DOE proposals
- F Letter from the Lord Chancellor
- G Letter from the Chief Secretary

DMB

16 December 1983

CONFIDENTIAL



Ref. A083/3486

MR BUTLER

--- I attach a brief for the Prime Minister's meeting with the Secretary of State for the Environment on 19 December to discuss his proposals for restructuring the Property Services Agency (PSA).

2. These proposals have been extensively discussed round Whitehall, and it has to be said that the Chief Executive has not disposed of the reservations which are very generally felt, particularly about the proposal to divide the PSA into two parts, one serving mainly civil Departments, the other mainly defence clients. The breakdown cannot be absolutely tidy, and there will have to be a certain amount of cross working between the two parts. Many Departments fear that the reorganisation will do nothing, particularly in the short term, to improve PSA service and will simply distract its staff from their main duties. There is no reason to suppose that it will contribute significantly to dealing with the problems that were thrown up by the Wardale/Touche Ross Report. Nor, so far as we can see, will reorganisation remedy the weaknesses of the information system in PSA.

3. But, as Sir Robin Ibbs has made clear, there is a fundamental issue of confidence in the Chief Executive, Mr Alfred. He is deeply committed to these proposals. In that sense a challenge to them is a challenge to his ^{competence} ~~confidence~~. It would be difficult to reject them without calling in question the Government's confidence in him to do the job. It has to be said that there are a good many people about who do not have unreserved confidence in him.

4. Mr Alfred was appointed for a term of three years, which expires about the end of 1984.

RA

ROBERT ARMSTRONG

16 December 1983

Ref. A083/3473

PRIME MINISTER

You are meeting the Secretary of State for the Environment on 19 December to discuss his proposals for restructuring the Property Services Agency (PSA). The Secretary of State for Defence, the Chief Secretary, Sir Robin Ibbs and the Chief Executive of the PSA will also be present.

Flag E 2. The proposals are set out in detail in the paper attached to Mr Jenkin's two letters of 3 November to the Chancellor of the Exchequer. They are:

- (a) To divide the PSA into two parts, one serving mainly civil Departments, the other mainly defence clients. There would be a certain amount of cross-working between the two parts, and the PSA would retain a single Chief Executive and common finance, establishments and design support services.
- (b) To cut out one tier of the present management structure of 10 Regions, 34 Areas and 156 Districts by merging Regions and Areas into 28 new "controlling Tiers".
- (c) To introduce commercial style accounts on the civil side.

The Secretary of State believes that these changes will together significantly improve PSA's efficiency and so provide both more economic and efficient management of the Government estates and a better service (after some small transitional disruption) to Departments. He believes that the proposed split between civil and defence work will allow subsequent privatisation of the civil side of the Agency without any further restructuring.

The Issues

3. The main question on which you will wish to be satisfied before taking a decision is whether the proposals are consistent with the Government's view about the future role and indeed need for the PSA. A major restructuring of the kind proposed will absorb a significant amount of management time during implementation and inevitably take time to produce any benefits. It

would clearly be wrong to go ahead with it if Ministers were likely to want radically to change the PSA in the next few years or so in a way which was not consistent with the restructuring or to which the restructuring was itself largely irrelevant.

4. Secondary, but important, questions are:

- (i) Are the proposals likely to improve PSA's performance as a manager of substantial public assets and as a central accommodation and agency for Government?
- (ii) Are the proposals likely to help the PSA put right the deficiencies in its internal management which were severely and publicly criticised in the recent Wardale/Touche Ross report?

Future of PSA

5. The PSA paper is written on the assumption that the Agency's basic role and range of functions will remain broadly the same. But it also implies that the restructuring proposals are robust both against a decision to transfer back defence estates and works functions to the Ministry of Defence and to a decision to privatise the civil side of the Agency. The suggested introduction of "commercial style accounts" may be regarded by Mr Alfred as a first step to a Trading Fund arrangement for the civil side which could provide a basis for flotation.

6. The case for a transfer back of the defence work is dealt with in section 12 of the paper, which argues that although there are some arguments in favour, the balance of advantage is probably against transfer. The Secretary of State for Defence may wish to comment on the merits. An important point which the paper does not bring out is that, because of the extent of cross-working provided for even under the dedicated option, a decision to return the work to MOD, if taken after implementation of client dedication, would involve considerably greater costs and disruption than would be implied by simply transferring a number of dedicated offices to new management. Efficiency considerations therefore argue strongly that a decision should be reached on future responsibility for defence work before any particular pattern of reorganisation is implemented.



7. A decision to transfer a significant part of PSA's current work to the private sector could provide an additional argument for transferring some defence work, which might not be thought appropriate to the private sector, to the Ministry of Defence. But both the Chief Secretary and Sir Robin Ibbs have expressed doubts to you about the kind of "privatisation" such an argument would imply. The Chief Secretary suggests that the most likely "privatisation" course for the PSA consists of further contracting out of functions, and doubts whether the restructuring will help move the work to the private sector. Sir Robin Ibbs has pointed out that the civil side looks too large and diverse to be readily privatised en bloc and that there must be an equally good case for privatising parts of the defence side. He concludes that a reorganisation other than a simple split between the civil and defence sides may well be better in terms of potential privatisation.

8. The main question seems to me whether it is realistic to think of floating off the civil side of PSA more or less as currently constituted or whether, if Ministers wish to reduce the amount of the public sector resources now consumed by the PSA, the right course is not to consider other options, such as reducing the size of the owned estate, and looking to the private sector to provide Departments directly with much of the office provision and management now handled by the PSA. That is a function which could be provided by the many estate agencies and companies now operating in the private sector and there would seem little benefit in floating off a modified version of PSA to compete with them. There would however in that event be a continuing function of planning and monitoring requirements for which some central Government capacity would need to be kept.

9. You may wish to invite the Chief Secretary and Sir Robin Ibbs to question the Chief Executive more closely on these aspects.

PSA Management and Efficiency

10. The answers to questions about the effect of the restructuring and related proposals on the PSA's own efficiency and



internal management are very much matters of judgment. They depend in large part on the confidence Ministers have in the Chief Executive's judgment and capacity. You may want to look particularly at Sir Robin Ibbs's comments here. He notes that because Mr Alfred is committed to the proposals he has a strong personal interest in ensuring that the benefits he claims for them are achieved. But he points out that there is no evidence that the form of reorganisation chosen is necessarily the best nor that the split between civil and defence work is essential to achieve the removal of a tier of management which is the main source of the manpower savings.

11. Relevant questions here are the extent to which the civil/defence client split and the transitional dislocation will affect the service given to client Departments, and the extent to which restructuring will divert attention from the improvements in PSA's internal management systems recommended by the Wardale/Touche Ross report. On the first you will have noted the anxieties the Lord Chancellor has expressed on this point in his letter of 9 December. On the second, the Chief Secretary set out his concern in some detail in his letter of 25 November. You may wish to ask the Secretary of State to comment on these points.

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The Choice of Options

12. The basic options seem to be:

- (i) To accept the Secretary of State's proposals in full. That would be the right course if you were satisfied that PSA's role and functions as a central service agency for both civil and defence Departments were unlikely to change in the foreseeable future or that the restructuring would be consistent with any changes that might take place, and that the benefits of the restructuring and other changes would outweigh the costs of change.
- (ii) To defer a decision on restructuring, pending a decision on the location of the defence work and on the likely future options for further privatisation. This would need further work, in which the central Departments



would need to play a major part. One possibility which you could consider would be a short Griffiths style inquiry into the functions now discharged by the PSA which would be charged specifically with looking at the scope for further transfers of work to the private sector and the advantages of central agency versus departmental provision.

(iii) Reject the restructuring proposals and proceed with a review as (ii).

Both (ii) and (iii) would in some measure call in question the Chief Executive's capacity and judgment. Both would also mean further delay and uncertainty for the PSA which has already spent some time in preparing for restructuring. These disadvantages would need to be weighed against the advantages which might come from a more radical look at the PSA's future.

A handwritten signature in black ink, appearing to read 'R.A.' with a stylized flourish.

ROBERT ARMSTRONG

16 December 1983

PRIME MINISTER

PSA

The proposals for restructuring the PSA represent only a fraction of the story. The restructuring proposals in themselves are to be welcomed in principle as long as:

- (a) they reduce the total number of staff;
- (b) they reduce the very long lines of communication from top to bottom of the organisation;
- (c) they improve the accounting and management information;
- (d) they provide a better and faster service to the client.

In an ideal world, Mr Alfred's restructuring - particularly reducing the number of areas and regions and concentrating them into a lesser number of controlling tiers, and probably the segregation of defence work from civil work - would make sense.

However, the PSA world is not an ideal world. Mr Alfred's second in command, Mr Chipperfield, and several other of the senior managers, fundamentally disagree with Mr Alfred's restructuring proposals. As career civil servants themselves, they dislike some of Mr Alfred's private sector management style. They believe that the restructuring would result in unnecessary upheaval, and would impede the progress that could be made in improving management systems and experimenting modestly with other reforms. With this opposition on his main Executive Board and in the senior levels of his management, the chances of Mr Alfred succeeding are greatly reduced.

The important objectives which Mr Alfred seeks should be welcomed. The PSA has not concentrated on the costs of running particular buildings, on the style of accommodation that should be made available, or on the total costs of maintaining and running that accommodation. It does not have access to the right management information. // Its whole ethos is dominated by what the Wardale Report calls "management complacency". It lacks understanding of individual responsibility under the pretext of putting its clients' needs first. In practice, it often serves its clients less well than would be normal in the private sector, and with less attention to cost.

What Mr Alfred thinks he needs to make his proposed reorganisation successful is:

- i. to end common citizenship of staff between the PSA and the DoE/DTP to maintain greater continuity in PSA staff;
- ii. to recruit some of his senior managers and his operational managers from outside to try and change the attitudes and culture within the PSA. In particular, he wishes to seek an outside Finance Director and a Director of Property Management;
- iii. to untie the remaining section of PSA's supplies which has captive clients;
- iv. to introduce a more commercial system of management and to challenge the management deficiencies and complacency analysed in the Wardale/Touche Ross survey.

Our conclusion is that if the restructuring is to be acceptable, the above points have to be agreed, and the following conditions should also be met:

- (a) Mr Alfred should be given freedom to change his top management, with those senior managers who are in disagreement being allowed to pass back into the Civil Service as and when openings arise.
- (b) You should be satisfied that Mr Alfred will make all due speed in introducing the better management information systems which he desperately needs in order to carry out the improved management of the PSA estate and the other reforms recommended by Wardale.
- (c) Further progress should be made in testing PSA estate management and supplies effectiveness using more private contractors and competitive tenders.

It would be quite futile to have a long meeting about structural issues without getting down to the nitty gritty of the personalities involved and the steps needed to make restructuring on Mr Alfred's lines work. The whole success or failure of the project will depend upon the people and their motivation. With the staff now there, the chances of success are slim.


JOHN REDWOOD/DAVID HOBSON



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

The Rt Hon Patrick Jenkin MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1

abpm
Dms
13/12

13 December 1983

Patrick Jenkin

REORGANISATION OF PSA

You sent me a copy of your letter to Nigel Lawson dated 3 November, with which you forwarded a paper giving the latest proposals for the restructuring of PSA.

I am ready to give my support in principle to the proposals and I agree that an early statement to the House about them would be desirable.

However it will be essential to ensure that restructuring does not disrupt the working relationship on the ground between PSA and client departments, especially at District level. This is particularly important to my department in the case of the UBO expansion programme and I would view with great concern any delays in this area caused by restructuring. You will also not need reminding that the process of adaptation to PRS is still not complete and that further changes will be taking place next year. I consider that this is another area where the benefits of restructuring will have to be carefully weighed against the possibility of disruption at a rather critical stage.

I am sending copies of this letter to the recipients of yours.

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Card Service: Long Term RM, Pt 14

13 DEC 1985





HOUSE OF LORDS,
SW1A 0PW

9 December 1983

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

My dear Patrick.

PSA RESTRUCTURING

Thank you for your letter of 23 November, which contained much useful information on the effect which your restructuring proposals might have on my Department.

I do not dispute the figures which you quote about the proportion and the value of the work which would fall to be executed by the defence dedicated DWOs; nor do I argue with your proposition that in an arithmetical sense we are already served by a high proportion of DWOs with a predominantly defence load. But predominance is one thing and dedication quite another. I have no doubt that your Civil Controlling Tier will do all in its power to broker our arrangements with the relevant defence dedicated offices; and that may be quite satisfactory for planned annual programmes of construction and maintenance. But what if we have unexpected and urgent needs? The cost of having a courtroom out of use for want of some building work can be very high when one includes the time of judges and court staff; to say nothing of the adverse effect it can have on the backlog of cases which we are always seeking to reduce. Who is going to determine the priorities when unforeseen work required by my Department intrudes on the programmes of work for defence departments to which a District Office is dedicated? It is not a question of how much the work costs or what proportion of the whole it represents; it is a question of its incidence and the consequences in resource terms of not getting it done promptly.

So while I am grateful to have your further assurances I cannot say that they have allayed my anxiety to the point where I can say I am satisfied that my Department will not suffer a deterioration in the standard of service we enjoy at present.

If others share my continuing concern perhaps we should think again about the way in which the civil and defence work can adequately be separated.

I am copying this to Cabinet colleagues and Sir Robert Armstrong.

Yrs:

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JMS
12/12

will request if required

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Civil Service
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Property Services Agency

Motion made, and Question proposed, That this House do now adjourn.—[Mr. Douglas Hogg.]

10 pm

Mr. Tim Smith (Beaconsfield): I am grateful for this opportunity to raise the subject of the Wardale inquiry into recent cases of fraud and corruption in the Property Services Agency.

The PSA was set up in 1972. It is responsible to the Secretary of State for the Environment and for the provision to other Government Departments of property management services, building construction and management and appropriate supplies. My hon. Friend the Under-Secretary of State for the Environment was kind enough to send me a copy of the PSA's annual report for 1982-83 recently. It shows the substantial scale of the PSA's operations.

In 1982-83, expenditure on major works totalled £455 million, on smaller new works it totalled £144 million and on maintenance it totalled £684 million. That represents a grant total of £1.277 billion. That total is estimated to rise to £1.493 billion this year and £1.625 billion next year. At 31 March this year the PSA employed 28,631 people. That represents a 26 per cent. drop as compared with 31 March 1979.

In the foreword to the annual report, my right hon. Friend the Secretary of State for the Environment comments:

"Of course in a major organisation of this size there are problems, not least when the Government asks that the rising volume of work should be handled by reduced numbers of staff." It is worth quoting the PSA advisory board's review of the year. That advisory board is an independent review body. It says:

"The Advisory board believes that the PSA generally fulfils its many tasks in a satisfactory manner and that it is staffed by competent people who take pride in their work. The Board has seen much to be encouraged about in the Agency. However, there is scope for improvement in some areas such as financial control, management methods and career planning."

That is the context into which we must put the Wardale inquiry report. On 29 April 1982, my right hon. Friend the Secretary of State for Defence, who was then the Secretary of State for the Environment, announced that he had commissioned Sir Geoffrey Wardale and Mr. Anthony Herron, a senior partner of Touche Ross, chartered accountants, to carry out a review with the following terms of reference:

"To investigate the circumstances of recent cases of fraud and corruption in PSA and to recommend what changes in procedures or organisation are desirable in the light of your findings." The Secretary of State emphasised that, in his opinion, the vast majority of PSA staff carried out their duties honestly and conscientiously and that there were no questions about their integrity. I am sure that is correct.

As well as being a former second permanent secretary at the Department of the Environment, Sir Geoffrey is a member of the PSA advisory board. Therefore, I do not think that it can be said that he could have it in for the Civil Service in general or for the PSA in particular. That is why I think that his report makes alarming reading.

The alarming aspect is not so much the fraud as the attitude of management towards it. The report, in paragraph 4.2.1 says:

"PSA has as its object the construction, maintenance and furnishing of buildings required by Government departments who are its clients. It is understandable that satisfying the

demands of those clients is treated as a high priority and we are informed that political pressures may reinforce this. On the extent of the success of PSA in satisfying its clients we were not, in our enquiries, directly concerned. It appeared, however, that other management problems, such as effective staffing and financial control as we understand it, took a lower priority, and did not seem to command the attention they deserved. We were concerned to discover that there was sometimes a reluctance to acknowledge that problems existed in these areas and a lack of vigour in pursuing them when they were identified. Further, and as a facet of this, management's approach towards dishonesty and fraud does not always seem satisfactory. These are attitudes which collectively we can only call complacent. We have also noted a lack of understanding of both individual responsibility and the delegation of authority."

The House will understand why I felt that I should raise the matter. Not only have problems not always been recognised, but paragraph 4.2.2 of the report says:

"Where problems have been recognised and remedial action taken, there often seems to be a lack of vigour in following it through. A good illustration of this is the introduction of the 5 per cent. check of all works orders by the District Works Officer which is represented by senior management to be a major measure against irregularities. The implementation of this check has been slow and moreover it has a number of fundamental conceptual defects."

The 5 per cent. check has also been concerning the Comptroller and Auditor General for some time. In a memorandum to the Public Accounts Committee in May 1982, he reported that the PSA internal audit department had noted in October 1980 that it had been commenting for three years prior to that on the degree of failure by district works organisations to carry out their 5 per cent. checks.

More generally in that memorandum, the Comptroller and Auditor General said that he was becoming concerned about the time that it was taking to determine revised systems of controls and to secure general compliance with them. Following that memorandum, the Public Accounts Committee, in its 25th report, during the parliamentary Session 1981-82, expressed concern that the PSA had been taking so long both to act on audit evidence that prescribed checks were not operating properly and to implement revised controls.

The Comptroller and Auditor General returned to the subject in his report on the Appropriation Accounts for 1982-83. He concluded that while the PSA was making good progress in increasing the extent of DWO spot checks and improving its control over stores, serious deficiencies in control remained. I understand that the Public Accounts Committee is likely to take oral evidence on that subject early in the new year. I am glad that it is continuing to pursue the matter.

As well as calling for changes in management attitudes, Wardale made six principal recommendations. First, a budgetary control system should be introduced for all expenditure. Secondly, new management information systems should provide the information necessary for proper financial and budgetary control. Thirdly, regional management inspection teams should be formed to give regional management an annual assurance of the proper operation of its area and district. Fourthly, in the management of contracts the respective responsibilities of all staff should be recognised. Fifthly, management should take a more commercial approach to its activities where existing controls may not be cost effective. Sixthly, a more dynamic approach to saving, training and disciplinary matters is required.

According to the Comptroller and Auditor General, the PSA was finalising actions planned to deal with those

of which £2 billion will be spent on equipment. Even when expenditure on Trident is at its peak, we still plan to spend more on the conventional Navy than we spent in 1978-79.

It is with pride that I wind up this debate on the Royal Navy. Today's Royal Navy is more professional than it has ever been. It is the most potent naval force in the world after the two superpowers.

Our Navy honours its Alliance responsibilities and yet maintains an independent capability around the world. The Government have given sustained backing to our Navy in terms of pay, new ships and new, improved weapon systems.

We salute those who sail under the White Ensign. They continue our great maritime traditions. They have never let us down in peace or in war and this House has a duty to give them the backing and support that they so richly deserve.

As Charles II said:

"It is upon the Navy, under the Providence of God,—

It being Ten o'clock, the motion for the Adjournment of the House lapsed without question put.

Statutory Instruments, &c.

Mr. Deputy Speaker (Mr. Harold Walker): Order. With the leave of the House I shall put together the Questions on motions 2 to 10.

Motion made, and Question put forthwith pursuant to Standing Order No. 79(5) (Standing Committees on Statutory Instruments, &c).

INCOME TAX

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Trinidad and Tobago) Order 1983 be made in the form of the draft laid before this House on 27th July.

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Tunisia) Order 1983 be made in the form of the draft laid before this House on 27th July.

That an humble Address be presented to Her Majesty, praying that the Double Taxation Relief (Taxes on Income) (Netherlands) Order 1983 be made in the form of the draft laid before this House on 3rd November.—[*Mr. Douglas Hogg.*]

Question agreed to.

Addresses to be presented to Her Majesty by such Members of this House as are of Her Majesty's most Honourable Privy Council or of Her Majesty's Household.

Motion made, and Question put forthwith pursuant to Standing Order No. 79(5) (Standing Committees on Statutory Instruments &c.).

LEGAL AID AND ADVICE

That the Legal Aid (Financial Conditions) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Advice and Assistance (Financial Conditions) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Advice and Assistance (Prospective Cost) (No. 2) Regulations 1983, dated 8th November 1983, a copy of which was laid before this House on 8th November, be approved.

That the Legal Aid (Scotland) (Financial Conditions) (No. 2) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.

That the Legal Advice and Assistance (Scotland) (Financial Conditions) (No. 3) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.

That the Legal Advice and Assistance (Scotland) (Prospective Cost) Regulations 1983, dated 10th November 1983, a copy of which was laid before this House on 14th November, be approved.—[*Mr. Douglas Hogg.*]

Question agreed to.

recommendations. The Minister will recall that I asked him about that in a parliamentary question. On 31 October, he told me that decisions resulting from the programme of action would be implemented as quickly as possible. He also told me:

"To ensure that the lessons learnt from the report are fully understood throughout the agency, a series of meetings for staff at all levels of management, attended by senior officers of the agency has been arranged."—[*Official Report*, 31 October 1983; Vol. 47, c. 265.]

In addition, both the PSA's annual report and the section on the PSA which appears in the White Paper on the financial management initiative, contain several positive proposals for structural changes in the PSA. I hope that they will be changes for the better. The British Civil Service is mercifully free from corruption. However, in response to observations made by the PSA, the Public Accounts Committee said:

"Having regard to the nature of some of the offences, we believe PSA are on weak ground in playing down the significance of the detected cases in their regional organisations. We do not consider that comparison of these cases with the broad statistics for convictions in the country as a whole can be meaningful; nor do we think it realistic to compare frauds involving long-term collusion or conspiracy among civil servants, where the losses are uncertain, with measurable 'shrinkage' in department stores."

That was the comparison that the PSA tried to draw.

People expect the highest standards from civil servants. Generally speaking, the Civil Service is free from corruption, but the Wardale report highlighted an exception to that general rule. Therefore, it is essential that its conclusions and recommendations are taken seriously and implemented as soon as possible. I should be grateful if, in his reply, the Minister will give me as much detailed information as he can about the response of the PSA to the principal recommendations of the Wardale inquiry.

10.13 pm

The Under-Secretary of State for the Environment (Sir George Young): I am grateful to my hon. Friend the Member for Beaconsfield (Mr. Smith) for providing this opportunity to debate the Wardale report. My hon. Friend made a cogent and persuasive case, as one would expect of him.

We are rightly proud of our Civil Service and its traditions, and it must be a matter of great concern to any Government when performance falls below the standard expected, especially in regard to honesty of conduct. We were therefore determined that, however uncomfortable the report's findings might be, they should be brought to public notice, and my right hon. Friend the Secretary of State for the Environment took an early opportunity to publish the report, to expose it to press comment, and to outline his proposals for change.

The Property Services Agency has been in existence in its present form since 1972. It brought together the works and other activities of the three defence services and the former Ministry of Public Buildings and Works as a self-contained agency within the Department of the Environment. Since 1976 the supplies area of the PSA has operated as a Government trading fund. The agency has at present about 28,500 staff worldwide, of whom about 13,000 are industrial grades. It handled in 1982-83 about £1.6 billion of expenditure on new construction, maintenance, rents and supplies.

In the United Kingdom the basic unit of organisation is the district works office. There are 153 district works

offices. The district works officer is directly responsible for most of the maintenance and much of the minor new works associated with all the Government's buildings and installations in his district and, usually, a number of buildings of clients, such as British Telecom, for which the agency does work on repayment terms. He carries a heavy responsibility for management and the execution and control, including financial control, of those works services. The district works officer reports to an area officer, of whom there are 34, and they in turn report to the eight regional directors in England, the director of the central office for Wales in Wales, or the director, Scottish services, in Scotland. This organisation as a whole we refer to as the United Kingdom territorial organisation, which is in turn answerable to Ministers.

My hon. Friend mentioned the report of the Comptroller and Auditor General, who commented on the position within the PSA before the final Wardale report was submitted. His comments do not take into account the steps that we have taken, or are planning to take, following Wardale, which I shall outline.

The 61 cases, or alleged cases of fraud or irregularity, which were the occasion of the Wardale inquiry, arose mainly at the district level in various parts of the United Kingdom territorial organisation during the period 1976 to 1982. They were mainly in maintenance, including stores, and minor new works. The aggregate value of the cases is estimated at £600,000. Several of them involved only people outside the PSA. Many of the cases did not involve fraud, but, where they did, people were dismissed. I should like to add that all Wardale-related convictions have resulted in dismissal, save where the officer has resigned or retired before the court hearing.

About 170 PSA staff have been involved directly or indirectly in cases of theft, fraud or irregularity in the past five years, and 61 have been dismissed. Although the press has linked all 61 dismissals with the serious cases of fraud and corruption, about half of those dismissed were guilty of the theft of miscellaneous items of no great financial value. To put this in a context—in the light of what my hon. Friend said, I do not wish to make too much of this—the expenditure in UKTO on maintenance and minor new works in 1982-83 alone was about £660 million and the number of staff at district level in UKTO was more than 17,000.

By any standards this is a low incidence of misdemeanour, but cases occurring in the agency are always treated rigorously. Approximately 100 staff have been involved in irregularities but have not been dismissed, because of the minor nature of the irregularities, such as the theft of property valued at £3.40 or the payment of two night's subsistence where only one is applicable. In those cases the staff concerned received formal reprimands.

In view of the public interest shown in the cases of fraud and irregularity that occurred my right hon. Friend the former Secretary of State—now Secretary of State for Defence—decided that there was need for an independent investigation into the circumstances of the cases. We were fortunate in obtaining the services for Sir Geoffrey Wardale, formerly second permanent secretary at the Department of the Environment, and Mr. Anthony Herron, a partner in Touche Ross, chartered accountants, to undertake this. They were commissioned in April 1982 and submitted an interim report in February 1983 based upon their investigations in four regions. The Secretary of

[*Sir George Young*]

State decided that the investigations should be pursued in the remaining six regions, and the final report was submitted on 3 August 1983. In all, Sir Geoffrey and Mr. Herron reviewed 49 of the 61 cases. Several of those involved anonymous allegations, and in eight cases they were not substantiated.

The burden of the Wardale recommendations was plain from the interim report. As my hon. Friend said, they revealed within the PSA an attitude of mind and operating systems which allowed fraud to exist and led to a wider study than one would expect fraud to require. When we knew the main thrust of the study team's proposals from the interim report, we set up a working group to develop a provisional plan for management action on the recommendations pending the receipt of the final report.

The report makes many recommendations ranging from the financial and management control procedures for works stores expenditure to the agency's policies for staffing and training for district work officer appointments, taking in on the way management information systems, audit controls, certain contractual matters and disciplinary procedures. Those are all important subjects, but underlying them was a more general criticism that management was not sufficiently alive to the existence of problems, and that this was exemplified by a concept of financial control which lacked an adequate budgetary element, the existence of management control techniques which were deficient in some respects, and insufficiently rigorous policies for disciplinary action against staff and third parties. My hon. Friend rightly drew attention to the problem of attitudes, which are often more difficult to change than are procedures. My hon. Friend rightly asks what is now happening to put things right.

When he announced the publication of the report on 5 October my right hon. Friend stressed the seriousness with which he took it and his determination that any necessary changes in management systems and management attitudes should be carried through.

Our first job has been to impress on staff the seriousness with which Ministers take the report. We have taken urgent steps to ensure that staff at all levels of management have received and read the report and understand the action that is required on the report's recommendations. To secure the change in attitudes that is required, a series of meetings has been held for all regions, involving the regional senior staff and area officers with top management from PSA headquarters. To take the message down to district level, a further series of meetings is taking place in the regions now.

The regional meetings have shown that the management staff of the agency are anxious to respond to the Wardale report criticism. From my two years in my present post, I can say that I am impressed by the high calibre and dedication of the PSA staff that I have met. It is in their interest to accept that the management of the agency can and should be improved. Their and my concern is that the vital work that they do in maintaining the essential services of government should be carried on to the same high standard that exists, while improving management attitudes as well. This will not be easy, given the pressures on us, but we are determined to make progress. In addition to changing attitudes, a number of special changes have been introduced and I can give my hon. Friend some examples.

First, on contract notation limits, Staff have been reminded that the notation limits for contractors must be properly observed and monitored. In particular, no firm should be invited for a contract the value of which is more than 15 per cent. above the firm's notation without agreement. Care is being taken to ensure that contractors are not overloaded with PSA work. Checks are being carried out on existing contracts, where notations may have been seriously exceeded, and corrective action taken wherever possible.

Secondly, there is the 5 per cent. check of work and stores orders, which my hon. Friend mentioned. Revised arrangements for 5 per cent. check were issued on 1 July 1983, stressing DWOs' overall responsibility and the need to keep under review small works orders generally, in addition to 5 per cent. check.

Thirdly, on floor laying contracts, PSA supplies ordering officers have been reminded to issue orders with adequate details of the work required and to give guidance on the checks to be made before certifying invoices. Certification for all such orders must be by an officer superior to the ordering officer. Departmental accommodation officers have been reminded of their responsibility for certifying that the work has been carried out properly.

Some recommendations, for example, those relating to stores procedures and to issuing guidance clarifying the respective roles of professional and technical officers and quantity surveyors in relation to measured term contracts, can be implemented fairly easily. Other recommendations that make continuing resource demands—for example, separating the duties of ordering work on jobbing contractors and certifying for payment—are more difficult. But we can and will make progress.

The report recommends the introduction of improved budgetary control arrangements for maintenance expenditure, including the budgeting of such expenditure by individual buildings or by small groups of buildings. The PSA already has a job by job system of control for all work which individually exceeds £2,500—in all, 75 per cent. of PSA's total works expenditure. As I have said, the main problem lies with the bulk maintenance below that threshold. Much—although not all of this—typically comprises a mass of small orders down to a few pounds in value, and is devoted to the repair of defects which arise through the normal wear and tear in buildings and cannot be identified in advance of their occurrence, although we can predict the scale of expenditure that is likely to arise in adequately large aggregations of the estate. While we accept the need for all maintenance expenditure to be effectively budgeted, there is a real practical question, which we are urgently examining, about the degree of disaggregation which it is useful and cost-effective to seek in devising improvements to our existing systems.

The report also makes recommendations on audit arrangements.

We are concerned that the recommendation for the creation of a regional management inspection body might involve some confusion between the functions proper to line management and the necessarily independent role of internal audit. There is a danger of blurring the responsibility of line management to ensure that adequate control systems exist and operate effectively, and to initiate suitable inspection and checking arrangements. However, in the general spirit of the report's recommendations, the PSA will be considering how,

without compromising the independence of internal audit, its work might be developed to provide line management with a stronger feedback on the effectiveness of its operations and also whether the present arrangements for management inspection checks at various levels can be strengthened and more effectively co-ordinated.

If my hon. Friend would like further details of the follow-up to the report, I shall be happy to supply them in correspondence. I have, of course, taken note of the additional points that he made. I regard the Wardale report as a constructive, helpful and salutary report. My colleagues and I and the senior officers of the agency are determined that it shall be acted upon with all the speed we can muster.

The report has been treated with the seriousness that it deserves from other levels of management in the agency, and I am convinced that all our staff will do their best to implement its recommendations in the best traditions of public service as and when decisions are taken on them by management and generally to act in a manner calculated to obviate any future criticisms of the kind Sir Geoffrey Wardale and Mr. Herron felt constrained to make.

Question put and agreed to.

Adjourned accordingly at twenty-five minutes past Ten o'clock.

Confidential

SE NO



b/f for meeting
on 19 Dec
Dus
28/11

Treasury Chambers, Parliament Street, SW1P 3AG

Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

25 November 1983

Dear Secretary of State,
RESTRUCTURING OF PSA

Thank you for your letter of 3 November covering a paper on the restructuring of the Property Services Agency.

I agree that radical change is required there; I am very much concerned about weaknesses revealed by the Wardale/Touche Ross Report and by the difficulties which there have been with PRS. I must confess, however, that I am not clear that what is now proposed will remove the current problems, or help with moving work to the private sector.

We must certainly have in mind the desirability of transferring as much work as possible to the private sector when that makes good management sense. I have in mind not so much the sale of the government's estate (except those parts which are surplus to requirements) but rather contracting out of functions where that is economic. PSA have made some progress on this (para 3 of your paper), but more un-tying and contracting out should still be possible. It would be wrong to settle on an organisation now if there were a serious prospect that it would have to be reordered in the near future - because, for example, we concluded that defence work should go back to MOD. But if you have satisfied yourself about this, and if other colleagues are content, I should not wish to pursue it further.

That apart, my main concerns are that the major investment of management resources into restructuring will divert attention from improving PSA's information and management systems, and hence from the tightening up of control which Wardale/Touche Ross will require - and from the improvement of PRS. Furthermore, whilst I accept that major improvements in PSA's accounting practices are entirely appropriate, I am sure that we must beware of thinking that a simple change in the form of accounts will resolve its difficulties. It is essential first to improve the basic data; when that is done we shall need to consider what performance indicators will be most

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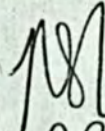
appropriate for a common service supplier to government departments; for the next few years commercial-type accounts will be at best a supplement to normal vote accounting.

I can see the attractions of the removal of a management tier; and the reductions in manpower numbers and costs which that part of your proposals will produce are obviously most welcome. I believe however that the paper makes rather too much of the simplicity of organisation which will flow from a division of PSA into civil and defence parts, and I do not see how that will contribute materially to the resolution of the current pressing problems. But if colleagues generally are content that as clients they will not suffer a materially reduced level of service, and that the proposed organisation will meet the Government's overall needs, I should not wish, subject to one condition, to object.

I believe that irrespective of what happens on restructuring you will need to press ahead with the development of a satisfactory information and accounting system. That is perhaps the most important of the Wardale/Touche Ross recommendations, and I am only prepared to set aside my doubts about the form of the proposed reorganisation if I can be assured that those systems will proceed straightaway. Whatever course is adopted I would wish my officials to be kept in close touch on the detailed implementation.

Copies of this letter go to recipients of yours.

yours sincerely



M P REES

(Approved by the Chief Secretary
& signed in his absence).

Civil Service.
Long term.
Pt 14



28 NOV 1983



cc SotS
PS/M Cow
PS/Sir George Young
Charles G.C.
PS/Remdes
MARSHAM STREET
LONDON SW1P 3EB
Tel: 212 3434
My ref:
Your ref:
M. Chippendale
M. Johnston
M. Altrichter
M. Howden

1008
77

9.

Dear Quinlan,

23 November 1983

PSA RESTRUCTURING

In your letter of 16 November to Nigel Lawson supporting the proposed 2 tier structure for PSA you sought more information about the extent to which, under the dedicated approach, it will be possible to separate civil and defence work and secure a fully effective service to your Department. I fully understand your concern and I can assure you that our proposals have been developed with providing an enhanced service as the prime objective.

As you know at Headquarters and controlling tier levels the new organisation will provide a wholly dedicated service.

Under our proposals we estimate that 89% of PSA expenditure for your Department will also be carried out by Districts Works Offices managed by the Civil Property Directorate. Of the 40 LCD properties on which PSA spends more than £30,000 each year on works services, only 2 would fall to be served by Defence DWOs under our plans.

The remaining 11% of expenditure will be executed by Defence-managed DWOs. As you say, in numbers terms these represent slightly more than half the total numbers of DWOs serving you - 42 against 40 Civil Managed DWOs. This results from the fact that overall, because of the size and patterns of workloads, there will be more Defence managed DWOs than Civil and in the less populated areas it will usually be more efficient to use the Defence DWO organisation than create separate Civil Districts with very wide geographical responsibilities, but thinly spread work.

In an arithmetic sense the minority client concern is with us now; and our proposals will lessen it. Currently of the 101 DWOs serving LCD about one half have a predominantly Defence load, yet I believe we have been able to give your department adequate priority and service in these cases. One reason for this is that the funding for Civil and Defence clients is separate and will, of course, remain so. Another reason is that in many cases Districts with minority Civil clients have outstations with staff serving one or a group of local civil clients and we see distinct advantages in continuing this where geography makes it the most convenient arrangement.

Under the proposals you will however be able to look to the Civil Controlling Tier to be responsible for arranging the funding and programming of all work whether executed by a Civil or Defence DWO. In the small proportion of cases where a Defence DWO executes work for you the Civil CT will agree with its Defence counterpart, on an annual basis, the amount of work to be done, and the resources needed to secure its timely execution. The Defence CT will through this arrangement contract its DWO to carry out an agreed programme of work and will be equally committed to its Civil clients' work as to that for Defence clients. The Civil CT will also have an ongoing responsibility during any year for securing proper progress on work undertaken by Defence DWOs and we have designed monitoring arrangements to facilitate this. There will also be clear arrangements for new or changed requirements to be fed into the programme. The details of these arrangements have been explained in detail in notes circulated at official level but further elaboration can be provided if required.

I am convinced that under the restructuring proposals PSA will be able to maintain and progressively enhance the service provided to you and other clients. The wholly dedicated Headquarters and Controlling Tiers will be capable of greater responsiveness to the needs of Civil clients and through the arrangements described will be able to ensure a complete local service at District level with an increased proportion of work handed by offices with predominantly civil work.

I would add that LCD is not untypical of the situation for all Departments; overall some 85% of work for civil clients will be carried out by DWOs in the Civil Property Directorate.

I hope this lessens your anxiety.

I am copying this letter to Nigel Lawson.

*Yours
Patrick*

PATRICK JENKIN



10 DOWNING STREET

Caroline

1430
Monday 19th
Dec:

We need a meeting
in December please
to discuss PSA
restructuring (SofS for
the Environment's letter
of 3 November to the
Chancellor).

About 3/4 hr to 1 hr.

Attendance:

{ Mr Jenkin S/Env.
Mr Alfred (PSA Ch Exec)
Mr Heseltine S/Def.
Ch Sec'y →
Sir Robin Ibbs
RTA

Thanks

D
22/14

CONFIDENTIAL

Full



10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

PSA RESTRUCTURING

The Prime Minister was grateful for your minute of 17 November commenting on the Secretary of State for the Environment's proposals for re-organising the PSA.

The Prime Minister has decided to convene a meeting to consider the reorganisation further, and she would be grateful if you could attend this. We will be in touch shortly to arrange a time, and I will remind the Prime Minister about your note before the meeting takes place.

I am sending a copy of this minute to Richard Hatfield (Cabinet Office).

IBB

21 November 1983

CONFIDENTIAL

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CONFIDENTIAL



Sub

10 DOWNING STREET

From the Private Secretary

MR. HATFIELD

The Prime Minister has seen Sir Robert Armstrong's minute of 15 November to Robin Butler about PSA restructuring.

The Prime Minister has agreed to convene a meeting to discuss the Secretary of State for the Environment's proposals, along the lines Sir Robert suggests. I should be grateful for your advice on attendance. Presumably we need the Secretary of State for the Environment, Mr. Alfred and Sir Robin Ibbs, but you may wish to suggest that one or more departmental Ministers, and perhaps a Treasury Minister, should also attend.

MR. D. BARCLAY,

21 November 1983

CONFIDENTIAL



FCS/83/238

SECRETARY OF STATE FOR THE ENVIRONMENT

in PM'S BOX 3
16/11
Yes. For weekend.

nbpm
DMS
17/11

Restructuring of the Property Services Agency

1. Thank you for sending me a copy of your letter of 3 November to Nigel Lawson about your proposals for restructuring the PSA. I have no objection to your proposals and agree that an early statement should be made in the House about them.

2. I was particularly pleased to see that you consider the changes will enhance the service the Agency can provide. There is certainly room for this. The projected reburishment of this building has already been delayed by several months. The history of the recent redecoration of the Ambassador's entrance to my office seems to be a case study in how not to conduct such an operation: though this, characteristically, seems to have surprised nobody - and produced no sense of shock in the Agency!

3. It was as a result of similar experiences that I was able, some years ago, to secure freedom for the Deputy Master of the Royal Mint to handle many such transactions direct with outside contractors. I very much hope, therefore, that you will be working in the direction of as much privatisation as possible of what is at present a very unimpressive in-house DLO.

/In the



4. In the same spirit I welcome your indication that the proposed changes will enable PSA to handle developments in PRS more effectively, since mistakes in the distribution of financial resources bore heavily on us in 1983/84 and could be compounded by any arbitrary rental adjustments in 1984/85. I look forward eagerly to the proposed further improvements.

5. I am sending copies of this minute to the recipients of yours.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

17 November 1983

RESTRICTED

Civil Service long term policy

A14

JULY 1983



PRIME MINISTER

PSA Restructuring

I attach advice from Sir Robin Ibbes (Flag A) and Sir Robert Armstrong (Flag B) about Mr. Jenkin's latest proposals for re-structuring the PSA (Flag C).

Sir Robin Ibbes thinks the key considerations are likely to be the personal position and commitment of Mr. Alfred, and the importance attached to plans for privatisation.

Sir Robert Armstrong has considerable doubts about the DOE proposals, and suggests a meeting to consider wider aspects, together with any remaining departmental reservations.

Agree we set up a meeting, to include Sir Robin Ibbes? ✓✓✓

Yes not

Doubt

dic RH

grateful agrees to a meeting will be in touch to set this up

dic Sir R1

Then setting up a meeting will need PM of you in the

17 November 1983

PRIME MINISTER

PSA RESTRUCTURING

7/15/83
16/11?

You have received copies of Mr. Jenkin's two letters dated 3rd November 1983, covering Mr. Alfred's proposals for dividing the PSA into civil and defence wings in a similar way to his earlier proposals.

2. I have been involved in some of the discussions of this matter by officials. My own views are:

- (a) There is clear evidence that the present organisation of the PSA is not satisfactory.
- (b) Mr. Alfred is personally strongly committed to these proposals. They also have the support of the PSA Advisory Board (with the possibly significant exception of Sir Geoffrey Wardale).
- (c) Because Mr. Alfred is committed to the proposals he has a strong personal interest in ensuring that, given acceptance, the benefits he is claiming are achieved - although these may not go as far as Ministers might reasonably expect.
- (d) There is no evidence, even though the proposals if implemented should result in some improvement, that this form of reorganisation would necessarily be the best.
- (e) In particular, there is no evidence that the split between civil and defence is essential in order to achieve the removal of a tier which is the main source of savings, nor that a fundamental study of organisational alternatives has been undertaken.

(f) It is hard to accept Patrick Jenkin's contention that if the PSA is restructured on a client basis, "the civil side could be privatised without any further restructuring." Surely, the civil side looks too large and diverse to be readily privatised en bloc? Equally, there must be a good case for privatising parts of the defence side, and it may well be that a reorganisation other than a single split between the civil and defence sides would be better in terms of potential privatisation.

(g) The strongest argument for accepting the proposals appears to be that Mr. Alfred is committed to them and is likely to deliver some benefits from them. Furthermore rejection of the proposals would indicate a lack of confidence in him and the implications of this would need to be assessed.

(h) If the proposals are accepted it will be important to monitor their implementation in terms of:

(i) The savings actually achieved.

(ii) Improvement in the property repayment system (PRS) and more efficient use of accommodation by departments.

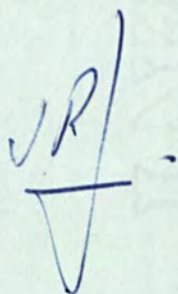
(iii) Correction of the managerial deficiencies identified in the Wardale/Touche Ross report.

There will be little point in accepting the proposals unless they are considered to be helpful in these three respects.

- (i) The main argument for rejecting the proposals appears to be that they may well be sub-optimal both in terms of departmental efficiency and potential privatisation. (However, there would be further delay and a search for the best can of course be the enemy of the good.)
- (j) If the proposals are rejected, it would be appropriate to insist on a proper organisational study of PSA against a clearly defined statement of its objectives and the future plans for it including privatisation.

3. As the decision appears likely to turn on considerations such as Mr. Alfred's position and the importance attached to plans for privatisation, I do not offer an overall recommendation as I am not well informed on these aspects.

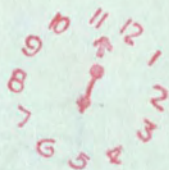
4. I am sending a copy of this minute to Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of the letters 'R' and 'I' in a stylized, cursive font, with a horizontal line underneath.

Robin Ibbs
17th November 1983

Civil Service long term
P+IF

17 NOV 1983



clean copy in PM's
w/E box 18/11



Ref. A083/3251

MR BUTLER

~~Prime Minister~~

~~Sir Robert Armstrong has doubts
about the DoE proposals (below)
and suggests a meeting to
consider wider aspects, plus any~~

PSA Reorganisation

~~Departmental reservations~~

~~Agree we set this up?~~

Since your minute of August 1, PSA have been pursuing the detail of their proposals with client Departments, and there have been extensive consultations involving central Departments and the Efficiency Unit. Permanent Secretaries discussed the proposals on October 19.

2. On the principle of client dedication, which your minute questioned, the PSA paper reports MOD support, but makes no reference to the views of civil Departments. My impression is that, while some continue to have reservations about effects on the level of service (particularly during the transition), they are now prepared - albeit reluctantly - to see the proposals go forward. It can be questioned whether, in the light of the recent highly-critical Touche Ross/Wardale Report, reorganisation of any kind should be attempted now. Reorganisation will not tackle the specific weaknesses identified in that Report, and will divert management energies from tackling them. But overall, if the whole issue were simply one of the most efficient future organisation for the PSA, I think it would be right now to back the judgment of Mr Alfred and his team.

3. But I hesitate to recommend this. My concern is that - despite the extensive consultations with central Departments - the paper does not focus clearly enough on the wider implications of the proposed restructuring for the future role and functions of the Agency. I have in mind particularly the following aspects.

4. First, your minute of August 1 said that the Prime Minister was asking "why we need a separate organisation to handle the defence estate when the Ministry of Defence could undertake this task". On this, the paper argues that, while this course would



have some advantages, it would also have some disadvantages compared with the dedicated option; the paper refers to current discussions with MOD. What the paper does not make clear is that a decision to return the work to MOD, if taken after implementation of client dedication, would involve considerably greater costs and disruption than would be implied by simply transferring a number of dedicated offices to new management. This is because of the extent of cross-working provided for even under the dedicated option: on the civil side, this is expected to be 16 per cent across the estate as a whole, rising to 24 per cent outside London. Efficiency considerations argue strongly that a decision should be reached on future responsibility for MOD work before beginning implementation of any particular pattern of reorganisation.

5. My second reservation concerns the Secretary of State for Environment's suggestion that client dedication would facilitate later privatisation of civil work. I am not sure that I understand his intention fully, but I suspect that the proposal may reflect some misunderstanding of PSA's role, which goes wider than the provision of services. Much work connected with the latter - in both civil and defence sectors - has already transferred to the private sector, and this will go further under the Property Repayment System developed by Lord Rayner.

(Under PRS, Departments are free to contract directly for minor works and maintenance up to £500 per job. There are proposals to raise this limit to £1,000 per job and, in due course, to give Departments full responsibility for internal decoration.)

6. More radical proposals - to reduce the size of the owned estate, and/or that Departments should negotiate property leases directly on the market - could also be considered, although the short and long term costs and benefits would need to be most carefully weighed. But I should find it hard, in any event, to conceive of dispensing with the function which PSA currently performs as, in effect, a "central Department", of planning and monitoring requirements, arbitrating on conflicting Departmental



priorities, and otherwise acting to ensure optimal use of the Government estate and ensuring the timely release of surplus space to the fullest extent possible. This is not a role which could be performed by the private sector.

7. The Prime Minister may think it would be desirable, before deciding on the proposals, to convene a meeting with Ministers most directly concerned, Mr Alfred and Sir Robin Ibbs, to consider these wider aspects and also to give Ministers the opportunity to voice any continuing reservations about implications of the proposals for services to their Departments.

A handwritten signature in black ink, consisting of the letters 'R' and 'A' in a stylized, cursive font.

ROBERT ARMSTRONG

15 November 1983



Ei

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prime Minister

My ref:
Your ref:

The latest proposals for PSA
restructuring are summarised overleaf.

They look very like the previous version.

3 November 1983

Sir Robert Armstrong will be minuting
you on this. Agree, await his advice
before commenting?

Dear Nigel,

Yes not
DMS
4/11

PSA RESTRUCTURING

I am writing to you today about my proposal for restructuring the PSA. In my letter I set out a number of reasons why I judge restructuring to be desirable. There is one further reason which I would like to mention separately.

If the PSA is restructured on a client basis it would enable us at some future date to privatise the side of the Agency dealing with civil work without any further restructuring. This is a point which I suggest we should hold firmly in mind in evaluating the current restructuring proposal.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, John Wakeham and to Sir Robert Armstrong.

You are
Patrick

PATRICK JENKIN

Civil Service
Log - Term

px 134

Don't know

The best of days that all
future business will be conducted

through the post office
and not by hand delivery

NOV 3 1983



2000

11/4

11/4

Eii

CE No



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

3 November 1983

Dear Nigel,

-see Pt 13

The Prime Minister asked me in August, to discuss my proposals for the restructuring of the PSA with colleagues before giving any commitments to accept the Chief Executive's recommendations.

Since then there have been detailed discussions between my officials and yours, the Management and Personnel Office and those of client departments. I attach, at Annex A, a paper which sets out what I now propose in the light of those discussions, upon which I would welcome your views.

In summary I propose that there should continue to be a single Agency, with a common Principal Establishments Officer, Principal Finance Officer and design support services, but that:

- 1) the Agency should be divided into 2 parts, one serving essentially Civil clients and one serving Defence clients;
- 2) one of the three tiers in the present management structure should be eliminated by merging regions and areas;
- 3) commercial style accounts should be introduced on the Civil side as an aid to management and to enable more effective comparisons to be made with the private sector.

The arguments in support of the proposals are that it simplifies the present organisation by providing direct lines of command on each side from top to bottom and identifies responsibilities more readily. It provides flexibility in shaping the organisation to the needs of clients, and will enhance the service the Agency can provide to both Defence and Civil clients. It will also save between 300 and 400 staff at a cost of £11m, be recouped in 3 to 4 years.

As these proposals have been developed, I have referred them to the PSA Advisory Board (drawn primarily from the private sector). The papers at Annex B from Nigel Mobbs, the Chairman of the Board record their full support for the proposals. You will see that he goes so far as to say (in paragraph 5) "that without action being given to the changes it is unlikely that the Government's estates can be managed in an economic and effective manner."

More generally, Annex A points out that the proposed

CONFIDENTIAL

reorganisation should enable PSA to handle developments in PRS and contracting out more effectively. It will enhance the PSA's ability to follow through the recommendations of the final Wardale/Touche Ross report.

The continuing uncertainty surrounding these proposals is affecting morale in the Agency. I should like, if colleagues agree, to make a statement in the House soon indicating our intention to proceed with the reorganisation subject to consultation with the Trades Unions.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, John Wakeham and to Sir Robert Armstrong.

Yours ever
Patrick

PATRICK JENKIN

PROPERTY SERVICES AGENCY
PROPOSALS FOR RESTRUCTURING

1. PSA's present structure stems from:
 - (i) the merger of the works departments of Army, Navy and Air Force with the Ministry of Works in 1963 into the Ministry of Public Buildings and Works (MPBW), and its subsequent establishment as a separate accountable unit in 1972:
 - (ii) the transfer to it in 1974 of the work of Ministry of Defence, Defence Land Agents.

2. PSA's responsibilities were last stated as "general responsibility for meeting needs of Central Government, the Armed Services and certain other public sector clients for land, accommodation, fixed installations and associated supplies and transport services".

and its aims as

"to meet clients' requirements efficiently, economically and in accordance with Government policies for the conservation and improvement of the environment, including the enhancement of standards^{of} design."

3. Today these responsibilities are largely unchanged, although the advent of the Property Repayment Systems on the Civil side ("PRS") has moved a small element direct to clients, and as it develops will do so to a greater extent. The method of fulfilment has changed as the private sector has taken a larger proportion of work - now 100% of construction, 40% of design, and 83% of maintenance (the balance being mostly operational or security sensitive).

4. These responsibilities are exercised with respect to 9000 civil holdings (market value £6 bn, equity value £3 bn) and a defence estate of over 1000 major establishments, over 80,000 married quarters, and a total value of the order of £7 bn. They are carried out by a staff of 28,000 (15,000 non industrial, 13,000 industrial), some 25% less than in 1979.

5. To fulfil these responsibilities the Agency is organised in a 4 tier structure of headquarters, Regions (10), Areas (34) and Districts (156), that structure stemming from the 1963 reorganisation.

6. The Agency is large, and its organisation is complex (see Appendix 1, section 1); and although the Agency performs to the reasonable satisfaction of most of its clients, some criticisms are heard persistently. To quote from a consultant's report to the PSA Advisory Board (July 1983),

"PSA is too big, too slow, too centralised. Its chains of command are too long; it delegates too little."

More recently the Wardale/Touche Ross report has criticised the Agency's systems, and has said management attitudes are "too complacent."

7. The objective of the proposals is to exercise the Agency's responsibilities more effectively by providing a modified structure and systems to overcome these criticisms while retaining and building on the strengths. This will enhance the Agency's ability to

- meet client needs
- speed response
- manage the overall Government estate
- get value for money

8. Proposals

The main elements of the proposals are (under a single Chief Executive, and shared PEO, PFO and professional support services):

- (a) to divide the organisation into two, one responsible for the Defence clients, and one responsible for Civil clients (the Civil Property Directorate or CPD), thus providing, for each client group, a single line of management control through the Agency; see Appendix 1 - section 2);
- (b) to reduce the number of tiers by one by merging the functions of the Regions and Areas into a single controlling tier;

(c) to develop the way the civil estate is managed; in particular to create locally based property managers responsible for all aspects of the maintenance and management of defined properties;

(d) to improve PSA's financial management and control through the introduction of "commercial style" management accounts incorporating property based delegated budgetary control systems. (This would accord with the FMI requirements);

(e) to change the organisation of the major design offices within the context of the two client based organisations.

9. Effect of proposals

(i) there will be a clear line of command from top to bottom in each of the two organisations, eliminating the present divided responsibility;

(ii) the number of offices above the level of the District will be reduced from 10 regions and 34 areas (ie 44) to 28 controlling tiers;

(iii) a clearer identification of responsibility at intermediate levels;

(iv) The Districts which handle 85% of expenditure in the territorial organisation will remain largely unchanged, thus imparting continuity and stability during the transition;

(v) improved design organisation with respect to allocation of major projects between HQ and local offices; and better relationship between capital projects and maintenance work;

(vi) numbers employed will fall by over 300 (out of 3400 directly affected in the Regions and Areas);

(vii) an ability to shape the organisations better to meet the needs of specific clients;

(viii) more manageable units. (Although the Civil side will be smaller than the Defence side, it will still be 2-3 times the size of the largest private sector property organisations)

Costs incurred are of the order of £11M over 2 years with a pay-back in 3-4 years (see Appendix 2).

10. Alternatives considered

Alternative ways of achieving the basic objectives while maintaining the present "multi client" basis of the organisation have been considered. The possibility of eliminating Areas within a multi client organisation was examined in 1980 and found to raise problems of effective management because of the wide gap between Regions and Districts, and to be very costly in terms of staff movement.

11. The current study therefore examined the merging of Regions and Areas to create 30 or so controlling tiers on a multi client basis. This however does not provide the opportunities stemming from items (i) (v) (vi) and (viii) of paragraph 9, and incurs roughly the same costs and dislocation as the preferred proposals. Most importantly it does not meet the need to

- eliminate divided responsibility
- shape the organisations to match specific clients needs

These alternatives were therefore rejected.

12. MOD ISSUES

12.1 MOD officials have indicated their support for the proposals which retain the advantages of merging the Navy, Army and Air Force Works Departments in 1963 but with improvements which will enable a better overall service to be given to the MOD. The proposals will also allow a greater alignment of boundaries of the PSA controlling tiers with those of the service commands.

12.2 The broader question of whether, once the Defence works and estates activities have been separated out, they should be transferred back to MOD is not directly affected by restructuring.

12.3 As far as works functions are concerned, the case for keeping within one Agency the whole of the Government construction and maintenance activities remains valid. The expertise and resources needed to handle them are more likely to be effectively deployed in a Department committed to such work, than in one where of necessity it would form but a small and relatively minor part of the total activity.

12.4 On the estate side, there are arguments for transferring the PSA defence estates function back to MOD and thereby to recombine policy and execution of estates and land issues into a single defence lands organisation. On the other hand, there are also arguments for keeping the estates work in PSA reinforced by the closer integration of works and estates functions under restructuring and the improvements in services and economy which this implies. The matter is under discussion between the two Departments.

13. Civil Clients Issues

13.1 The ability to serve the Civil clients will be enhanced because

- primary points of contact at levels above the District will be reduced from 44 to 8
- the new property managers will be the principal point of local contact in matters both of maintenance and estate management for individual properties, thus giving clearer responsibility within PSA and more direct point of contact for clients
- the Civil Property Directorate will evolve in a way determined by the needs of Civil clients

13.2 Possible adverse consequences will be neutralised because

- we shall seek to ensure the greatest possible delegation of authority to controlling tier managers.

- the special position of Scotland and Wales is recognised by the retention of existing PSA Directors (at present grades) in these locations

14. General Issues

- (i) PRS and Contracting Out The impact of restructuring will be felt in this area through the combination of the three factors of

the property manager role

the integration of Estates and Works function in management terms

commercial style accounts

These three elements will enable us to develop both budgetary control and accounts by individual property with the identification of responsibility on managers to utilize that information effectively. This will in due course enhance our ability to handle effectively, with discrimination by client and property, both the development of PRS and the alternative of contracting out.

- (ii) Wardale/Touche Ross Report (WTR) Ministers will be concerned to know if the restructuring proposals have a bearing on this. The answer is 'yes'; they will enable the main concerns of the WTR report

- improved systems
- change in management attitudes

to be followed through more effectively, helped by

- introduction of commercial style accounts
- property based delegated budgetary control systems
- clearer identification of responsibility at the property manager level
- quicker response time

Given the congruence of objectives of WTR and restructuring, they should be regarded as complementary and not competing priorities.

(iii) exchange of work between the two organisations

Of the total work load of £600 mn, some £36m will be carried out for geographical and cost reasons by the "other side" - £30m of Civil work (out of £170m total civil work) will be done by the Defence Directorate, and £6m of Defence work (out of a total of £432m) will be done by the Civil Property Directorate. Each party will be charged appropriately. The work will be held only by virtue of quality of service, as clients will in due course have the alternatives of bringing work back to their own side or subcontracting work to the private sector.

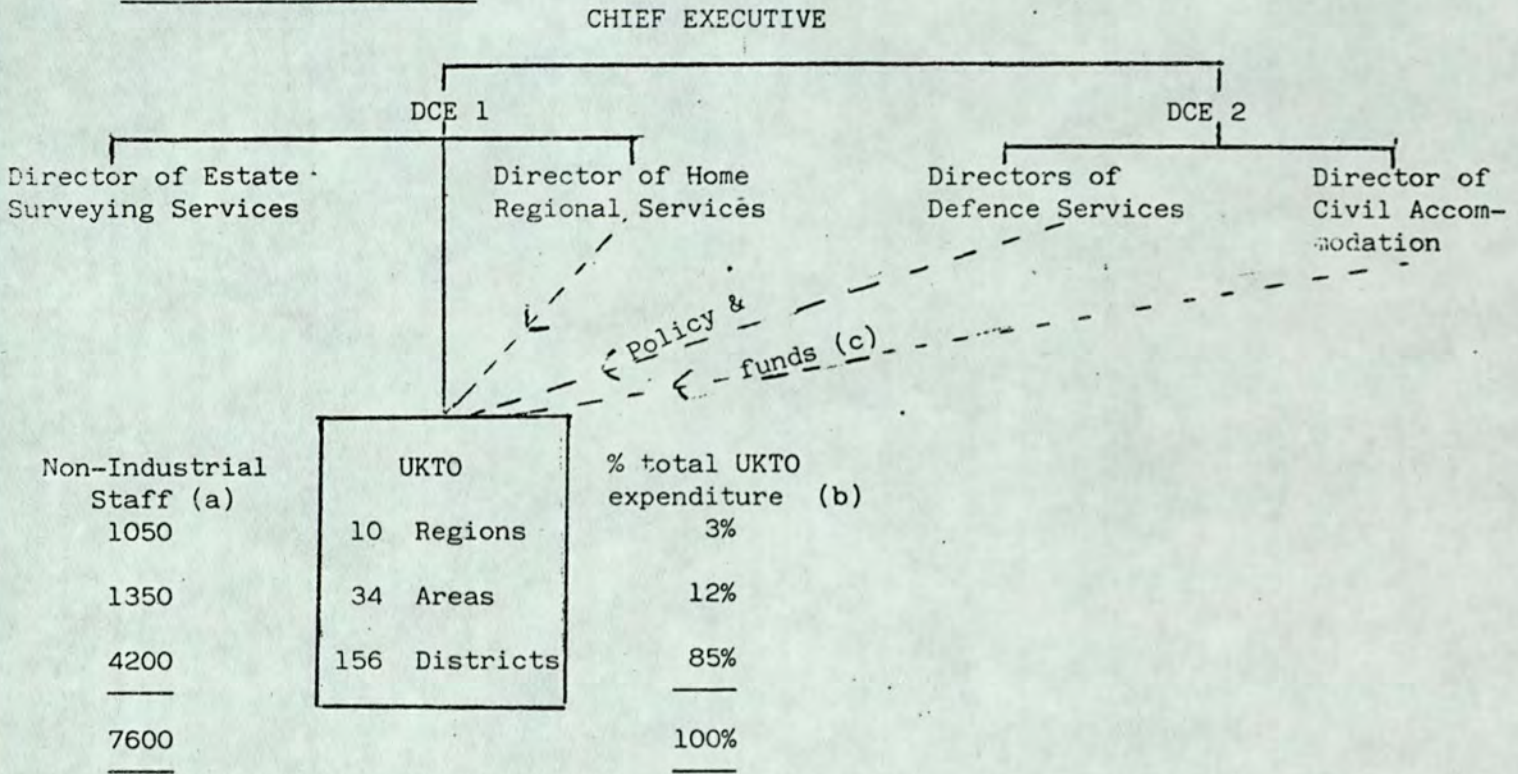
(iv) transitional problems No major restructuring is possible without some dislocation. It is intended to minimise any short term deterioration in service by planning the transition carefully but a major change in management may have some short term effect.

PSA

PRESENT AND POSSIBLE ORGANISATION STRUCTURE

(Simplified and excluding common elements of PEO, PFO, DGDS and HQ Design Offices)

1. EXISTING PSA STRUCTURE



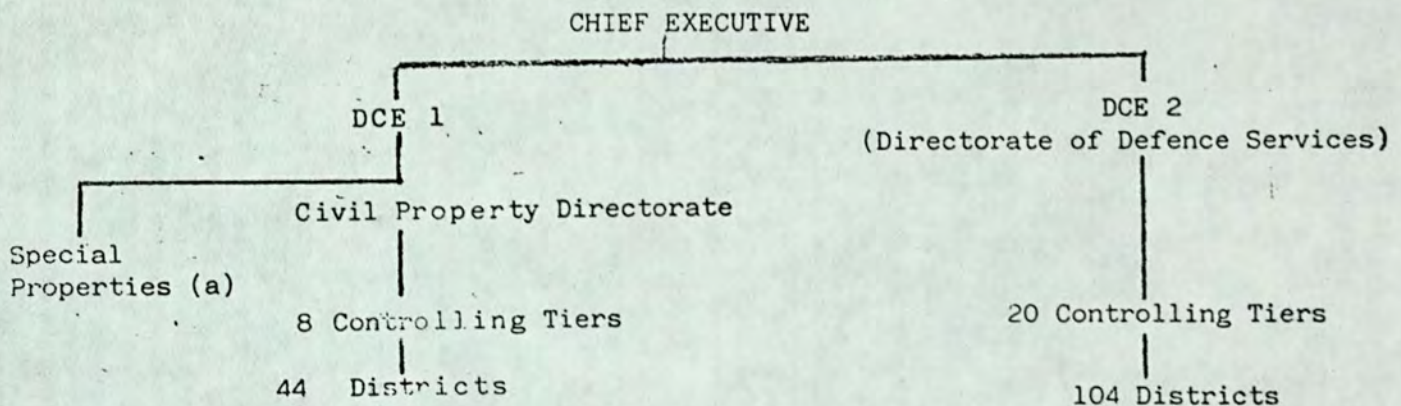
Footnote 1

(a) excluding Pt 1 and site control staff

(b) Related to immediate supervision of expenditure. Planning and support services derive from Areas and Regions

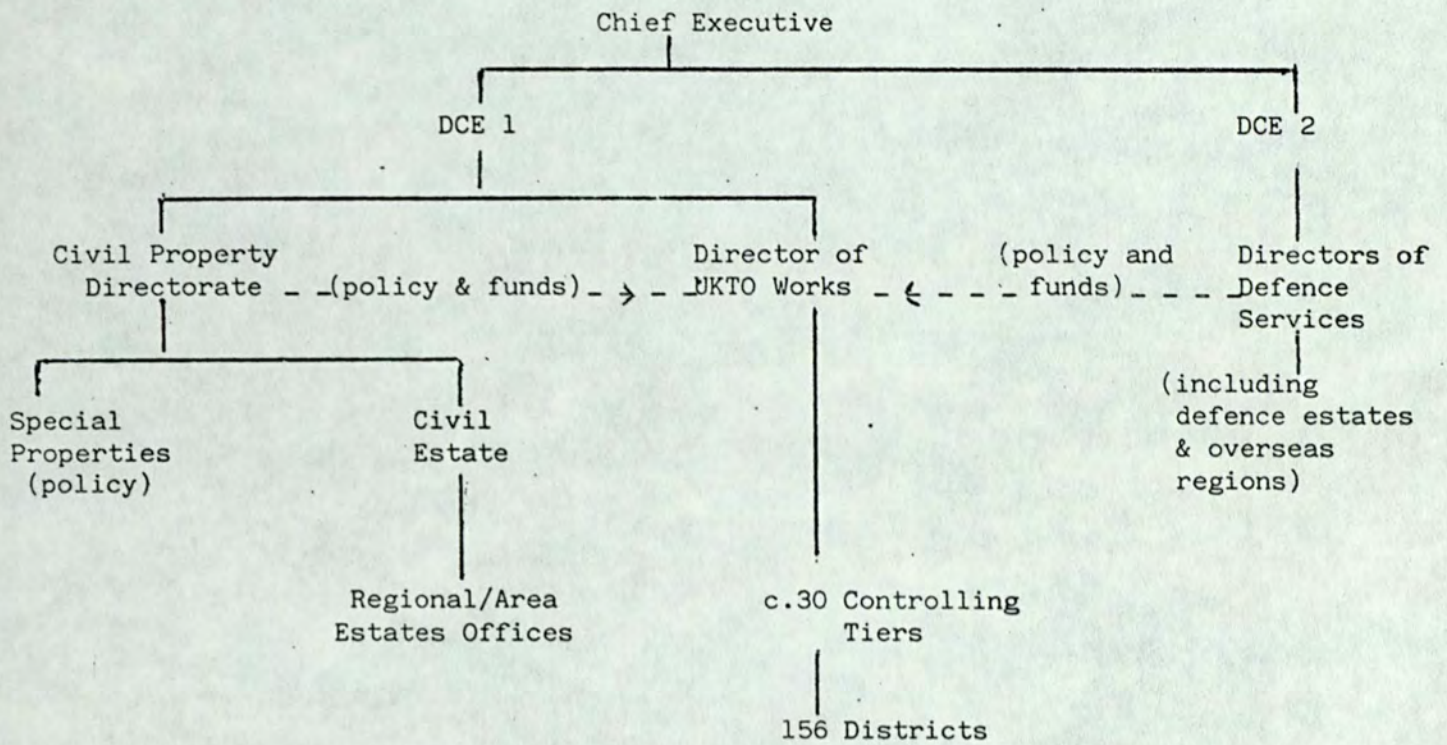
(c) About 40% of funds are spent direct by DDS and DCA; the other 60% by UKTO

2. PROPOSED STRUCTURE - (DEDICATION)



- NOTE 1 POLICY AND FUNDS FLOW ENTIRELY ALONG DIRECT MANAGEMENT LINES
 2 Total number of District Works Offices unchanged at 156
 3 10 Regions and 34 Areas replaced by 29 Controlling Tier offices
 (a) Museums, Galleries, Palaces, etc.

3. ALTERNATIVE STRUCTURE - (MULTI CLIENT)



RESTRUCTURING

to Annex A

COSTS/SAVINGS - PRELIMINARY ESTIMATES

The very approximate estimate of future costs and savings from 1.4.84 is as follows:

		<u>£ M. (to nearest £½ M. at constant prices</u>				
		<u>Year: 84/5</u>	<u>85/6</u>	<u>86/7</u>	<u>87/8</u>	<u>and there-</u> <u>after</u>
<u>COSTS</u>						
See Notes:	1.	New Computer systems	1.5	1.0	-	-
	2.	Commercial accounting and other systems	1.0	.5	-	-
	3.	Consultancy and other set-up costs	.5	.5	-	-
	4.	Staff movements	3.0	3.0	-	-
		TOTAL COSTS	6.0	5.0	-	-
<u>SAVINGS</u>						
	5.	Staff costs (annual saving)	.5	2.0	4.0	4.5
	6.	NET (COST)/SAVING	(5.5)	(3.0)	4.0	4.5

Notes:

1. New computer systems. These costs of £2.5M. for new computer hardware and software would have been spent in any case on computer development, had there been no restructuring; however the time of purchase has been brought forward to meet the restructuring timetable.
2. The Commercial accounting and other systems are specifically needed to meet the commercial approach and improved financial management and control implicit in restructuring.
1. & 2. These costs have been derived from figures calculated by Coopers & Lybrand in their initial feasibility study.
3. Consultancy and other set-up costs. The general cost of development and implementation, including such items as training, new procedures, teams' travel and subsistence, office accommodation changes etc.

4. Staff movements - being the cost of relocating 500 - 550 staff during the first two years at a calculated average cost of £11,000 per head.
5. Staff cost (annual saving) has been calculated on a phased basis, reflecting the estimated total staff saving of 300 people being achieved through restructuring. The calculation is as follows:

				<u>At an average of £15,000 pa per head</u>
				£M
By April 1985	50	Year 84/5	25	.375
April 1986	200	85/6	125	1.875
April 1987	300	86/7	250	3.750
		87/8	300	4.500

6. NET (COST)/SAVING - this reflects the initial transitional and set-up cost but with a long-term savings of £4.5 M. per year.

PROPOSED RESTRUCTURINGCOMMENT BY G.N. MOBBS, CHAIRMAN OF THE ADVISORY BOARD

1. The Advisory Board has been kept fully informed by the Chief Executive of his proposals to restructure the PSA. Generally the Advisory Board is in full support of the measures proposed though in certain matters of detail the Advisory Board does have reservations pending the outcome of the Chief Executive's detailed working proposals.
2. I am aware that the Chief Executive has been invited to submit papers justifying his proposals to the Treasury.
3. The proposed changes to the PSA were first suggested in the second quarter of 1982 and have been the subject of discussion both at the Advisory Board and with successive Secretaries of State. Whilst supporting the Chief Executive in his proposals of change, I have become increasingly concerned at the delay in implementing the proposals and the uncertainty created by the indecision affecting the future structure of the PSA. A firm direction either to proceed with restructuring or to maintain the status quo is an essential element in improving the morale and effectiveness of the PSA.
4. It is my personal view that change is needed in that change will in itself emphasize to people that new attitudes and procedures are required to the management of resources and that this will assist in implementing recommendations made by the Advisory Board, by the Wardale Enquiry and by others.
5. The Chief Executive in his paper accompanying his letter of 9th August 1983 has in paragraph 2 set out fairly the strengths and weaknesses of the present PSA. I would endorse his analysis and reaffirm the views of the Advisory Board which are set out in paragraph 2.3. Furthermore I would go so far as to say that without action being given to the changes, it is unlikely that the Government's estate can be managed in an economic and effective manner.

6. The proposals which have been set out are at first sight complex and do appear to have a far-reaching effect on the work of the PSA and its relationships with its clients. It might seem easy to adopt some of the proposals in part, particularly in so far as they reduce the number of management tiers. I would suggest that all the proposals made by the Chief Executive are, to a greater or lesser extent, interdependent one on the other and for example the removal of one UKTO tier and the merger of regions and areas by the introduction of a controlling tier is dependent upon the divisionalization of the PSA as between the civil and the defence content of the estate. Also the designation of satellite design offices again is relevant to the dedication of the management function.
7. Appendix E to the Chief Executive's memorandum sets out a preliminary estimate of the cost of savings of the proposals but it must be emphasized that if progress was made without changes, some expenditure would have inevitably have occurred by way of improved computerization and systems and the use of external consultants.
8. In my view, change is required in the PSA for the reasons already stated and the aims and objectives of any change must be to create clearer lines of communication and responsibility and greater cohesion between different management departments. This will also hopefully lead to a better identity with clients and a greater visibility of action. It is to be hoped that the present scrutiny of the proposals will lead to an early determination of the present uncertainty and that the PSA management can be given the approval to go ahead to improve the service rendered by the PSA.
9. * Annexed to this memorandum are copies of:-
- a) A file note of a meeting held on December 7th 1982 to discuss the proposed property division.
 - b) A file note of a meeting held on 11th January 1983 to discuss UKTO restructuring.

* ANNEXES NOT CIRCULATED.

GNM/amb.

23.8.83

Clive Selman
Long-term
p. 14

3 NOV 1988





2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

28 October 1983

*Dmb
28/10*

Dear David

PSA RESTRUCTURING

/ I enclose a copy of the note which we discussed on the telephone today.

Yours sincerely

John Ballard

JOHN BALLARD
Private Secretary

David Barclay Esq
No 10.

PROPERTY SERVICES AGENCY: RESTRUCTURING

Trades Unions in the Property Services Agency are being consulted about a possible restructuring of the Property Services Agency. MPs with PSA offices in their constituency are also being informed.

Detailed proposals, upon which the Trades Unions are being given 3 months to comment, were sent to the Unions today. It has been stressed that these proposals are for consultation. No ^{discussion} ~~discussion~~ has yet been taken to implement them or any other specific scheme for restructuring.

The two main elements of the proposals are

(i) to reduce the existing 3 tier organisation outside HQ to 2 tiers, essentially by merging the functions of the regional and area levels into one. The existing network of local district works offices, which handle the bulk of PSA's day to day work for departments will be largely unchanged;

(ii) to separate into two distinct organisations within the overall framework of the Agency

a) work for civil clients

b) work for defence clients.

Overall the effect would be to reduce the present 10 regional and 34 area offices to a total of 28 "Controlling Tiers". Present estimates are that measured against the Agency's 1.4.84. manpower ceiling some 450 posts would be saved. Within that overall reduction there would also be some movement of existing jobs, and some 550-600 non-industrial staff out of a total of more than 14,500 might have to move from their

present locations. The proposals would not, in themselves, affect the present distribution of the 14,000 or so industrial staff. Further details of the effect of the proposals are contained in the enclosed copy of a letter from the Chief Executive of the Agency to management staff.



Department of the Environment

PSA

Property Services Agency

Chief Executive A. Montague Alfred

2 Marsham Street London SW1P 3EB
Telephone 01-212 7651

28 October 1983

All Directors
All Area Officers
All District Works Officers

Dear Colleague

RESTRUCTURING

The Secretary of State has agreed that the detailed papers prepared to meet the June 30th requirements and later the September 30th requirements should now be made available for discussion with management and with the TUS.

Copies have today gone to the TUS, and I enclose a copy for you. The agreed time for consultation with the TUS is three months; and during this period the details in the paper will be subject to further examination by management with the great advantage that there can be open discussion.

Given the length of the attached papers, it is worthwhile my summarising in this letter the main points.

1. The proposals

These are in line with the preferred set of options indicated by the Secretary of State last April, but now extended more specifically with respect to part I design organisation. They are:

- (i) to divide the operational organisation of PSA into two: one essentially responsible for the Defence clients, and the other essentially responsible for Civil clients (the Civil Property Directorate, or CPD), with a small amount of cross-working between the two organisations;
- (ii) to reduce the number of tiers by merging the functions of the Regions and Areas into a single controlling tier;
- (iii) within the Civil Property Directorate to establish the role of the Property Manager and to introduce "commercial-style" management accounts. These will build on new property based delegated budgetary control systems, which will be common to both civil and defence.

(iv) to replace the existing territorial Part I Design Offices by

(a) creating 6 satellite Design Offices operating in the Defence field, controlled by DDS in London;

(b) integrating the Civil Part I Design Work into the civil controlling tiers which will also handle Part II and Part III design work.

2. Effect of proposals

(a) The 10 Regional Headquarters and the 34 Area Offices will be replaced by 28 controlling tier offices, of which 20 will be within the Defence Directorate, and 8 will be within the CPD (in addition there will be one handling special properties in London)

(b) The staffing proposals shown in the attached papers, indicate that numbers employed will fall by 447. This is out of a total 1/4/84 ceiling of some 9,900 in UKTO and 14700 in PSA as a whole (excluding Supplies but including USAF).

(c) Within this overall reduction there will be "new" jobs created for 550-600 mobile staff offset by a loss of a similar number of mobile jobs in present locations. It may be that the changes from old posts to new posts will require this number of staff to move location; but until an actual match of individuals with jobs has been taken, we are unable to be firm on this point;

(d) on the non mobile side, present estimates are that about 550-600 posts will be lost at present locations, offset by about 150 new non mobile posts in the new offices.

(e) The staffing and distribution of Districts Works Offices are substantially unchanged. There may be 8 new DWOs mainly through the upgrading of existing sub districts, 5 others which are changed from a full District to a subdistrict and 2 closures. In addition a number of existing sub districts will change reporting lines to a different DWO. Overall the number of people employed in district works offices is likely to rise by about 50 (taken account of in the 447 in para b)) and there is unlikely to be any significant amount of staff relocation at this level.

3. The above are the main elements of the proposals. But there are a number of important points to emphasise:

(i) They are in fact proposals, subject to consultation on both the principles and the details with the trade union side. There is as yet no government decision to implement this or any other specific scheme.

(ii) Whatever changes are eventually decided there will be a considerable period of implementation. Government policy continues to be that reductions in non industrial staff shall wherever possible be by natural wastage or redeployment. The period of implementation, would be likely to stretch over a period of 24 months. This should give flexibility to enable us to meet the personal needs of individuals, wherever possible, and to redeploy non-mobile staff elsewhere in PSA or in other Government departments.

(iii) A prime concern of the Agency during the process of implementation will be to maintain service to clients with the minimum of disruption. To this end I anticipate the establishment of a number of local planning and implementation teams covering the whole PSA organisation, working with a central implementation team in London. The detailed timetable for implementation will be dependent on the outcome of consultation, and final Ministerial decisions, and cannot yet be finalised.

(iv) There are of course a considerable number of other matters requiring implementation within UKTO and in some cases, other parts of the Agency as well - such as the Rayner (Draper) Report, the WTR recommendations, the Lutgens report on personnel management, the Contracts study and the DWO working party. It is important that these be seen in the context of the restructuring proposals. The implementation of the recommendations of these existing studies will be very much in the minds of the restructuring planning teams. These, together with restructuring itself, will be instruments through which the change in management attitudes that is called for by the WTR report should become effective.

4. Particulars of offices changing their size as a result of the proposals are given in Annex G of the attached papers. I am enclosing a further schedule which is based on the change in the number of jobs at each location rather than organisational changes.

5. The effect outside London, which as a whole is largely unchanged, can be summarised as follows:

Summary of effect on staffing in present offices (excluding London)

	*Regional/Area Offices	District Offices	Total
Increases	15	12	27
Significant decreases	7	3	10
Small decreases	4	7	11
Closures	6	2	8
No change	-	106	106
	—	—	—
	32	130	162
	—	—	—

*Co-located Area/Regional offices counted as 1

6. In addition to the above figures 3 existing sub-districts are upgraded to full district status and 5 additional District Offices are proposed.

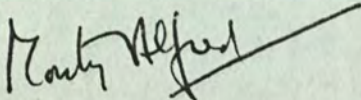
7. The underlying message from this table is that the great majority of those now working in PSA will continue doing their present jobs: and in particular the handling of work by the DWOs will be largely unaffected.

8. I appreciate that for those involved in change, whether of workload, environment or location, this is no consolation. But I assure those concerned that our policy is - and will continue to be - to handle such changes in a way as to minimise personal hardship.

9. This letter and the attached documents are another step on the path towards restructuring PSA to enable it to meet the calls on its services and expertise more effectively. No decisions have yet been taken, but if the proposals are implemented they will in due course produce not only a better service to clients, but a more rewarding environment for all staff in PSA.

10. Finally I would thank those staff who have already put considerable time and effort into the restructuring considerations. If the proposals are proceeded with I am mindful of the additional call on resources that the planning and implementation will impose; but believe that with your support and commitment, the change can be handled in a way that does not jeopardise our service to clients.

Yours sincerely

A handwritten signature in cursive script, reading "A M Alfred", with a long horizontal line extending to the right from the end of the signature.

A M ALFRED



FILE

RS

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

PSA:WARDALE/TOUCHE ROSS (WTR) REPORT ON IRREGULARITIES

I have shown to the Prime Minister your minute of 5 October (A083/2776). Against the final sentence of your minute, which suggests that the Chief Executive should consider putting back his proposed implementation date of 1 April, 1984 for re-structuring by 6 - 12 months to allow resources to be concentrated on other tasks, the Prime Minister has commented:-

"I think that other considerations require re-structuring".

R. E. R. BUTLER

6 October, 1983

CONFIDENTIAL

CF

Prime Minister

1



Sir Robert Armstrong is suggesting that restructuring of PSA, far from helping with the problems highlighted in the Touche Ross report, will divert attention and resources from dealing with them; and that the target date for re-structuring should be postponed by 6-12 months.

Ref. A083/2776

MR BUTLER

I think that other reports require restructuring

PSA: Wardale/Touche Ross (WTR) Report on Irregularities

consideration

Shall I put this point to Mr. Jenkin's office?

I have just seen a copy of the Secretary of State for the Environment's minute of 30 September covering a proposed statement on this report.

FERB 5.10.

2. I have no comments on the statement, which seems to me to make the best it can of some very difficult material. I am sure it is right to concentrate on the action Ministers are taking and have already taken to improve matters, rather than to take time on generalised defence. But the Prime Minister will be aware that the adverse publicity we can expect as a result will have a depressing effect on morale in the Civil Service, not just in the Property Services Agency. The publication of the report so soon after the publication of the White Paper on Financial Management may also lead to unhappy comparisons of management systems and MINIS in the White Paper and the Wardale/Touche Ross account.

3. You will of course have noted that Mr Jenkin does not now propose to hold up publication until decisions are taken on the proposals for restructuring the Agency's territorial organisation. I think this is right. We are still some weeks away from a Ministerial discussion of the proposals on the basis the Prime Minister suggested, and postponement of publication even for that period does unfortunately carry with it the risk of leaks to the press. Although the Environment Secretary notes in his minute to the Prime Minister that the restructuring proposals would produce tighter and more manageable units, the main solutions to PSA's problems clearly lie elsewhere, as the authors of the report say in their introduction. It must also be the case that time and effort spent on restructuring will not be available to deal with the necessary improvements in management control. Indeed it is likely to be more difficult to enforce



strict management control during a period of organisational change. That might suggest that the Chief Executive should consider putting back his proposed implementation date of 1 April 1984 by 6-12 months to allow resources to be concentrated on other tasks.

Re
Approved by
ROBERT ARMSTRONG
and signed in his absence

5 October 1983

conqueror

CONFIDENTIAL



c.c. Press la

10 DOWNING STREET

From the Private Secretary

3 October, 1983.

Dear John,

PSA: Wardale/Touche Ross Report on
Irregularities

The Prime Minister has seen your Secretary of State's minute of 30 September and agrees that this report should now be published as soon as possible.

I am sending copies of this letter to John Kerr (HM Treasury), Tony Rawsthorne (Home Office), Richard Mottram (Ministry of Defence), Muir Russell (Scottish Office), Colin Jones (Welsh Office), Steve Godber (Department of Health and Social Security), Barnaby Shaw (Department of Employment), Dinah Nichols (Department of Transport), and Richard Hatfield (Cabinet Office).

Yours sincerely

Andrew Turnbull

John Ballard, Esq.,
Department of the Environment.

CONFIDENTIAL

CONFIDENTIAL

c No.
cc Press Office



Prime Minister

Agree to X subject to colleagues?

Yes no

AT 30/9

PRIME MINISTER

PSA:WARDALE/TOUCHE ROSS (WTR) REPORT ON IRREGULARITIES

Sir Geoffrey Wardale and Mr Herron sent me on August ³ the final report on PSA. Ian Gow spoke to you about it on 11 August and you and I discussed it further on 14 September. At that time I was minded to publish the report at the beginning of the parliamentary session but I have now decided to publish it as soon as possible. This will minimise the risk of any leaks to the press and will also help to clear the air in PSA - at present the report is hanging over the heads of senior staff. I propose therefore to hold a press conference on Wednesday for the publication; I enclose a copy of the statement I propose to make.

attached

Flag A

The report is based upon an examination of 49 cases of fraud and corruption identified between 1976 and 1982, mainly concerned with maintenance where - to set the scale - we process some 1½ million orders a year.

I enclose a copy of the report: you may find it convenient to read the summary in Section 2 (pages 3 and 4).

Flag B

The report is highly critical of the Agency and will attract adverse publicity when it is published. PSA Management has already taken action on some of the management system changes following the interim report on February but others need further study. But the thrust of the recommendations, to improve management attitudes and improve management information, is wholly accepted. WTR have not however made it easy for us to get the message over to the staff. The language in which the strictures are couched will undoubtedly inhibit its acceptance. However, I have instructed the Agency to set in hand a series of measures to implement the report, with great stress being laid on personal visits by top management to ensure action on the ground. I, together with

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Ian Gow and George Young will take a close personal interest in the follow-up.

One of the overriding problems is the size and organisation of the Agency. As you know, I believe that the restructuring proposals put forward by the Chief Executive (and still subject to examination) will produce tighter, more manageable units and hence enhance our ability to meet the criticisms of the WTR Report.

PSA does not, of course, operate in a vacuum. It exists to serve other Departments and the attitudes of my colleagues are important to the way in which PSA carries out its work. I shall need their help in ensuring that their people on the ground understand what we in PSA are trying to do and help us achieve it. I am therefore copying this minute and enclosures to those of my colleagues who have a major interest in the estate - Nigel Lawson, Leon Brittan, Michael Heseltine, George Younger, Nick Edwards, Norman Fowler, Norman Tebbit and Tom King. A copy also goes to Sir Robert Armstrong.

L. Williams

PJ
(approved by the Secretary of
State and signed in his absence)

30 September 1983

CONFIDENTIAL

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A

DRAFT STATEMENT AND PRESS NOTICE

In the aftermath of a number of cases fraud and corruption in the Property Services Agency, my predecessor, Michael Heseltine, told Parliament on the 29th April 1982 that he had commissioned a report from Sir Geoffrey Wardale (a former second Permanent Secretary in the Department of the Environment) and Mr Anthony Herron (a senior partner in Touche Ross), to investigate the circumstances of these disturbing cases and to recommend what changes in procedure or organisation are desirable in the light of the findings. Sir Geoffrey and Mr Herron produced an interim report in February 1983 and have now completed their final report. A copy has been placed in the library of the House of Commons. A summary of the conclusions of the report is attached.

Copies of the full report are available

Some 49 cases were identified in the years between 1976 and 1982 principally in the area of maintenance and supply. This report deals with the management structures, management procedures and management attitudes which in the view of the authors facilitate the incidence of fraud and corruption within the Agency. The report is very critical of deficiencies in the management systems and of management attitudes, and it concludes with a number of recommendations for improved control mechanisms not only to minimise fraud and corruption but also to get better value for money.

Mr Jenkin said,

I take this report very seriously indeed. I am sure it is right that it should be published. It is one of the strengths of our system that when things are seen to have gone wrong we do not attempt to conceal or fudge

~~CONFIDENTIAL~~

CONFIDENTIAL

P. 3

Since the publication of the interim report, a large number of the specific recommendations have been or are being implemented. These include: clarification of the responsibility of staff involved in the management of contracts; strengthening the arrangements in random checking of orders; a new commercial attitude has been introduced towards the nominated quantity surveyors the Agency employs; annual certification of accounts of individual staff estimates has been discontinued; reminders have been sent to all staff of the dangers of patronage. A number of other changes called for in the report will be implemented over the months ahead.

In so far as the report criticises management effectiveness in the PSA, Ministers must of course carry their share of responsibility. We have a duty to see that agencies under our control are effective and economical. It is our responsibility to set them clear objectives and establish clear priorities. I have told the Chief Executive of the Agency that I regard value for money and managerial effectiveness as one of the first priorities for PSA. I am of course responsible to Parliament for the work of the PSA and in discharging this responsibility I have the help of Ian Gow and Sir George Young. I mean to take a very close interest in the work of the Agency and we are already well advanced on studies designed to simplify and shorten lines of managerial accountability and to improve services to client departments.

The staff at the Property Services Agency carry out much fine work of high quality. Often they do not get the credit which they deserve for this. This report is concerned with a relatively small part of the Agency's business, but it is my hope and intention that the lessons to be

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CONFIDENTIAL

P. 2

the issues but bring them into the light of public scrutiny and public debate. We in Britain are fortunate in having one of the most incorrupt Civil Services in the world. But when standards are shown to have fallen short of the ideal, the public are entitled to know the facts and to know what is being done to put things right.

It is also right to put the cases into context. Compared with the enormous number of small maintenance orders - 1½m per year - which the Agency handles, the number of cases discussed in the report is very small indeed.

It is in the realms of management systems and management attitudes that the report calls for changes, and I am determined that the changes should be carried through.

Since the present Government took office a lot has been done to secure the changes of attitude that we need. An advisory Board for the PSA whose members include a number of people from the Private Sector has been appointed and the expertise which they can bring to bear is already improving the effectiveness of the Agency. We have appointed a Chief Executive from the Private Sector who is bringing a new perspective to the Agency's work. We have greatly increased contracting out to the private sector; we have reduced the direct labour force in PSA by 30% since April 1979; we have rationalised the civil estate and reduced it by 11% (2.4m square feet) in the same period; and we have disposed of estates worth £266m (civil and defence). PSA supplies has been developed on a trading fund basis, and a system to make Departments more aware of the cost of maintaining property (the Property Repayment System) has been introduced. Audit and management systems have been strengthened. ~~management systems have been strengthened.~~

CONFIDENTIAL

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learned from the report should be applied as appropriate throughout the Agency.

I end as I began. We are treating this report with the seriousness it deserves. I am asking management at all levels to take to heart the strictures and recommendations contained in the report. In coming to grips with the problems they face, they have my full support. The Agency performs essential services for Government and it is right and proper that we should expect the highest standards from them both personal and professional.

If there is any further action I need to take to achieve these objectives I shall not hesitate to do so.

CONFIDENTIAL

620



1. Andrew Turnbull AS 29/9

2. Robin Butler O/R

To see.

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

29 September 1983

Dear Michael

I mentioned that my Secretary of State had agreed to meet the PSA Trade Union side next Tuesday, 4 October, on proposals for restructuring the PSA. The meeting was requested by the Trade Union side who are anxious to have an opportunity to put their views to the Secretary of State.

The Trade Union side have not yet had any papers on restructuring and the Secretary of State will not of course be able to forecast what decisions will be taken by Ministers. The meeting will therefore be primarily an occasion for the Secretary of State to hear the Trade Union side's views.

I am copying this letter to Richard Hatfield and Margaret O'Mara.

Yours sincerely
L. Robinson

LUCY ROBINSON
Private Secretary

Michael Scholar Esq



10 DOWNING STREET

From the Principal Private Secretary

23 September, 1983

PERSONAL AND CONFIDENTIAL

Restructuring of PSA

At your Secretary of State's request, I had a word with Mr. Bailey of the Treasury, and told him that the Prime Minister had agreed with Mr. Jenkin that it would be desirable for the Government's ideas on restructuring to be sorted out before the Wardale/Touche Ross report was published, and also that she would favour some restructuring which would make it possible at some stage to restore responsibility for defence services to the Ministry of Defence and find a different solution for the civil estate. But it would be wrong to represent the Prime Minister's view as carrying more precision than this and I think that it would be right for your Secretary of State to reply substantively to the Prime Minister, as proposed in Helen Ghosh's letter of 4 August, before decisions on the future restructuring of PSA are completed.

R. E. R. BUTLER

John Ballard, Esq.,
Department of the Environment

Civil Service
System P413
cc [redacted] [redacted]



DSC
[Handwritten mark]

10 DOWNING STREET

From the Principal Private Secretary

14 September 1983

At his talk with the Prime Minister this evening, your Secretary of State mentioned the Wardale Touche Ross report on PSA. He said that in his view the report would have to be published, but it would require careful handling, both in relation to the forth-right criticisms which it contained and in relation to PSA's morale, of which the fragility had been demonstrated by a recent report on the image of PSA in the eyes of its own employees and of those who had to deal with it. Your Secretary of State said that he was proposing to publish the report after Parliament had reassembled, by which time he hoped that it would have been possible to formulate proposals about re-structuring which would demonstrate that the Government had been getting to grips with the problems highlighted in the Wardale Touche Ross report. Your Secretary of State said that he would also be consulting the Secretary of State for Defence and the Secretary of State for Transport, as previous Secretaries of State for the Environment, about their reactions to the report.

The Prime Minister noted the way in which your Secretary of State proposed to handle this report, and agreed with his view about the desirability of being able to announce the action which the Government was taking to deal with the problems identified in the report by the time it was published.

F. E. R. BUTLER

John Ballard, Esq.,
Department of the Environment.

PSA

Property Services Agency

**WARDALE ENQUIRY
FINAL REPORT TO THE
SECRETARY OF STATE
FOR THE ENVIRONMENT**

August 1983

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT TO THE

SECRETARY OF STATE

FOR THE ENVIRONMENT

AUGUST 1983

Sir Geoffrey Wardale, K.C.B.
4 Cranedown,
Lewes,
Sussex.

Anthony G. Herron, F.C.A.
Hill House,
1, Little New Street,
London EC4.

The Secretary of State for the
Department of the Environment.

3 August 1983

Dear Secretary of State,

WARDALE ENQUIRY INTO RECENT CASES OF FRAUD AND CORRUPTION

IN THE PROPERTY SERVICES AGENCY

We have completed our investigation of the circumstances of recent cases of fraud and corruption in the Property Services Agency. Our enquiries have covered all cases in the Midland, London, South West and North East Regions of the Property Services Agency United Kingdom Territorial Organisation and thirteen selected cases in the remaining six Regions. This Final Report supercedes our Interim Report submitted in January 1983 which was based on our findings in the Midland, London, South West and North East Regions only.

Principal Findings

In the light of those cases which we have examined, we make some serious criticisms of management attitudes and of the relevant systems and procedures in the Property Services Agency. We believe that the recommendations we have made need to be implemented as a matter of urgency and that strong leadership will be required if the problems are to be rectified.

Action taken following our Interim Report

Following the submission of our Interim Report, a letter was sent to all Regional Directors by the Chief Executive on 11 February 1983, requesting immediate action on several points relating principally to Measured Term Contracts.

In April 1983 a discussion paper was sent to all Regional Directors. This covered the majority of the points raised in our Interim Report. We understand that an action plan based on this discussion paper is currently being formulated.

Systems of Internal Control

Our enquiries have shown that the present systems of internal control operating within the Property Services Agency are largely ineffective in either preventing or detecting irregularities. No system of internal control will be foolproof against fraud and corruption, particularly where this involves collusion. We believe, however, that the implementation of our recommendations will strengthen the preventive controls as well as ensuring that any irregularity stands a greater chance of being detected promptly.

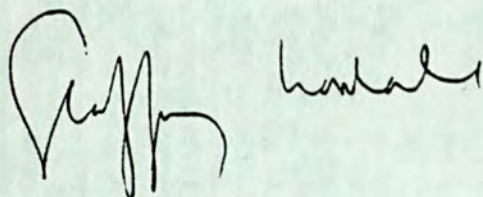
Implementation of Recommendations

Our recommendations have been drafted on the basis of the present structure of Regions, Areas and Districts but we consider that they would be equally applicable under the proposed, revised structure of Controlling Tiers and Districts. We do not believe however that organisational change can be relied upon to secure either the redirection of management attitudes or significant improvements in internal control systems. Unless these problems are tackled directly and with the highest priority, there must be a clear risk that any organisational change would simply be cosmetic and that present practices and attitudes would be unchanged.

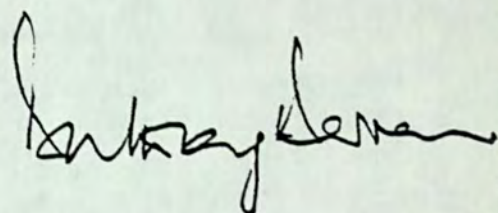
We do not consider therefore that the proposed reorganisation provides any justification for delaying the implementation of any of our recommendations.

We shall be pleased to provide any further assistance you may require on the matters covered in our report.

Yours sincerely,



Sir Geoffrey Wardale



Anthony Herron

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

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PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

1. INTRODUCTION

1.1 TERMS OF REFERENCE

The terms of reference of the Enquiry were defined as follows in our letter of appointment dated 5 May 1982.

'To investigate the circumstances of recent cases of fraud and corruption in PSA and to recommend what changes in procedure or organisation are desirable in the light of your findings'.

We took as the basis for our investigation sixty-one cases of irregularity reported to PSA's Financial and Professional Accountants Unit over recent years. The reference numbers used in connection with the cases are those assigned by F/PAU.

In January 1983 at the request of the then Secretary of State we submitted an Interim Report which recorded our findings from reviews of those cases in the Midland, London, South West and North East Regions of the PSA UKTO.

We were instructed on 21 April 1983 to extend our investigation to cover a further thirteen cases in the remaining six Regions of the PSA UKTO. This report sets out our findings from both stages of our Enquiry.

1.2 BACKGROUND INFORMATION

PSA has as its object the construction, maintenance and furnishing of buildings required by both Civil and Defence Government departments, who are its clients.

This Enquiry has been concerned principally with expenditure on minor new works and maintenance. This amounted to £685 million in the year ended 31 March 1982 as indicated in the 1981/82 Annual Report. During the same period, £405 million were spent on major new works, which were not the subject of any of the cases presented to this Enquiry.

The PSA UKTO consists of ten Regions sub-divided into thirty-four Areas, which are sub-divided into one hundred and fifty-four Districts. The majority of minor new works and maintenance expenditure is incurred at Area and District level.

Only six of the cases which we have considered concern PSA Supplies which functions separately from the Works organisation. The majority of our observations and recommendations therefore relate to the Works organisation.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

1.3 APPROACH ADOPTED

Our approach to each of the cases has been to carry out a review of those systems which were involved in the irregularity.

We were provided with the Codes which, we were informed, contained details of these systems. Since they did not show the systems in an easily understandable form, we prepared flowcharts detailing all aspects of the systems relating to each case. These were prepared on the basis of discussions with officers at the locations of the cases and agreed with the appropriate Regional staff. We also identified in each system the errors which might occur in its operation, and considered the effectiveness of the preventive and detective controls which respectively should prevent such errors occurring or detect them.

During the course of our enquiries, eight Regional Offices, nineteen Area Offices and twenty-nine District Works Offices were visited and discussions held with the appropriate officers at each location. In addition we have had meetings with a number of senior officers at Headquarters.

We also met the Comptroller and Auditor General, and senior officers in the Exchequer and Audit Department to obtain their views on the problems.

Discussions were held with senior officers of Scotland Yard Fraud Squad, Thames Valley Police and MOD Police, Devonport concerning cases under their investigation.

Finally we have considered the report of the Rayner study on District Works Offices.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

2. SUMMARY OF CONCLUSIONS

We have identified a number of problems and have made certain recommendations based on our review of the cases.

2.1 PRINCIPAL PROBLEMS IDENTIFIED

The fundamental problem which we have identified relates to management's reluctance to acknowledge that problems exist and its lack of vigour in handling them when they are identified. We believe that this indicates a degree of complacency on the part of management which is reflected in its attitude towards dishonesty and fraud (see section 4.2).

This problem has resulted in a failure by management to recognise that there are shortcomings in respect of a number of important matters:

- a. the concept of financial control is not sufficiently understood (see section 4.3);
- b. management control techniques are inadequate either to prevent or to detect cases of irregularity (see section 4.5);
- c. the policy for disciplinary action against both staff and third parties is unsatisfactory (see section 4.6).

Furthermore, where management has identified that a problem exists, for example, that the existing management information system is defective, prompt action has not been taken to ensure that the deficiency has been rectified (see Section 4.4).

2.2 PRINCIPAL RECOMMENDATIONS

It is only by recognising and resolving the fundamental problem noted above that PSA management will operate effectively. In addition to this basic change in management attitude, we consider that the following recommendations should also be implemented:

- a. a budgetary control system should be introduced for all expenditure (see Section 5.2);
- b. a new management information system should provide the information necessary for proper financial and budgetary control (see Section 5.3);
- c. Regional Management Inspection Teams should be formed to give Regional management an annual assurance of the proper operation of their Areas and Districts (see Section 5.4);
- d. in the management of contracts, the respective responsibilities of all staff should be recognised (see Section 5.5);
- e. management should take a more commercial approach to various of its activities, where existing controls may not be cost effective (see Section 5.6);

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORT2.2 PRINCIPAL RECOMMENDATIONS (continued)

- f. a more dynamic approach to staffing, training and disciplinary matters is required (see Sections 4.6 and 5.7).

For the effective management and control of PSA operations, we believe that all the above recommendations need to be implemented as a matter of urgency. This will help to ensure that PSA has a strong system of internal control, which together with positive management will minimise the possibilities for instances of fraud and corruption.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

3. THE CASES OF FRAUD AND CORRUPTION

3.1 INTRODUCTION

It was agreed with senior management of PSA at the outset of this Enquiry that our approach would be to review the cases on a Regional basis. Our Interim Report was based on our review of the thirty-seven cases in the Midland, South West, London and North East Regions. It was further agreed in April this year that of the twenty-four cases in the remaining six Regions of PSA, thirteen (including one previously covered in part in the North East Region) should be subject to a restricted review. It is from a review of these forty-nine cases, which are listed in Appendix I, that our observations have been drawn.

A number of matters has been brought to our attention which we consider should have been reported to F/PAU and a case file opened. We make this point to draw attention to the fact that the cases presented to this Enquiry do not necessarily include all possible instances of fraud and corruption in PSA.

It should be noted that all of the cases which we have reviewed have concerned minor new works or maintenance expenditure. None of them involves major new works which account for approximately one half of PSA's annual expenditure.

3.2 FRAUD AND CORRUPTION

We consider fraud and corruption to include deliberate deception or bribery for personal gain. This may or may not involve collusion. Fraud may be perpetrated against PSA without the positive involvement of PSA staff but in such cases there will always be passive involvement, since all payments made by PSA require positive authorising action.

Some of the cases involve non-beneficial patronage, non-compliance with departmental procedures, minor theft and pilferage. Whilst reprehensible in varying degrees these matters would perhaps not generally be regarded as fraud and corruption.

3.3 CATEGORISATION OF CASES

In Appendix I we have given a brief description of each case and have categorised the cases as follows:

- A - important cases involving fraud and corruption;
- B - cases involving fraud and corruption which individually are not apparently significant, but which collectively cannot be ignored;
- C - minor cases involving fraud and corruption;
- D - cases which we have been unable to assess due to lack of information;
- E - cases not apparently involving fraud and corruption.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES

The following review of the category A cases does not attempt to relate the detailed facts of each case. It is intended to illustrate those procedural or organisational deficiencies which we have identified in relation to each case.

Case Number 21

This is an important case in view of the length of time taken to assess the overcharge to PSA, the limited scope of the internal investigation which was carried out and the continued use of the contractors involved.

These factors illustrate certain shortcomings in management's attitude towards fraud and corruption since it failed to ensure that the investigation identified the extent of the monetary loss to PSA, which was not established until four years later, and failed to ensure that the procedural weaknesses identified by the investigation were corrected.

Case Number 47

This case demonstrates that where both authority and responsibility are delegated to a technical officer there is no effective challenge to the performance of his duties by his immediate supervising officer. Furthermore, since the technical officer was in collusion with a contractor, monetary loss to PSA resulted.

No disciplinary action was taken against any of those individuals who should have supervised the technical officer.

Case Number 62

In this case a PSA officer was convicted for submitting fraudulent travel and subsistence claims over a period of two and a half years which resulted in substantial monetary loss to PSA.

The case illustrates both the failure to make use of available management information and the failure to recognise the responsibilities of officers in supervisory roles.

Although adequate information was available for the fraud to have been detected, this was not used properly and no disciplinary action was taken against those responsible.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 66

In this case management failed to carry out a sufficiently comprehensive investigation following the conviction of a number of staff at a District Works Office for the misappropriation of stores items. Although the extent of the losses from the Daily Issue Stores was assessed, no consideration was given to the possibility of losses arising from stores delivered direct to site. In view of both the number of staff involved and the volume of direct deliveries, it appears that a potential problem could have existed.

Case Number 67

The fundamental problem in this case was that the majority of staff at a District Works Office was involved in the irregularities. These irregularities occurred over a number of years and resulted in considerable monetary loss to PSA.

The lack of challenge by either Area or Regional management to the operation of the District Works Office enabled the irregularities to remain undetected for a long period. No disciplinary action was taken against any supervisory staff.

Case Number 77

This is an important case because of the potentially large monetary loss to PSA, the failure of management to implement a proper internal investigation and the lack of supervision exercised over the technical officer involved.

Having established that a problem existed the subsequent internal investigation determined that overcharges had occurred but did not attempt to determine the causes of the problem. By allowing the key position of Regional Grounds Maintenance Officer to remain vacant for three years and by permitting an ex-employee of the contractor both to order work and to authorise its payment, management has contributed to the weakening of internal control systems.

Case Number 82

This case demonstrates the problem which can arise if inadequate challenge is made of contractors invited to tender for C1001 lump sum contracts.

The lack of challenge resulted from the post of Regional Grounds Maintenance Officer remaining vacant for three years and the apparent unwillingness of other supervisory officers to accept any responsibility for grounds maintenance work. No disciplinary action was taken against any of the supervisory officers who had failed in their management duties.

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3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 84

This is an important case since it illustrates a lack of challenge to a subcontractor's invoices by the authorising officer, poor investigatory procedures by management and inadequate subsequent disciplinary action.

The invoices in question were produced by the main contractor and not the subcontractor and contained not only inflated prices but also charges for goods actually supplied by PSA. The irregularities were found only by chance by a nominated quantity surveyor. Management failed to investigate another major contract held by the contractor, failed to take any disciplinary measures against the PSA officers responsible and has now reinstated the main contractor on the approved list.

Case Number 86

This case demonstrates the consequence of over-advancing payments on account to a contractor and not finalising promptly a large number of accounts where the contractor is known to be in financial difficulties.

The Area Officer encouraged District staff to accelerate payments to the contractor in order to alleviate his financial difficulties. This action, together with that of Regional staff who knew of the problem but took no corrective action led to PSA suffering a substantial loss when the contractor went into liquidation. This case cannot be considered separately from case number 67 since the contractor was the predecessor of the contractor in that case, and many of the personnel now convicted in that case had similar positions of responsibility with respect to both contractors.

Case Number 88

This PSA Supplies case is significant because it shows that the systems currently in operation for the supervision of floor-laying contracts are ineffective. Internal investigations identified that substantial overcharges occurred as a result of both the supervision of the work and the challenge to contractors' charges being inadequate.

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3. THE CASES OF FRAUD AND CORRUPTION

3.4 REVIEW OF CATEGORY A CASES (continued)

Case Number 100

In this case PSA has been overcharged by a Measured Term Contractor as a result of inflated claims for daywork, overmeasurement of self-measured items and the suppression of discounts received from subcontractors.

These irregularities have been facilitated by lack of challenge to the contractor's charges by those technical officers responsible for the supervision of the contracts. The Measured Term Contractor concerned holds a number of contracts, in a number of Regions, and has been placed on the ineligible list whilst police enquiries continue.

Case Number 101

In this case, a Measured Term Contractor consistently submitted inflated charges over a number of years resulting in a large monetary loss to PSA. These overcharges were facilitated by the lack of challenge to the contractor's invoices by both the nominated quantity surveyor and the PSA authorising officer.

Although substantial sums of money were recovered from the contractor, no action was taken against the nominated quantity surveyor, the authorising officer or the contractor.

Case Number 122

This case illustrates the confusion which exists between the responsibilities of the PSA authorising officer and the nominated quantity surveyor in respect of work carried out on Measured Term Contracts.

PSA were overcharged by the contractor as a result of the negligence of the nominated quantity surveyor and the lack of challenge by the PSA authorising officer. The nominated quantity surveyor was subsequently dismissed but no action was taken against the authorising officer. Furthermore, the contractor continues to be used by PSA.

3.5 CATEGORY B CASES

All of these cases involve allegations of collusion between PSA staff and contractors in the London Region. Geographically the Region is small and many of the contractors operate in more than one District. The allegations apparently originate from different sources, but nevertheless demonstrate a consistent degree of knowledge of irregularities occurring in the Region.

It should be noted that when collusion occurs, preventive controls cannot operate and therefore management must ensure that appropriate and effective detective controls are operating.

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3. THE CASES OF FRAUD AND CORRUPTION

3.6 CATEGORY C CASES

The important issues arising from these minor cases of fraud and corruption have already been discussed in section 3.4 under category A cases.

3.7 OTHER CASES

For category D cases PSA have been unable to supply us with the detailed information necessary in order for a full assessment of the cases to be made. None of the category E cases involves a serious breakdown of internal control.

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In PSA, professional and technical officers at all levels are required to act in a managerial capacity. Historically greater emphasis has been placed on technical ability rather than managerial skill. Managerial skill however has become increasingly important following the reduction of the directly employed labour force and the greater employment of outside contractors.

The principal problems which we have identified all relate to management at all levels. It appears that management deficiencies have facilitated the perpetration of fraud and corruption and, in many cases, enabled irregularities to go undetected.

In the following sections we assess the different aspects of those management deficiencies, considering in particular, management attitudes, financial objectives and information systems. We also discuss management control techniques and the policy towards disciplinary matters. Finally we set out some of the constraints which have operated on PSA management which may have reinforced the attitudes we criticise. We are in no doubt that, however such constraints may have operated, there is no alternative to a radical change of attitudes if PSA is to be regarded as effectively managed.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.1 Introduction

Those responsible for directing PSA are in agreement that better management is the key to reducing the incidence of fraud and corruption. In the light of our examination of the cases, and the procedures associated with them, it is clear that management deficiencies have facilitated the perpetration of fraud and corruption and, in many cases, allowed irregularities to go undetected. Indeed, we believe that senior management has underestimated the extent of the change that is required in management attitudes at all levels. We recognise that the majority of top management has only been in post for a relatively short period of time and it is therefore too early to judge their impact on the organisation.

PSA has as its object the construction, maintenance and furnishing of buildings required by Government departments who are its clients. It is understandable that satisfying the demands of those clients is treated as a high priority and we are informed that political pressures may reinforce this. On the extent of the success of PSA in satisfying its clients we were not, in our enquiries, directly concerned. It appeared, however, that other management problems, such as effective staffing and financial control as we understand it, took a lower priority, and did not seem to command the attention they deserved. We were concerned to discover that there was sometimes a reluctance to acknowledge that problems existed in these areas and a lack of vigour in pursuing them when they were identified. Further, and as a facet of this, management's approach towards dishonesty and fraud does not always seem satisfactory.

These are attitudes which collectively we can only call complacent. We have also noted a lack of understanding of both individual responsibility and the delegation of authority.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.2 Attitude towards problems

From the outset of our Enquiry, we noted that although certain posts were recognised as of particular importance for effective management, this recognition was not matched by acceptance of the need to fill them promptly with suitably qualified staff. For example, vacancies in the key management post of District Works Officer had continued in the London Region at a very high level. Failure to fill important posts for long periods has, we believe, contributed to some of the irregularities in the cases we have examined.

Where problems have been recognised and remedial action taken, there often seems to be a lack of vigour in following it through. A good illustration of this is the introduction of the 5% check of all works orders by the District Works Officer which is represented by senior management to be a major measure against irregularities (see Section 4.5.4). The implementation of this check has been slow and moreover it has a number of fundamental conceptual defects.

A further aspect of the same approach is what appears to be a defeatist attitude to certain problems on the grounds that objectives cannot be attained because of the constraints imposed by the 'system'. We deal with such constraints in Section 4.7. A relevant example is that it has often been represented to us that PSA has been subject to pressures to reduce staff levels, and that this makes it difficult to maintain a desirable level of control. We recognise that there have been particular problems in this respect but it appears that the pressures on staff levels are used too readily as an excuse for lack of positive management. In particular this is allowed to reinforce the inherent tendency to regard as paramount the satisfaction of the clients, with the maintenance of effective controls being regarded as less important.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.3 Attitude towards dishonesty and fraud

It is a characteristic of employees of any organisation to feel loyalty towards their colleagues and therefore to find it difficult to believe that such colleagues may be involved in irregularities. It must be recognised, however, that in any collection of people a proportion, albeit small, is likely to be dishonest. Failure by management to recognise this will facilitate the perpetration of irregularities.

Management's reluctance to acknowledge the existence of problems has been illustrated by many of the cases covered by this Enquiry. For example in case number 67 the majority of staff at a District Works Office were involved in irregularities which appear to have been carried out over a substantial period of time. It seems likely, therefore, that other staff at the District Works Office, some Area staff and possibly even Regional staff must have been aware of the activities. If Area and Regional management had carried out their duties properly, it is at least possible that the irregularities might have been detected earlier. Despite the obvious seriousness of the situation there was still a tendency, during our Regional visit, for local management to play down the problem.

Management's lack of vigour in dealing with identified irregularities results in failure to determine the causes of problems and therefore does not ensure that the problems cannot recur. This approach has often been justified to us by the argument that the cases are isolated incidents and not evidence of more prevalent practices.

Our Enquiry has, however, noted many similarities amongst the cases which we have reviewed. For example, three of the cases which we have examined, namely case numbers 67, 84 and 100, have involved the suppression of discounts obtained by contractors from suppliers and subcontractors. We are, however, unaware of any steps having been taken by management to warn all those PSA personnel involved in the supervision of contracts, of such practices.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.2 MANAGEMENT ATTITUDES

4.2.4 Attitude towards responsibility and delegation

In any organisation management at all levels must recognise responsibility for their own job function and that this will incorporate responsibility for the actions and performance of those individuals working under them. We have noted a considerable reluctance to accept personal responsibility, compounded by some apparent reluctance by management to hold any individual responsible for the activities of others. This attitude is most apparent where there have been allegations or suggestions of fraudulent activity.

Further, there would appear to be a certain degree of confusion at various levels of management over the delegation of authority. In particular, many individuals appear to believe that the delegation of authority also entails the delegation of responsibility.

This is exemplified by case number 47 in which both authority and responsibility were delegated to a technical officer who was in collusion with a contractor. Monetary loss to PSA resulted.

The officer in charge at each operational level is responsible for all activities under his jurisdiction. He cannot pass that responsibility down to the next level although he may delegate certain authority. In this way the Regional Director is responsible for all activities within his Region. His District Works Officers will each be responsible for the activities carried out under their delegated authorities within their respective Districts. Thus an irregularity perpetrated at a District Works Office is the responsibility in the first instance of the District Works Officer, but responsibility will also have to be accepted by the respective Area and Regional Officers.

4.2.5 Recommendation

We consider that senior management should recognise, as an urgent priority, the need to change the attitudes we have criticised. The implementation of all the recommendations in this report will require a positive approach, and consequently a change in attitude, by management at all levels.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.3 MANAGEMENT FINANCIAL OBJECTIVES

4.3.1 Introduction

Throughout our Enquiry we have found that PSA management identifies two prime objectives:

- a. to satisfy its clients;
- b. to spend up to, but not more than, its allocated votes.

We believe that in many cases these objectives have been allowed to override other equally important management considerations. In particular, we believe that the importance of financial control is not sufficiently widely understood.

The constraints under which PSA management operates in respect of financial control within the Parliamentary Vote System are discussed in Section 4.7.

4.3.2 Financial control

Financial control is the control of expenditure to ensure that it has been properly, necessarily and economically incurred. It should also include the control of the custody of assets purchased through such expenditure.

Our discussions with Regional, Area and District personnel suggest that their concept of financial control is principally the control of overall expenditure during a financial year measured against allocations of monies within the various votes. A discussion with Training Division staff at Cardington indicated that this view is reinforced by the courses given there.

Whilst we appreciate the importance of this form of control within the Parliamentary Financial System, we consider that this view is allowed to dominate attitudes to the extent of conflicting with those other objectives necessary for full financial control. An example of this is where monies are allocated towards the end of the financial year and are required to be spent quickly. In such instances, it appears that the spending of the additional funds is given a higher priority than the necessity and propriety of the expenditure; and that this can happen even when the overall Government policy is to reduce public expenditure.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.3 MANAGEMENT FINANCIAL OBJECTIVES

4.3.3 Problems in achieving financial control in PSA

There are certain inherent problems, given the nature of PSA's activities, in achieving the objectives of financial control.

- a. Maintenance needs to be planned over the long term, particularly in conjunction with new building programmes. The Parliamentary system of annual votes, as discussed in Section 4.7, hampers but does not preclude this procedure.
- b. The assessment of the need for maintenance is in many respects a subjective exercise. The timing of the carrying out of maintenance has an inbuilt flexibility. It is therefore difficult to apply the 'necessity' criterion in all cases.
- c. In PSA, the 'economic' criterion is not always applied. Two examples of this are given below.
 - i. The requirement to meet the target spend may result in uneconomical work being carried out towards the end of the financial year. It should also be noted that any savings made in one financial year cannot be carried over to the following year. These factors remove any incentive to ensure that value for money is obtained.
 - ii. The requirement not to exceed the target spend may result in apparently economical short term measures being taken when greater initial outlay would result in longer term savings.

Whilst recognising the existence of these difficulties we believe that more attention needs to be paid to the fundamental objectives of financial control as against the often conflicting objectives of spending specified sums.

4.3.4 Recommendations

Our recommendations to establish financial control are given primarily in Section 5.2.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.4 MANAGEMENT INFORMATION

4.4.1 Introduction

The management information currently available is inadequate to achieve the objectives of financial and budgetary control. The information produced at the Hastings computer centre appears to arise as a by-product of the accounts paying system and the manual information produced locally overcomes only some of its shortcomings.

4.4.2 Computer produced information

The present computerised management information has grown over some years without a structured plan as to the requirements of the user. The information is mainly produced from payment details, and is therefore predominantly expenditure based. Although of some use to management, inadequate information is produced as to how monies have been spent and both committed and budgetted expenditure are excluded from the current system.

These shortcomings together with management's requirement for timely, detailed information have led to a large number of manual records being kept by District, Area and Regional staff. These manual records often contain information which is also held within the computer at Hastings, but which is not detailed in the output available to users.

User manuals are not provided and we have found that users are unaware of:

- a. all of the information that is available to them;
- b. how the information should be used;
- c. those financial control objectives to be achieved by use of the information;
- d. follow-up action to be taken.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.4 MANAGEMENT INFORMATION

4.4.2 Computer produced information (continued)

Bulk expenditure accounts, on average, for over 50% of the total maintenance expenditure at District Works Offices. At present, this expenditure is controlled by reviewing the total monthly spend and comparing this to the allocated funds. There is no detailed information received at District, Area or Regional level showing individual items of expenditure against property numbers. We consider that the lack of such information is a fundamental weakness in the control of bulk expenditure.

We have noted further shortcomings in many of the computer systems currently employed. In some cases the information retained is too complicated to be of subsequent value and in others the objectives of the processes appear to be ill-defined.

4.4.3 Manual information

The main control information produced manually is the F2/F3/F4 reporting system for maintenance jobs estimated to cost over £2,500 and small new works estimated to cost over £1,000. The production of this information is labour intensive and uneconomical in an age of on-line computer installations.

4.4.4 Current computer studies

The UKTOMIS study team are investigating the current management information systems with the objective of implementing a new, integrated computerised system. The study was first commissioned in 1977, and by the beginning of 1982 had only advanced to the feasibility study stage with expected full implementation in 1986. The timescale of this study seems to be inordinately long as there has obviously been a long-standing and urgent requirement for better management information to achieve the objectives of financial control.

4.4.5 Recommendations

Our recommendations concerning management information are included in Section 5.3.

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4. PRINCIPAL PROBLEMS IDENTIFIED
- 4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.1 Introduction

In any large organisation internal control systems are required to ensure that operations are properly controlled. A system of internal control is the combination of checks and balances which together prevent errors or irregularities from occurring or detect and correct them after the event. No system of internal control will ever be foolproof but will always be dependent on the calibre of people who are employed to operate it. A strong system of internal control is particularly important in the case of PSA where personnel are required to interpret and implement the same set of procedures in different parts of the country and in varying circumstances. In this section we comment on the control techniques employed by management.

4.5.2 Preventive controls

In order to execute the large number of orders placed with contractors PSA has adopted a system of financial delegations. In a number of instances this has been adopted without consideration of the need for the separation of duties between individuals and consequently in many cases the same individual is ordering work, certifying that it has been carried out satisfactorily, and subsequently authorising the invoice for payment.

In such circumstances the preventive control depends almost entirely on the integrity of the individual concerned. If an error is made the transaction will proceed and there is no further preventive control in the system.

During our enquiries we became aware of a serious deficiency in the control systems for maintenance work. Under the present arrangements, before payment can be made, the PTO responsible for the job must certify that the work has been completed to his satisfaction. In order to make this certification, a physical inspection of the work would normally be required. We have been informed, however, that in a high proportion of cases, the certification is made without any such physical inspection. We understand that both the number of orders requiring certification and the diverse locations of the jobs make it impossible for the PTO to carry out an inspection in every case.

The effect of this is that a procedure deemed necessary for financial control is being carried out in a manner which often provides no effective control whatsoever. Also we consider that it is unreasonable for PTOs to be required to give a false assurance. We understand that the arrangements for such certifications are currently under review.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.3 Detective controls

Detective controls operate some time after a transaction has been completed. They are generally of two kinds; either the testing of individual items on a sample basis or an analytical review of management information.

Within PSA's procedures sample testing usually operates after a significant time lag and the samples are so small that they cannot be relied upon to identify all errors. The currently available management information does not always facilitate appropriate analytical review procedures.

We believe that more use should be made of management information in carrying out detective control procedures. If the right information was produced a critical review of this would be the most effective detective control.

We have identified three categories of detective controls operated within the systems:

- a. District Works Officer 5% check;
- b. Area and Regional checks;
- c. Internal Audit.

Our review has revealed serious weaknesses in each of these and we set out our comments in the following paragraphs.

4.5.4 District Works Officer 5% check

It is stated in the District Works Office Code, DW502.8 that:

'The District Works Officer will personally carry out physical checks of at least 5% of all orders for work and stores placed on his behalf. The selection of jobs so checked will be at his own discretion in the light of his local experience. The aim will be not only to confirm that the work has been carried out properly in accordance with the written order but also that the price invoiced represents fair value for the work done. He will indicate his satisfaction by an initialled endorsement to this effect on the office copy of the appropriate order which will be available to audit inspection in the normal way. Where the District Works Officer is personally unable to carry out these checks he will arrange for them to be carried out on his behalf by a nominated officer who has not been concerned in the orders being checked.'

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4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.4 District Works Officer 5% check (continued)

This instruction is designed to cover a wide range of situations throughout the country but nevertheless we consider that it is unsatisfactory in the following respects:

- a. it commences by stressing the importance of the District Works Officer carrying out the check personally but ultimately allows him to delegate the check without indicating when this would be appropriate;
- b. it does not specify the method of selection of orders;
- c. it does not specify how the District Works Officer will establish satisfaction in the work carried out or that fair value has been obtained;
- d. it provides no guideline on measures to be taken if he is not satisfied with either objective;
- e. it makes no provision for increasing the sample if any problems are found;
- f. it makes no provision for reporting the findings of the check to Area or Regional management.

Partly as a result of the deficiencies we have indicated above, the 5% check seems to have been interpreted differently and given a different priority by each District Works Officer. Its effectiveness in practice must also be questioned, since we know of no irregularity which has come to light as a result. Certainly none of the cases presented to this Enquiry was identified by the check.

New instructions have been issued in Accommodation and Works Circular 23/83 dated 1 July 1983, which was apparently designed to meet these criticisms. We consider however that the revised 5% check is still subject to criticisms a, b and e above. Further, our enquiries suggest that a firm drive from Headquarters will be required to ensure compliance with these instructions.

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The District Works Officer is responsible for the actions of all his PTOs when ordering work on any contractor by whichever form of ordering is appropriate. This includes the PTO's actions when ordering and authorising work under his delegations. The position of District Works Officer necessitates a thorough understanding of all of the activities of the District to provide the incumbent with sufficient information to exercise financial control. The requirement to make site visits, examine orders and challenge the authorisation of invoices is essential to his everyday management of the District. We consider that the requirement for him specifically to carry out a 5% check as prescribed is somewhat misconceived since he should be having to do considerably more than this in the normal course of his management duties.

If senior management requires a specific check as a detective control we consider that the check should be conducted independently of the District (see Section 5.4.2).

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.5 Area and Regional checks

Area and Regional checks include those carried out by Administration Officers, those performed under maintenance appraisals and those carried out by quantity surveyors. The Administration Officers' checks are primarily designed to establish that individuals at the District Works Office are familiar with procedures as documented in the Codes. The duration of these visits, about one day each year, provides only a minimal coverage. For these reasons we do not consider the Administration Officers' check to be an effective detective control.

Our review of maintenance appraisals indicates that they are concerned more with the technical aspects of building maintenance than with financial control. The regularity of the checks varies in the Regions we have visited, but nowhere did they attempt to cover more than a few buildings in any District each year. We do not consider that this constitutes sufficient coverage to provide a reasonable chance of detecting any financial errors or irregularities that may be occurring.

The check carried out by quantity surveyors covers work on Measured Term Contracts only and is designed to test check work signed off by both in-house and nominated quantity surveyors. The value of this detective control is illustrated by the fact that two of the cases which we have reviewed were identified as a result of this check.

4.5.6 Internal Audit

We do not consider the primary function of an internal audit department to be to act as a detective control. We consider that Internal Audit should provide an independent assurance to senior management that its control procedures are being implemented effectively and efficiently. It cannot do this if it acts as an integral part of those control procedures. Our principal criticisms of the current organisation of Internal Audit are equally applicable to the department following its recent increase in staffing levels and are given below.

a. Internal Audit Staffing

Internal Audit work is of a specialist nature, requiring an understanding of accounting matters, the technical aspects of PSA's work, and auditing theory. The individuals selected for this department seem lacking in these skills and the training programmes provided appear inadequate.

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4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.6 Internal Audit (continued)

b. Nature of work

At present different aspects of Internal Audit work are assigned differing priorities and Internal Audit management has the flexibility to adjust its detailed programmes of work. Accordingly senior management will not be clear at any one time of the level of assurance being provided by Internal Audit.

c. Special investigations

Internal Audit is also used for troubleshooting exercises, such as fraud investigations. In such circumstances no provision is made to ensure that the annual programme of work is completed. When this happens the independent assurance ceases to function and senior management can place no reliance on it.

On the evidence of the investigations that have taken place into cases covered by this Enquiry we doubt whether Internal Audit has the expertise or the ability to conduct them. Its assessment of the cases seems to lack sufficient perception to design appropriate investigatory procedures.

d. Conflict of reporting

Internal Audit is designed to provide assurance to senior management on the operation and effectiveness of the control systems throughout PSA. As noted above, however, Internal Audit is the only independent challenge to Area and District activity and Regional management is dependent on its work. Internal Audit reports are addressed to Regional management, but the latter is not responsible for the control over the former's work plan. As such, Regional management is dependent on a control over which it has no direct authority.

e. Period covered by audits

The work of Internal Audit at any particular location covers neither the previous financial year nor the whole period since their last visit. As a result, its work tends to concentrate on recent activity and is able to provide no assurance to management prior to this, in the period since the last audit.

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4.5 MANAGEMENT CONTROL TECHNIQUES

4.5.6 Internal Audit (continued)

f. Techniques adopted by Internal Audit

The Audit Guide is a list of instructions which requires the auditor to establish that staff have adhered to procedures as laid down in the Codes. Whilst this may be a suitable method for insufficiently trained staff it does not lead to a particularly constructive or well thought out audit approach. Furthermore, the tools of the department, such as its sampling techniques, are somewhat elementary and consequently do not lead to the most efficient approach or to evaluated conclusions being drawn from the work carried out.

g. Effectiveness of Internal Audit

None of the cases categorised as important in Section 3.4 was detected by Internal Audit, although some of the transactions involved would have been subject to its scrutiny. This must throw serious doubt on the effectiveness of the department.

The views expressed in this Report are based on our observations of the present arrangements. We understand that following a recent Treasury/PSA review of Internal Audit certain changes, in addition to the increase in staff to which we have referred, are in progress.

4.5.7 Recommendations

We consider that the present detective controls do not together form a sufficient check to provide reasonable confidence that errors and irregularities will be detected. Our recommendations in Sections 5.4 and 5.5 suggest new approaches to the problems.

In respect of preventive controls we have made various recommendations on the methods of execution of work covered by the cases (see Section 5.5).

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.1 Introduction

We consider disciplinary action to include all penalties ranging from the issue of letters of reprimand to dismissals. We distinguish in this section between disciplinary action taken against employees and that taken against third parties.

4.6.2 Disciplinary procedures against PSA staff

The Civil Service and therefore PSA distinguish between 'failures of conduct' and 'failures of performance'. Although these terms are not defined, it appears that 'failure of conduct' implies deliberate contravention of procedures set out in the Codes, dishonesty or that the individual has been convicted of an offence. 'Failure of performance', however, seems to relate to shortcomings in the supervision exercised by an individual through negligence or incompetence.

We have been informed that under current practice 'failures of conduct' would normally result in disciplinary procedures being initiated against an individual, whereas 'failures of performance' are likely to result in adverse comment on an individual's annual report. We were also informed that it is only recently that the role of the relevant supervisory staff has been considered when a disciplinary case has arisen.

We consider that the most effective means of ensuring that management recognises its responsibilities is for it to see those who commit 'failures of performance' being disciplined for their contributory role in an irregularity.

We believe the distinction made between 'failures of conduct' and 'failures of performance' is unsatisfactory since it serves to prevent management in supervisory roles from being disciplined. This distinction should be modified and a graduated scale of disciplinary action formulated against which all personnel associated with an irregularity can be disciplined. We believe that the various methods of exercising disciplinary procedures should be made known to all management and staff.

It has been represented to us that where cases of apparent fraud and corruption have been reported to the Police, disciplinary action by PSA must often be delayed. Although we recognise that this can be a difficulty, management may have allowed it to become more of an obstacle than necessary.

Recently, stronger action has been taken by PSA against those found guilty of offences. We would like to see, however, a similar attitude towards 'failures of performance'.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.3 Disciplinary procedures against contractors

We understand that the responsibility for the instigation of disciplinary measures against contractors is divided as set out below.

- a. For contractors on the central approved list (those with a notation of £100,000 or over) the Contracts Directorate at Headquarters will be informed by the supervising officers responsible for the contractors and will implement the necessary procedures.
- b. For all other contractors the responsibility lies with Regional management and the maximum penalty which it can impose is suspension from the approved list for one year. In cases judged to warrant more severe action the matter must be referred to Headquarters.

The most severe penalty which can be imposed is for contractors to be placed on a blacklist which precludes their working for PSA. We have been informed that only contractors and their directors who have been convicted of criminal offences are placed on this list. In other circumstances, contractors may be removed from the approved list for periods of one year upwards.

We consider that PSA should take a more commercial approach towards the contractors which it employs. We believe that contractors should be employed only on the understanding that they will perform their services in accordance with the prescribed contractual terms. If it is subsequently discovered that a contractor has not so complied, then unless the offence is trivial, he should no longer be employed by PSA. We recognise that such action might have adverse repercussions where the contractor is involved in unfinished work in the same or another Region. We do not consider, however, that this should be used as an excuse for failing to take appropriate action. We believe that this strong action would act as a deterrent to all contractors and assist in ensuring that they comply with contractual terms. The current treatment of aberrant contractors, which is largely confined to recovering certain overcharges, serves no such purpose.

Finally, we consider that a number of contractors have avoided disciplinary action by blaming members of their staff for the irregularities which have occurred. We believe that such a defence is generally inadmissible since employees are merely the agents of the contractor.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.6 MANAGEMENT POLICY TOWARDS DISCIPLINARY MATTERS

4.6.4 Disciplinary procedures against nominated quantity surveyors

PSA management appears to be confused as to the responsibility for opinions given by professional firms of quantity surveyors. Where a nominated quantity surveyor is employed, it is the partners in the firm and not the staff whom they employ who are responsible for all opinions given. The means by which the partners of such firms monitor the performance of their employees is for them to decide and need not concern PSA.

In a number of cases where the work of nominated quantity surveyors has been found to be deficient, we have found inconsistencies in the action taken by PSA management. In case number 122 the nominated quantity surveyor was dismissed, having been found to be negligent whereas in case number 101 no action was taken against a similarly negligent nominated quantity surveyor.

In order to avoid such inconsistencies, we believe that PSA should adopt a policy whereby if the work of a nominated quantity surveyor is found to be unsatisfactory that firm should not receive further work from PSA unless there are extenuating circumstances.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.7 CONSTRAINTS UNDER WHICH MANAGEMENT OPERATE

4.7.1 Introduction

During the course of our Enquiry we have noted that PSA management is required to operate under a number of constraints. These are a direct result of PSA being a Government department. It appears, however, that these constraints are often used to justify a defeatist attitude by management towards the resolution of problems. We discuss below, a number of constraints which have been quoted to us.

4.7.2 The Constraints

a. The Parliamentary Vote System

Under the present Parliamentary Vote System, allocations of funds are made under each vote heading for each financial year and all funds so allocated are required to be spent within that financial year. This requirement to spend funds by a certain date is in direct conflict with the objectives of financial control as discussed in Section 4.3.2.

b. Staffing levels

It has been represented to us that staff cuts arising as a direct result of Ministerial policy have led to imbalances in both the grades and locations of staff. Management has used this constraint as one of the reasons for allowing key posts to remain unfilled over long periods. We consider that more positive action should have been taken by senior management to plan and implement the reallocation of staff to ensure that all key posts were filled.

A further constraint over staffing levels is that the rates of pay offered by PSA do not appear to attract individuals of sufficiently high calibre, particularly in the London Region. We recognise that Civil Service pay scales are determined independently of PSA but consider that PSA management should make those responsible for pay policy aware of the difficulties which have been encountered.

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4. PRINCIPAL PROBLEMS IDENTIFIED

4.7 CONSTRAINTS UNDER WHICH MANAGEMENT OPERATE

c. Use of contractors

It is PSA policy that only in those cases where there has been a criminal conviction will a contractor be placed on a blacklist which precludes his working for PSA. We have noted a reluctance on the part of PSA management to take any action against those contractors who are known to have overcharged PSA but who have not been convicted by a Court.

We have been informed that this reluctance is due to a fear that the contractor will complain of unfair treatment and the belief that strong action will not be sustained politically. We believe that only by positive action being taken against offending contractors will an effective deterrent result.

d. Police investigations

When police are investigating an irregularity within PSA, it is PSA policy that all internal investigations must cease until police enquiries have been concluded. The justification given for this is that PSA do not wish to prejudice police investigations.

The result of this is that internal investigations often take place a significant time after the initial problem has been identified. During the intervening period the system which gave rise to the irregularity continues to operate unchanged. We believe that management should take positive action to review the relevant systems each time an irregularity is suspected of having occurred and to rectify any internal control weaknesses at the earliest opportunity.

e. Pressure from clients

It appears that pressure from clients to carry out work quickly, may result in control systems being overridden and uneconomic and unnecessary work being carried out. This has often been justified by the argument that one of PSA's prime objectives is to satisfy its clients.

We consider that this objective is often given too high a priority, and other equally important objectives, such as ensuring that work is carried out properly, necessarily and economically, are given less attention than they deserve.

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5. RECOMMENDATIONS

5.1 INTRODUCTION

In this section we make a number of recommendations which we believe will assist in reducing the incidence of fraud and corruption within PSA. We consider that the implementation of these recommendations would also produce a marked increase in efficiency in the management of PSA.

These recommendations should be viewed as an overall proposal and not as individual solutions to separate problems. A committed approach to their comprehensive implementation will be required to achieve the desired result. For example, the introduction of appropriate management information systems will only have a beneficial effect if management use the information for its designed purpose, and if adequate training is planned and carried out, to ensure that users are fully instructed.

We are aware that the Chief Executive is developing his own plans for some reorganisation of PSA's structure. As far as we understand these plans we do not believe that they will be incompatible with our recommendations in any material manner.

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5. RECOMMENDATIONS

5.2 FINANCIAL AND BUDGETARY CONTROL

5.2.1. Financial control

As discussed in Section 4.3, we consider that the systems operating within PSA do not ensure that the objectives of financial control are met. We consider that financial control over expenditure is fundamental to the proper management and control of PSA's activities. This forms the basis of many of our recommendations.

In particular we believe that the funds allocated to the various vote headings should be viewed as the funds available rather than funds which have to be spent in that financial year. We believe that there should be some arrangement with the Treasury to carry forward unutilised funds to future periods.

We also consider that long term planning of work should be carried out regardless of the uncertainty of future allocations. We believe that an assumption of the base levels of future allocations should be made to assist this exercise.

5.2.2 Budgetary control

The objectives of financial control are normally assisted by the implementation of a system of budgetary control.

It is partly by setting budgets for categories of expenditure, measuring actual performance against them and explaining the variances between budget and actual, that financial control can be achieved.

We consider that all PSA maintenance expenditure should be measured against budgets with the annually allocated funds being considered as the cash available to fund the budgetted work.

Many budgets are produced currently in PSA for different purposes and they are used primarily for ensuring that expenditure is in line with the annual votes. We believe that much of the information produced in the preparation of these budgets could also be used in effecting budgetary control.

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5. RECOMMENDATIONS

5.2 FINANCIAL AND BUDGETARY CONTROL

5.2.2 Budgetary control (continued)

For effective budgetary control it is necessary to break down budgets into sufficiently small categories such that individual items of expenditure can be measured against them. We recommend that appropriate categories are identified for budgeting types of expenditure by individual buildings or small groups of buildings. Bulk expenditure is already coded against buildings or groups of buildings and this information is maintained on the computer at Hastings under the relevant property numbers. All other items of expenditure should also be coded to the appropriate property number to provide an overall analysis of all work being carried out on each property.

We recognise that initially it will be extremely unlikely that such detailed budgeting will be particularly accurate. This is not an argument against introducing budgetary control, however, since the essence of such control is that variances of actual spend against budget are explained.

In subsequent periods, experience will ensure that budgets become more accurate although it will still be the critical examination of variances between actual spend and budget which will determine those areas of expenditure which require further explanation. It is by this process that the objectives of budgetary control will be achieved.

The introduction of such a system of budgetary control based on property numbers would be of value to all levels of management within PSA. In particular it would facilitate a challenge of any individual item of expenditure which at present is not possible for that proportion of the total spend included in the bulk expenditure.

5.2.3. Custody of fixed assets

We understand that fixed asset registers are not maintained by PSA or their clients. This constitutes a major weakness in internal control, since for certain categories it is impossible to establish those assets which should be present. For example, the considerable annual expenditure made by PSA on furniture for its clients is written off annually, and no record is kept of the assets held, hence losses cannot be identified.

We recommend that fixed asset registers are maintained by the departments responsible for the safe-keeping of these assets. Regular reviews and independent checks of these registers would help to ensure the proper control of the custody of fixed assets held by Government departments.

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5. RECOMMENDATIONS

5.3 MANAGEMENT INFORMATION

5.3.1. Introduction

For effective management of any business it is necessary for management to receive relevant and timely information which it understands and on which it can act. As noted in Section 4.4 the present management information system does not provide this.

5.3.2 Recommendations

- a. All management information should be computerised to ensure that it is maintained on a consistent basis and that the inefficiencies of manual recording are avoided.
- b. The system needs to be on-line so that users have immediate access to current information.
- c. The system should be designed to incorporate the budgets discussed in Section 5.2 as well as actual expenditure and commitments.
- d. The system must be designed to achieve the objectives of financial control.
- e. User manuals and adequate training should be provided to ensure that the optimum benefits are obtained from the system.

We recognise that in an organisation as large as PSA the introduction of a new management information system will be a complicated process. The implementation of such a system requires urgent attention, however, in view of the need for improved management information to achieve the objectives of financial and budgetary control.

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5. RECOMMENDATIONS

5.4 AUDIT FUNCTIONS

5.4.1 Introduction

Our review of the detective controls within the systems has revealed that Internal Audit is used as a primary detective control. Our comments on this current arrangement are given in Section 4.5.

Our recommendations in this section provide for the creation of a new, effective detective control and clarify the objectives of Internal Audit.

5.4.2 Regional level assurance

We consider that Regional management needs an annual assurance that its controls are operating satisfactorily throughout the Region and that its expenditure is being effected in the most economical manner in line with client requirements and availability of funds through Parliamentary votes. Furthermore, we believe that those giving this assurance should be responsible to the Regional Director.

We do not consider that any of the existing arrangements would be appropriate to carry out this function and, therefore, recommend the creation of a new body which could be entitled 'Regional Management Inspection'. This body would comprise both full time and seconded staff. It would, however, be led by a full time officer whose status would be second to the Regional Director and who would be a member of the Regional Board. The team leader's position would ensure that the team's work was given top priority by all Regional staff.

The status of the team will be important. It must be respected by other staff in the Region and it must be seen to operate efficiently. It must, therefore, be staffed by the best individuals available. It would be desirable for professional officers with career prospects to spend a period within the team. They would be required to carry out maintenance appraisals and to act as technical advisors to the other members of the team. On the audit side, to the extent that they are considered suitably qualified, Internal Audit staff would be incorporated into the team, but it would also require the presence of qualified auditors. It would be desirable for PSA to use its own staff but until those with the necessary qualifications are available, it might be possible to arrange secondments of suitable staff from firms of Chartered Accountants.

The experience gained by all PSA staff working in these teams would be invaluable. The wide range of exposure to all activities within a Region should place these individuals in an advantageous position when competing with others for senior management posts.

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5.4 AUDIT FUNCTIONS

5.4.2 Regional level assurance (continued)

The team leader would be responsible for the design of the procedures which he considers appropriate to provide an annual assurance to Regional management. We consider that in particular the teams should make use of the improved management information (see Section 5.3) and that much of its work would be based on a comparison of budgetted and actual expenditure as outlined in Section 5.2. In addition, we would expect them to carry out detailed reviews of contractual arrangements considering such aspects as staff relationships with contractors. As a result they would be in a position to make recommendations for the rotation of staff responsibilities with a view to minimising the opportunities for patronage and potential bribery. They should also consider the appropriateness of the type of contract used.

5.4.3 Audit at National level

In the same way that Regional management requires an annual assurance as to the activities of its Areas and Districts, we believe that Central management requires a similar assurance about the Regions. This assurance would be given by a National audit function, whose work would include both a review of the Regional Management Inspection Team's work and such other audit procedures as are considered necessary by the Accounting Officer.

The timing of this work, in order to achieve an annual assurance, will be seasonal. Moreover, the individuals carrying out the audit should be at least as well qualified as those making up the Regional Management Inspection Teams. If such a team could not be assembled at Headquarters, then consideration should be given to obtaining assistance from a professional firm of accountants.

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5. RECOMMENDATIONS

5.5 MANAGEMENT OF CONTRACTS

5.5.1. Introduction

In this section we make specific recommendations in respect of the management of different types of contract to overcome the weaknesses within the systems which may have contributed to the irregularities in the cases which we have considered.

5.5.2 Measured Term Contracts

There appears to be some confusion amongst the various individuals involved in Measured Term Contracts regarding their respective responsibilities. Our recommendations have, therefore, been classified in terms of the individual to whose function they relate.

a. The PTO and the QS.

We consider that the PTO and the QS, whether in-house or nominated, have quite separate but complementary roles in the management of a Measured Term Contract. The PTO must satisfy himself of the quality and technical aspects of the work being carried out whereas the QS's involvement is usually confined to the completion stages of the work, where he is simply required to measure it in accordance with the schedule of rates laid down in the contract.

We recommend that this distinction is made clear to all individuals involved with Measured Term Contracts.

b. The role of the PTO

The PTO responsible for individual Measured Term Contract orders is the person with responsibility for the day to day management of the contract and he is required to authorise contractors' invoices for payment. We believe that PTOs should be made aware of their responsibilities especially under the following three circumstances:

- i. where PSA materials are incorporated into work carried out by the contractor, the onus is on the PTO to ensure that PSA is not charged subsequently for those materials;
- ii. when sub-contractors are employed by the main contractor, the PTO should take whatever steps he considers necessary to ensure that any discounts obtained by the main contractor are passed on to PSA;

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5.5 MANAGEMENT OF CONTRACTS

5.5.2 Measured Term Contracts (continued)

iii. when work is carried out at daywork rates under a Measured Term Contract it is the PTO who must both give prior approval for the daywork and authorise the relevant contractors' invoices for payment. We consider that the recently noticed high incidence of daywork on Measured Term Contracts is due largely to a relaxation of these controls.

c. The role of the Area QS

The role of the Area QS in respect of Measured Term Contracts is to monitor the work carried out by the nominated quantity surveyors employed by PSA. This monitoring procedure is important to ensure that PSA are given proper professional services by the firms concerned.

We do not believe that monitoring should be by means of such a rigid criterion as the present 2% check of measurements. We recommend that Area quantity surveyors should be required to satisfy themselves that QS work within their Area is being carried out in an efficient and proper manner. This may well involve a much greater level of checking of measurements than 2%.

We also recommend that where a nominated quantity surveyor has been found to have provided an unsatisfactory service, the Area QS should be responsible for ensuring that appropriate action is taken which may include the relevant firm no longer being used.

d. Role of the Area Officer

Within an Area, the largest amount of recurring expenditure will normally be effected through Measured Term Contracts. The Area Officer has overall responsibility for those Measured Term Contracts in his Area and we recommend that positive steps are taken by such officers to monitor the management of these contracts in each of his Districts.

e. Role of Regional Contracts Departments

We recommend that Regional Contracts Departments are reminded of their responsibilities for monitoring the volume of work being carried out by Measured Term Contractors against both their notation and the estimated annual value of these contracts. One of the major cases (number 86) should have been identified much earlier had Regional Contracts done this.

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5.5 MANAGEMENT OF CONTRACTS

5.5.3 Grounds Maintenance Contracts

Our enquiries have indicated that the following recommendations are relevant to Grounds Maintenance Contracts.

- a. It is currently the responsibility of the grounds maintenance officer to certify that the work has been completed satisfactorily. Since the grounds maintenance officer cannot physically inspect all the work done we believe that it would be more appropriate for the client to make this certification.
- b. The nature of much grounds maintenance work is such that it can only be physically checked at the time the work is done. This has often been used to justify the lack of an effective detective control over this kind of work. We believe that under such circumstances, District Works Officer and Internal Audit checks should concentrate on establishing whether the contractors' charges are fair and reasonable for the work done.
- c. We have noted a lack of effective challenge to work under the control of grounds maintenance officers at District level. This has been justified to us by the argument that there are no other staff at District level with sufficient technical expertise to question the grounds maintenance officer's judgement.

We believe that the District Works Officer is responsible for all work carried out in the District (see Section 4.5.4) regardless of its technical nature.

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5.5 MANAGEMENT OF CONTRACTS

5.5.4 Jobbing Arrangements

Our consideration of the systems relating to jobbing arrangements has led to the following recommendations.

- a. When delegations are used, it is important to maintain a separation of duties between the ordering of work and its subsequent authorisation for payment.
- b. In order to exercise proper financial control over jobbing arrangements, District Works Officers must have some positive involvement. We believe that this involvement should at minimum include a brief review of both all orders raised before they are issued and all invoices which have been authorised for payment.
- c. There are no guidelines to assist PSA staff in establishing the level of usage of a jobbing contractor which constitutes undue patronage. Given the sensitive nature of this area we consider that some appropriate guidelines should be prepared.

5.5.5 Daywork Term Contracts

The conditions of Daywork Term Contracts appear to lead to Internal Audit giving too much emphasis to checking the documentation relating to the hours charged. As Internal Audit has a right of access to the contractors' books there is a dependence on the ability of the hours reported to be checked subsequently with the contractors' records. We consider that the emphasis should, more properly, be placed on whether the charge for the work is fair and reasonable.

5.5.6 C1001 lump sum contracts

These contracts are let from a District without the involvement of Regional Contracts Departments, and from April 1983 cover work up to the value of £25,000. There are no formal vetting procedures for such contracts, the only control being to ensure that the contractor is not on the ineligible list. We believe that more stringent vetting procedures should be applied to contractors tendering for substantial C1001 contracts.

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The PSA Supplies' technical officers responsible for certifying that work has been done and for authorising contractors' invoices for the provision of removal and floor-laying services, in many cases do not have direct knowledge of the work done. Under these circumstances we consider that they are not able to provide a useful control function and that they would be unlikely to detect irregularities. We believe that the accommodation officers of the relevant buildings are in a better position to carry out this function.

We understand that the irregularities relating to the floor laying contracts were facilitated by the lack of challenge of contractors' measurements of floor areas by PSA Supplies staff. Again, we believe that this control function would be more appropriately performed by the accommodation officers of the relevant buildings.

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5. RECOMMENDATIONS

5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.1 Introduction

Certain matters have been brought to our attention where, apparently, a disproportionate amount of time and expense is incurred in operating the current systems of control, and a more cost effective approach could be adopted without any significant decrease in the levels of control. Indeed, if accompanied by more appropriate management information we believe that more effective control would be achieved. Where a cost effective measure is taken as a policy decision we believe that management should be prepared to defend its commercial approach.

In this section we consider a number of activities where cost effective measures would be appropriate.

5.6.2 Daily Issue Stores

With the decline in numbers of the Directly Employed Labour force the position of the Daily Issue Stores needs to be reconsidered. We understand that in many Districts the annual value of purchases through the stores is now approximately £30,000 or less. We believe that the cost of administering these stores is disproportionate to this annual value.

We recommend that in such Districts a more commercial approach towards the provision of materials for the Directly Employed Labour force would be either free issue stores or direct purchasing from nominated local suppliers.

In either situation the critical control would be the District Works Officer's review of monthly stores expenditure. The average monthly spend in such circumstances is unlikely to exceed £2,500 and any material divergence from this figure will be able to be identified and investigated promptly, provided appropriate management information is supplied on a timely basis.

We also recommend that there should be more effective control of the large stores purchases which go direct to site. Present controls appear minimal and this contrasts with the elaborate recording of the Daily Issue Stores. We endorse the PSA management view that contractors should generally be made responsible for supplying materials, and that use of PSA stores by contractors should be regarded as a last resort. We would expect the Regional Management Inspection Team we have recommended to look carefully at this form of expenditure.

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5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.3 Travel and subsistence claims

The cost of the control systems operating over travel and subsistence claims would appear to be quite disproportionate to the level of such expenditure. We understand that the level of expenditure at a District Works Office is usually of the order of £1,250 a month. We believe that this expenditure would be most effectively controlled by the District Works Officer through a review of the monthly spend.

If the above approach was adopted, various aspects of the current laborious claims procedure could be eliminated. The certifier of a travel and subsistence claim should be required to authorise it in all respects i.e. necessary journey and correct details. This would have the advantage of eliminating further detailed checking procedures in the sub-accounts office and the routing of the claim slip back to the claimant via the authorising officer. The District Works Officer's monthly check could be relied upon to identify any unusual claims since the volume and value of claims passing through a District is relatively low.

A similar approach to the travel and subsistence claims procedure could be adopted at Area and Regional levels.

5.6.4 Treatment of scrap

We consider that PSA management is too sensitive when dealing with cases where PSA personnel have been caught stealing scrap items. Although we do not condone such thefts we consider that the systems implemented to attempt to safeguard scrap are too detailed and are not cost effective in relation to the value of the scrap.

The levels of scrap generated are dependent on the amount of materials requisitioned initially. We consider that the most important control operates at this requisitioning stage, and it should be the authorising officer's responsibility to deal with the disposal of any scrap materials which may arise at the end of a job. We believe that in many cases local disposal of scrap items will be the most cost effective. In these circumstances the transporting of scrap back to the District Works Office and its subsequent safeguarding will be unnecessary.

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5. RECOMMENDATIONS

5.6 ACTIVITIES REQUIRING A MORE COMMERCIAL APPROACH

5.6.5 Staff restaurants

The requirement to have an annual certification of the accounts of the individual staff restaurants necessitates a disproportionate amount of time being spent on such procedures. In the year to 31 March 1982, 3% of Internal Audit's time was taken up in this relatively minor area compared with 1.6% of its time being spent on all Part I services. We recommend that the requirement for a separate certification is critically reconsidered.

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5.7 STAFFING AND TRAINING

5.7.1 Introduction

All management control systems are dependent upon their being manned as envisaged when designed. This not only necessitates all positions being filled but also that staff are appropriately qualified and suitably trained.

Whilst we have not reviewed the Staff Management function specifically during the course of our Enquiry, we have noted a number of weaknesses which we believe could be overcome by positive management.

5.7.2 Staff shortages in key positions

At our initial meetings with Regional management in London we were informed that seven District Works Officer posts were vacant and had been for some months. This position is critical within the organisation both from a control point of view and as regards the smooth execution of maintenance work for clients. At a subsequent meeting, some months later, we were informed that four of the posts were still vacant.

The District Works Officer grade is not the only level where staff shortages have been noticed. We understand from London Regional management that some thirty-five PTO III and IV posts (about 10%) are vacant at present. In addition, during our visits to Area and District Works Offices, shortages of Executive Officers and typists were identified.

It is important that senior management recognises its responsibilities for maintaining appropriate staffing arrangements throughout PSA. If this is not done it must be recognised that senior management cannot rely on its staff to operate the prescribed controls.

5.7.3 Responsibility for staffing arrangements

Area Officers and District Works Officers are responsible for the overall management of their respective Areas and Districts. In order to carry out their responsibilities as managers, such officers are required to deal with the majority of staffing problems that arise on a day to day basis, but nevertheless have only limited powers to ensure that their respective Areas and Districts are appropriately staffed. We understand that this function rests with Staff Management and the Regional Establishments Officers who do not appear to have reacted to the critical staffing problems in key positions, as quickly as they should have done in the circumstances. This puts Area Officers and District Works Officers in a very difficult position in that they have management responsibilities yet no authority to alter staffing arrangements in their offices.

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5.7 STAFFING AND TRAINING

5.7.3 Responsibility for staffing arrangements (continued)

It is difficult to see how an Area Officer or District Works Officer can accept full responsibility for the proper management of his Area or District respectively if key personnel are missing. Such vacancies can only mean that other staff are attempting to cover the work of the missing officer which must lead eventually to overstretching of resources and a break-down in controls.

We recommend that Staff Management is made aware of the control implications of leaving key positions unfilled. Senior management should consider modifying the current procedures for filling posts to provide for greater forward planning so as to help prevent vacancies from occurring.

5.7.4 Mobility of staff

We understand that Staff Management believes that part of the staffing problem derives from a reluctance of staff to move. We consider that to plan for appropriate staffing in a national organisation such as PSA and for a range of experience to be gained, all management should be mobile. To this end management should understand clearly that mobility is a critical factor in promotion.

One of the reasons represented to us for difficulties in filling vacant posts in the London Region is the additional cost of housing and travel associated with living and working in London. We have been informed of some cases where individuals would apparently reduce their standard of living if they were moved to the London Region even if this move involved a promotion. Whilst we understand that salaries are in accordance with Civil Service rates in general, these must be inadequate if appropriate staff cannot be attracted. We consider that PSA must ensure that its salary levels are sufficient to maintain adequate manning levels especially in important management posts.

5.7.5 Handovers in key positions

During the course of our enquiries we have frequently been informed of instances where key positions have not been subject to a period of handover on the occasion of a change in personnel. Indeed, in some circumstances, we understand that a new officer in a post has had to be trained by his new subordinates. We recommend that Staff Management ensures appropriate handovers in all key positions including the posts of District Works Officer and Executive Officer at a District Works Office.

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5.7.6 The position of District Works Officer

The District Works Officer is usually, under present arrangements, an officer with a technical background and the post represents his final promotion. Hitherto management capabilities have not been regarded as the overriding qualification for promotion to the post. In many respects it has been regarded as something of a clerk of works post.

A District Works Officer today requires a disciplined approach to paperwork and an understanding of control procedures in order to carry out the difficult task of managing third party contracts. We believe that the post provides experience which is fundamental to a proper understanding of the maintenance activities controlled by PSA. Consequently, we believe that some of the senior management in PSA should be selected from individuals who have held this post. We therefore recommend that the District Works Officer post is incorporated into a grading arrangement which leads on to higher management positions for both technically and professionally qualified officers.

5.7.7 Relationships with contractors

It would appear that the requirements of the Staff Handbook by which members of staff who have either a direct or indirect interest in a contractor, must disclose the fact to their Director and hand the matter over to another officer, have not always been observed. We have been made aware of a number of situations where close relationships exist between technical officers and contractors and in some of these cases, the contractor is indeed a former colleague.

We recommend that all staff are reminded of the requirements in the Staff Handbook to minimise potential accusations of patronage.

We further recommend that where a PSA officer is an ex-employee of a contractor, he should not be responsible for authorising payments to that contractor.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

5. RECOMMENDATIONS

5.7 STAFFING AND TRAINING

5.7.8 Training

Several criticisms regarding training arrangements have been brought to our attention during the course of our enquiries. We recommend:

- a. wherever possible, appropriate training should be given to individuals prior to their taking up a new post;
- b. greater use should be made of courses run by external organisations, especially in the case of staff requiring specialist knowledge;
- c. training in aspects of financial control should be provided to all staff who are expected to exercise it;
- d. wherever there is a substantial change in procedures appropriate training should be planned to accompany its implementation.

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORTCLASSIFICATION OF THE CASES

<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
21	Southern Region	Overcharges by a Measured Term Contractor.	A
35	PSA Supplies London Region	Irregularities on removal contracts.	D
47	London Region	Collusion with Daywork Term Contractors and alleged irregularities with jobbers and Daywork Term Contractors.	A
62	Directorate of Works Navy Base Development	Fraudulent travel and subsistence claims.	A
65	PSA Supplies North East Region	Theft of goods from DHSS stockpile.	E
65/1	PSA Supplies North East Region	Theft of tyres from stores.	E
66	Midland Region	Collusive activity and misappropriation of stores items.	A
67	South West Region	Irregularities concerning Measured Term Contracts, stores ordering procedures and stores issuing procedures.	A
67/1	South West Region	Irregularities concerning orders for goods delivered direct to site.	C
69	Scottish Region	Irregularity by a Daywork Term Contractor.	C
71	London Region	Alleged patronage of a jobbing contractor.	E
72	Welsh Region	Overcharges by a Grounds Maintenance Contractor.	C

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORTCLASSIFICATION OF THE CASES

<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
73	London Region	Allegations of bribery and collusion with a jobbing contractor.	B
73/1	London Region	Allegations of malpractices by a jobbing contractor.	B
75	Midland Region	Overcharges by a Daywork Term Contractor.	C
77	South East Region	Overcharges by a Grounds Maintenance Contractor.	A
78	North East Region.	Theft of building materials by a member of industrial staff.	E
79	Midland Region	a. Misrepresentations by a stockholder. b. Overclaims for travel and subsistence by apprentices attending college.	E C
80	PSA Supplies Midland Region	Failure to comply with departmental procedures.	D
81	Eastern Region	Falsification of a subcontractor's invoices by a Grounds Maintenance Contractor.	C
82	South East Region	Non-disclosure of direct interest in a contractor.	A
83	Midland Region	Receipt of bribes by PSA personnel from a supplier.	C
84	North East Region	Overcharges by a Measured Term Contractor.	A
86	South West Region	Overpayments to a Measured Term Contractor which were not recovered because the company went into liquidation.	A

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORTCLASSIFICATION OF THE CASES

<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
87	London Region	Allegations of malpractice in connection with jobbing contractors and disposal of scrap.	B
88	PSA Supplies London Region	Alleged irregularities by floor laying contractors.	A
89	South West Region	Allegations of overcharging by a contractor.	E
90	North East Region	Theft of MOD property.	E
91	South West Region	Misappropriation of PSA materials, and fraudulent completion of accounting documentation.	C
92	Southern Region	Overcharges by a Measured Term Contractor.	C
93	South West Region	Allegations of patronage of a jobbing contractor.	D
95	Midland Region	Inadequate staffing arrangements in a store.	E
96	Midland Region	Overcharges by a Daywork Term Contractor.	C
97	Midland Region	Misappropriation of cash and falsification of records.	C
99	South West Region	Private use of a PSA van.	E
100	North East Region Southern Region	Overcharges by a Measured Term Contractor.	A
101	London Region	Overcharges by a Measured Term Contractor.	A

PROPERTY SERVICES AGENCYWARDALE ENQUIRYFINAL REPORTCLASSIFICATION OF THE CASES

<u>Case Number</u>	<u>Location</u>	<u>Description</u>	<u>Classification</u>
102	London Region	Allegations of malpractice and receipt of bribes from a jobber by a PSA officer.	D
103	London Region	Allegations of moonlighting and receipt of backhanders by a PSA officer.	B
104	London Region	Allegations of PSA officers receiving bribes from jobbing contractors.	B
105	PSA Supplies London Region	Theft and fraudulent claims for petrol by a van driver.	C
106	North West Region	Falsification of invoices by a lump sum contractor.	C
107	Eastern Region	Collusion between a contractor and a PSA employee resulting in fraudulent invoices being paid.	C
108	London Region	Allegations of bribery and misappropriation of petty cash.	B
109	Midland Region	a. Overcharging on a Daywork Term Contract. b. Improper authorisation procedures.	C D
111	Scottish Region	Overcharging on a Daywork Term Contract.	C
113	Eastern Region	Allegations of bribery of a PSA officer by a Grounds Maintenance Contractor.	D
114	London Region	Allegations of malpractice.	B
122	North West Region	Overcharges by a Measured Term Contractor.	A

PROPERTY SERVICES AGENCY
WARDALE ENQUIRY
FINAL REPORT
CLASSIFICATION OF THE CASES

The above cases have been classified as follows:

- A - Important cases involving fraud and corruption;
- B - Cases involving fraud and corruption which individually are not apparently significant, but which collectively cannot be ignored;
- C - Minor cases involving fraud and corruption;
- D - Cases which we have been unable to assess due to lack of information;
- E - Cases not apparently involving fraud and corruption.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

COMMENTS ON RAYNER STUDY RECOMMENDATIONS

In November 1982, the Chief Executive of PSA requested us to review the findings of the Rayner study of District Works Offices (the Draper report) in the light of our own recommendations.

The recommendations made by the Draper team are confined to modifications within the existing structure of PSA. Our Enquiry however has recommended fundamental changes in both organisation and control systems. We have not commented below on those recommendations of the Draper report which would be redundant if our proposals were implemented.

The report covered aspects of PSA's organisation and activities which our Enquiry did not specifically review. Our comments below are confined to those Draper recommendations which relate to matters we have also considered.

We agree in general with the recommendations of the Draper report in relation to Measured Term Contracts although from the auditing and checking point of view we would draw attention to our recommendations in Section 5 of this report.

We are sympathetic to the views expressed on delegation, but believe they are all secondary to our recommendations on the recognition of responsibility.

We agree with the need for forward planning of maintenance work.

We cannot concur with the Draper recommendation that previous good performance should be a factor in determining whether an audit visit should be made to a District Works Office.

We agree with the proposals relating to improvements in the system for the selection and recruitment of PSA staff.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

GLOSSARY OF TERMS

Analytical review procedures	These procedures include studying significant ratios, trends and other statistics and investigating any unusual or unexpected variations.
Authorising officer	The PSA officer who authorises a contractor's invoice for payment.
Bulk expenditure	Non-planned maintenance expenditure.
C1001 Contract	A lump sum contract for maintenance works up to a value of £10,000 (£25,000 from April 1983).
Codes	The procedural manuals used within PSA. e.g. District Works Office Code, Financial Control Code, Contracts Code.
Daily Issue Stores	Stores maintained at a District Works Office for use by Directly Employed Labour.
Daywork Term Contract	A contract whereby charges to PSA are on a daywork basis i.e. the charges are based on man hours and materials at agreed rates.
Directly Employed Labour	Industrial staff employed by PSA, who are normally assigned to a specific District Works Office and are used on smaller maintenance tasks.
District Works Office	The office responsible for the operational activities within a District, and under the control of a District Works Officer.
F/PAU	The Financial and Professional Accountants Unit.
Jobbing arrangements	The use of smaller contractors for maintenance work normally costing less than £500.
Lump sum contract	A contract where a fixed price is agreed for a specific job.
Measured Term Contract	A contract where completed work is normally measured by a QS in accordance with a pre-set schedule of rates.
Nominated quantity surveyors	An outside firm of quantity surveyors who are employed by PSA to measure work carried out on Measured Term Contracts.
Notation	The approximate maximum value of any single project for which a firm may normally be invited to tender.

PROPERTY SERVICES AGENCY

WARDALE ENQUIRY

FINAL REPORT

GLOSSARY OF TERMS

Part I expenditure	New works costing more than £100,000.
PTO	Professional and Technical Officer.
Property numbers	In order to facilitate the recording of expenditure each building or group of buildings is given a unique reference number known as a property number.
QS	Quantity surveyor.
UKTO	United Kingdom Territorial Organisation.
UKTOMIS	The study team who are designing a new computerised management information system.

10 DOWNING STREET

Tim.

Impossible to evaluate proposal without talking to whoever is responsible for it!

The savings seem meagre, less than 10% of those employed. Is this because we don't want to cause trouble? In other words, is this the best reorganization we could do, or are we fudging the real issue of reducing functions?

They mention Land Securities, Britain's largest property Company. I think they employ about ~~400~~ * people for their £2Billion estate!

David.Wolfson. DW

↘ 250 ADMIN + CLERICAL
150 PROPERTY MANAGEMENT.



10 DOWNING STREET

David Wilson

I would value

your advice on the attached.

If all possible, I should
like to show these papers
to the PM at the weekend.



PRIME MINISTER

REORGANISATION OF PSA

Further to Tom King's minute to you of 21 April and to the reply from your office of 3 May, I am writing to bring you up to date with the present position on the proposals for reorganisation within the PSA and to seek your agreement to the next step.

The proposals were:

- (a) to merge the Regional offices and the Areas into a single "controlling tier"; and
- (b) to split the resultant organisation into two, one handling in the main the Defence client and the other the Civil clients.

Preliminary studies on these proposals conclude that we should merge our present 10 Regional HQ offices and 32 Area Offices (excluding the special groups in London dealing with Museums, Galleries, the Palace of Wesminster, Buckingham Palace and other "specials") into 28 controlling tiers, 20 of which would be dedicated to Defence work and 8 to Civil work.

Overall the changes would involve the movement of several hundred staff (out of a total of 14,000) from their present job locations, and we must expect therefore continued Trade Union opposition. Net savings in staff would be of the order of 300 (about 10% of the 3,400 employed in the two tiers to be merged) and the costs of restructuring should be recovered in about three years; but the objective of course is the enhanced operating efficiency of the Agency. The main office changes (17 increases, 9 decreases and 5 closures) are indicated in the attachment. We have taken particular care in Wales and Scotland to reflect their special situation and I hope that

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Nicholas Edwards and George Younger will be content with our proposals, details of which I have sent to them separately. Because of the scale of organisational change there is bound to be some short-term reduction in the quality of service to the clients, though we will do all we can to limit these. But in the medium to long term the removal of a whole tier of the organisation must clearly improve efficiency and, as I have suggested below, a dedicated service will be beneficial.

In your letter of 3 May you had two reservations which I believe are met by the following:

(i) as indicated above we are providing for those parts of the Civil estate that are "special" to be treated separately from those properties that can be adjudged to have an alternative use. Their treatment will be virtually unchanged from at present; and

(ii) the service to Civil clients will in the long term be maintained or enhanced because although the management of the two divisions of PSA will be "dedicated", we plan to continue to serve Civil clients from the Defence Directorate (and vice versa) for that 15 to 20% or so were there are good geographical reasons for doing so. With a civil estate of £6 bn. (three times the size of Land Securities, the largest private company) there should be no real question of diseconomies of small scale. There will also continue to be a PSA "civil" presence in all but one of the present Regional HQ locations.

I believe we should accept these proposals because in my view they are sound and will improve the efficiency of the Agency. Subject to your agreement therefore I propose to write to the Trade Union Side saying that I am minded to accept the recommendations of the Chief Executive and then

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CONFIDENTIAL



allow them three months for consultation. If we are to meet the timescale I have in mind, i.e. to start the implementation on 1 April 1984, I need to write to the Trade Union Side in the next few days; it would be extremely helpful to know if you and colleagues are content before we all go away.

I am sending copies to Cabinet colleagues, the Chief Whip and to Sir Robert Armstrong.

PJ

PJ

28 July 1983

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SUMMARY OF CHANGES

Increases	Significant Decreases	Small Decreases	Closures	No Change
Rosyth AWO	Edinburgh RHQ AEO	Glasgow AWO AEO	∅ Warrington AWO	N. Ireland AWO
Aberdeen AWO AEO	Leeds RHQ AWO AEO	Reading RHQ AEO	x Bournemouth AWO AEO	AEO
Newcastle AWO AEO	Haverfordwest AWO	Preston AWO AEO	Chatham AWO AEO	London (5)
York AWO	Colwyn Bay AWO AEO		Shorncliffe AWO (Folkstone)	
Manchester RHQ AEO	Bristol RHQ AWO AEO		∅ possible new DWO	
Cardiff RHQ AWO AEO	Birmingham RHQ AWO AEO		x possible retention small estates unit	
Plymouth AWO AEO	Hastings RHQ AEO			
Cheltenham AWO				
Bulford AWO (Salisbury Plain)				
Nottingham AWO AEO				
Shrewsbury AWO AEO				
Cambridge RHQ AWO AEO				
Newmarket AWO				
Colchester AWO				
Abington AWO AEO				
Aldershot AWO AEO				
Portsmouth AWO AEO				

TOTAL 17

TOTAL 7

TOTAL 2

TOTAL 5

TOTAL 6

AWO = Area Works Office

AEO = Area Estate Office

RHQ = Regional Headquarters

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SECRET



PRIME MINISTER

PSA RESTRUCTURING

As an addition to the attached letter, there is one further point I would wish to make.

The proposed restructuring offers the prospect, in the medium term, of privatising the Civil part of the organisation. As a separate entity with commercial style accounts, as is now proposed, it will show a net balance sheet value of about £3 bn. If it were then turned into a company with a mixture of loan stock and equity, and if a majority of the equity were floated we could aim at raising perhaps £1 bn. But equally important it would impose a commercial discipline which I believe would lead to increased effectiveness in the utilisation of our Civil assets. The proposed restructuring stands on its own merits as providing a more cost effective and efficient organisation. As a first step to part-privatisation, which must be at least four years away, it has enhanced importance.

I need to get on with the changes now so that the first part of the implementation can start on 1 April 1984.

P J

28 July 1983

SECRET

~~CONFIDENTIAL~~



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

4 August 1983

Dear Tim,

REORGANISATION OF PSA

Thank you for your letter of 1 August. I am sorry that the Prime Minister felt unable to support at this stage my Secretary of State's proposals.

We are now seeking to arrange a meeting with the Ministers most concerned and we shall respond substantively to the Prime Minister's points after that.

*Yours sincerely
Helen Ghosh*

MRS H F GHOSH
Private Secretary

~~CONFIDENTIAL~~

Timothy Flesher Esq

CONFIDENTIAL

AUG 1983

11 12 1
10 9 8
7 6 5 4
3 2

CONFIDENTIAL

CONFIDENTIAL



JA
4/c

Prime Minister

REORGANISATION OF PSA

Patrick Jenkin sent me a copy of his minute to you of 28 July.

The Home Office has been consulted about these proposals, but we have yet to see the details of the scheme now envisaged. We occupy a large number of office, storage and specialised properties throughout the United Kingdom and conduct a good deal of business through the existing regional, area and district representatives of the PSA. Officials here are apprehensive that the proposed new arrangements will lead to some deterioration in service. On this score Patrick Jenkin's reference to the inevitability of "some short-term reduction in the quality of service to the clients" is not very reassuring.

I appreciate that Patrick Jenkin would like to go ahead with these proposals, not least because of the staff savings. But we scarcely have enough information on which to form a considered judgment on the balance between savings and likely effects of the proposals on the PSA's clients. I therefore welcome your suggestion that Patrick Jenkin should discuss his proposals with Ministers most concerned.

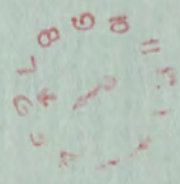
I am copying this minute to other members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

L.B

4 August 1983

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23
Civil Service,
Long Term,
Pt 13



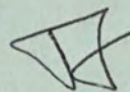
JUL 4 11 11 1983

CONFIDENTIAL

Civil Service



Prime Minister


3/8

REORGANISATION OF THE PSA

I refer to Patrick Jenkin's minute of 28 July.

I am content that Patrick should proceed with his proposals for restructuring of PSA given the assurances he has provided about the quality of service to civil clients. There is a phrase in his minute about reduction in the quality of service while these plans are being implemented. I am clearly not happy to accept this, and we obviously look to PSA management to meet this challenge without serious inconvenience to their customers. It would be most unfortunate if organisational changes in pursuit of efficiency were held up as a result of PSA's inability to provide the right accommodation at the right time.

I am copying to Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

TOM KING

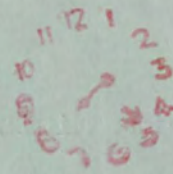
2 August 1983

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Civil Service
Long Term
Pt 13



-2 AUG 1963



[The body of the document contains several paragraphs of text that are extremely faint and difficult to read. The text appears to be a formal letter or report, possibly related to the 'Civil Service Long Term Pt 13' mentioned in the handwritten notes. The layout includes a header area, a main body of text, and a footer area.]



Prime Minister
 JA
 2/8

Ref. A083/2384

MR BUTLER

Reorganisation of PSA

The minute which the Secretary of State for the Environment sent to the Prime Minister on 28 July sought her agreement to his consulting the trade unions about his plans for reorganising the Agency's civil and defence services. The Prime Minister has now endorsed a minute from the Chief Secretary asking that he and other colleagues should be given an opportunity properly to consider the plans before final decisions are taken.

2. I would very much support the Chief Secretary. The Prime Minister has already seen the basic proposals - the elimination of one of PSA's regional tiers and the dedication of the remaining organisation between civil and defence clients. The first looks broadly sensible and should produce greater efficiency. But the case for the second is far from clear, and the doubts which have been expressed about its cost effectiveness need more thorough consideration than they are given in the Secretary of State's minute.

3. I am suggesting to the Department of the Environment that the Secretary of State might be asked to arrange for the preparation of a detailed paper on his proposals which would set out the case for change, consider the costs and benefits of client dedication in terms both of client departments and of the PSA itself, and compare these with the alternative of no dedication. The paper, which could take account of further consultations with client departments, might be prepared in collaboration with the Prime Minister's Efficiency Unit and with the Treasury and the Cabinet Office. A meeting of Ministers could be arranged to discuss the paper in the autumn.

4. The Secretary of State may argue that such a proposal would put at risk his proposed start date for implementation of 1 April next year. That is probably right. The timetable is already very tight. But it is more important that time should be spent now in agreeing the best basis for what is by any standards a major reorganisation, than a few months saved on implementation.

2 August 1983

RA

ROBERT ARMSTRONG

CONFIDENTIAL

FLV= TWP



10 DOWNING STREET

From the Private Secretary

1 August 1983

cc: Ho
 LCO
 HMT
 FCO
 DES
 MOD
 DoE
 NIO
 WO
 MAFF
 WO
 DTI
 LPSO.
 D/Transport
 DKSS
 CSIO
 LPSO.
 D/En.
 D/Em.
 CDC
 CO
 CWO

Dear Tom

REORGANISATION OF PSA

The Prime Minister has seen your Secretary of State's minute of 28 July about the reorganisation of PSA. She has also seen the Chief Secretary's minute of 29 July which was not copied to all recipients of your Secretary of State's minute. Mrs. Thatcher has commented that she remains unconvinced of the wisdom of the proposals and in particular she wonders why we need a separate organisation to handle the defence estate when the Ministry of Defence could undertake this task. Given the doubts expressed by the Chief Secretary, Mrs. Thatcher very much hopes that your Secretary of State will discuss his proposals with Ministers most concerned before giving any commitments to accept the recommendations of the Chief Executive.

I am sending a copy of this to the Private Secretaries to Members of the Cabinet and to Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Timothy Flesher
 TIMOTHY FLESHER

John Ballard, Esq.,
 Department of the Environment.

CONFIDENTIAL

SH

CONFIDENTIAL

FROM: CHIEF SECRETARY

DATE: 29 JULY 1983



Prime Minister

PRIME MINISTER

Mus 27/9

REORGANISATION OF PSA

The Environment Secretary minuted you on 28 July about the reorganisation of PSA. I agree with him that change is needed there, and I have no desire to hold up progress. However I do doubt whether we should declare at this stage that we are minded to accept the Chief Executive's recommendations.

- in PM's Box

2. The elimination of a management tier seems clearly right in principle; I am not clear, however, that the way proposed for achieving that is the best possible. It may be - but I would wish to see the argued case, comparing the costs of the proposed structure with those of alternatives.

3. Again on the defence/civil split we shall need to be certain that this is the best way of doing things, and that the PSA's central role in managing the very valuable assets of the Government estate is not prejudiced. Colleagues will also need to satisfy themselves about the levels of service which they will receive under the proposed organisation.

4. In short I myself still entertain the doubts expressed in your Private Secretary's letter of 3 May; I believe that fundamental changes in the management of very large assets need proper consideration. And until we have had the opportunity for that we should give no commitment

5. I have no objection to the Secretary of State's writing to his unions on the Chief Executive's proposals. But that should

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be strictly on the understanding that the Government has yet to make up its mind.

6. Copies of this minute go to the Secretary of State for the Environment, and to Sir Robert Armstrong.



PETER REES
29 JULY 1983

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29 JUL 1988



CORRECTION

11

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Prime Minister: /

*I am not
convinced of the wisdom
of this change.*



PRIME MINISTER

REORGANISATION OF PSA

*I think that
the Ministers concerned should
have a brief
discussion
not*

See also Mr Jenkins
personal minute attached.
I think that these proposals
meet the questions you
raised. Agree that the
Sqs may proceed as
he proposes?

P412 P412 JF 29/12

Further to Tom King's minute to you of 21 April and to the reply from your office of 3 May, I am writing to bring you up to date with the present position on the proposals for reorganisation within the PSA and to seek your agreement to the next step.

The proposals were:

(a) to merge the Regional offices and the Areas into a single "controlling tier"; and

(b) to split the resultant organisation into two, one handling in the main the Defence client and the other the Civil clients.

*Why do
we need a
defence separate
organisation?
Defence can do it.*

Preliminary studies on these proposals conclude that we should merge our present 10 Regional HQ offices and 32 Area Offices (excluding the special groups in London dealing with Museums, Galleries, the Palace of Westminster, Buckingham Palace and other "specials") into 28 controlling tiers, 20 of which would be dedicated to Defence work and 8 to Civil work.

Overall the changes would involve the movement of several hundred staff (out of a total of 14,000) from their present job locations, and we must expect therefore continued Trade Union opposition. Net savings in staff would be of the order of 300 (about 10% of the 3,400 employed in the two tiers to be merged) and the costs of restructuring should be recovered in about three years; but the objective of course is the enhanced operating efficiency of the Agency. The main office changes (17 increases, 9 decreases and 5 closures) are indicated in the attachment. We have taken particular care in Wales and Scotland to reflect their special situation and I hope that

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Nicholas Edwards and George Younger will be content with our proposals, details of which I have sent to them separately. Because of the scale of organisational change there is bound to be some short-term reduction in the quality of service to the clients, though we will do all we can to limit these. But in the medium to long term the removal of a whole tier of the organisation must clearly improve efficiency and, as I have suggested below, a dedicated service will be beneficial.

In your letter of 3 May you had two reservations which I believe are met by the following:

(i) as indicated above we are providing for those parts of the Civil estate that are "special" to be treated separately from those properties that can be adjudged to have an alternative use. Their treatment will be virtually unchanged from at present; and

(ii) the service to Civil clients will in the long term be maintained or enhanced because although the management of the two divisions of PSA will be "dedicated", we plan to continue to serve Civil clients from the Defence Directorate (and vice versa) for that 15 to 20% or so were there are good geographical reasons for doing so. With a civil estate of £6 bn. (three times the size of Land Securities, the largest private company) there should be no real question of diseconomies of small scale. There will also continue to be a PSA "civil" presence in all but one of the present Regional HQ locations.

I believe we should accept these proposals because in my view they are sound and will improve the efficiency of the Agency. Subject to your agreement therefore I propose to write to the Trade Union Side saying that I am minded to accept the recommendations of the Chief Executive and then

CONFIDENTIAL

CONFIDENTIAL

A



allow them three months for consultation. If we are to meet the timescale I have in mind, ie to start the implementation on 1 April 1984, I need to write to the Trade Union Side in the next few days; it would be extremely helpful to know if you and colleagues are content before we all go away.

I am sending copies to Cabinet colleagues, the Chief Whip and to Sir Robert Armstrong.

PJ

PJ

28 July 1983

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Civil Service
Long Term
PT 13



28 JUL 1987

10 9 8 7 6 5 4 3 2 1
11 12 11 10 9 8 7 6 5 4 3 2 1

POSTAGE
PAID

SECRET



Handwritten red mark resembling a stylized 'Z' or '7'.

PRIME MINISTER

PSA RESTRUCTURING

As an addition to the attached letter, there is one further point I would wish to make.

The proposed restructuring offers the prospect, in the medium term, of privatising the Civil part of the organisation. As a separate entity with commercial style accounts, as is now proposed, it will show a net balance sheet value of about £3 bn. If it were then turned into a company with a mixture of loan stock and equity, and if a majority of the equity were floated we could aim at raising perhaps £1 bn. But equally important it would impose a commercial discipline which I believe would lead to increased effectiveness in the utilisation of our Civil assets. The proposed restructuring stands on its own merits as providing a more cost effective and efficient organisation. As a first step to part-privatisation, which must be at least four years away, it has enhanced importance.

I need to get on with the changes now so that the first part of the implementation can start on 1 April 1984.

Handwritten initials PJ in blue ink.

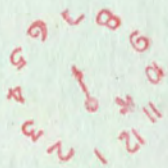
P J

Handwritten date 28 July 1983.

SECRET

Civil Service

Long term Pol.
Pt 13



28 JUL 1983



Civil Service *file*

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 6169

MO 10

13th May 1983

NBPM

M/S 73/5

Thank you for sending me a copy of your recent minute to the Prime Minister about re-structuring within the Property Services Agency.

I confirm your understanding that MOD welcomes your proposals. But there will no doubt be details to be cleared up in discussion between our officials.

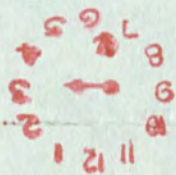
I am copying this to the Prime Minister.

Yours ever

Michael Heseltine

The Rt Hon Tom King MP

Civil Service
Long Term P712



13 MAY 1983



FILE

107

10 DOWNING STREET

From the Private Secretary

3 May, 1983

The Prime Minister has now seen your Secretary of State's minute about Restructuring the Property Services Agency. She has commented that the proposal to reduce the number of tiers in the territorial organisation from three to two seems in principle to make sense. Under the present arrangements the region or the area must surely be a rubber stamp. The Prime Minister is not, however, entirely convinced of the case for a dedication of the resultant territorial organisation. For example, she wonders whether that portion of the civil estate which has no alternative use has more in common with that portion of the Ministry of Defence estate which similarly has no alternative use than it does with the rest of the civil estate. Moreover she thinks that civil clients are right to be apprehensive that their dedicated service will be less effective than that to defence clients.

The Prime Minister has agreed that as proposed by your Secretary of State the Property Services Agency should now be asked to examine the proposals set out in his minute. Before any decision is reached, however, she would wish to be consulted again and particularly on the points raised in this letter.

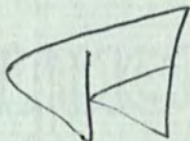
(Timothy Flesher)

Mrs. H. Ghosh,
Department of the Environment

Lo

PRIME MINISTERPROPERTY SERVICES AGENCY

I attach David Wolfson's advice on the attached minute from Tom King on the Property Services Agency (Flag B). David's advice is at Flag A. Do you agree that I should minute Mr. King on your behalf along the lines proposed by David?



26 April, 1983

Yes please
not

TIM FLESCHER

25th April, 1983

RESTRUCTURING WITHIN THE PROPERTY SERVICE AGENCY

1. Two tiers, rather than three, seems, in principle, to make sense. Rather like the Health Service, it is difficult to see what work there is for a third tier. 155 or 175 district organisation offices should be satisfactorily controlled by 15 to 20 regional offices. The present arrangements must make either the regions or the areas rubber stamps.

2. The dedication of resultant territorial organisations would, in my opinion, need some justification. (Is the justification, as in the Health Service re-organisation, that it will provide enough jobs to make the whole thing less painful than a proper re-organisation?).
* 20% of the civil estate has no alternative use and would possibly have to be treated in the same way as the 80% of the defence estate, which has no alternative use. Likewise, with the other 80% and 20% respectively. Therefore, each part of the dedicated territorial organisation will have to deal with both saleable and unsaleable property estate. If they are dealing with both types of problem why do you need two separate organisations? There may be a good reason but it is not evident in the submission.

* ANNEXE A TO M.H. letter of 22.7.82

DW
David Wolfson

P.S. IF M.O.D. is 2/3 of TOTAL, CIVIL CLIENTS ARE RIGHT TO WORRY THAT THEIR "DEDICATED" ORGANIZATION WILL GET LESS EFFECTIVE SERVICE.

B

Prime Minister:

1 ~~Z~~



This is much more cautious than Mr Heseltine's proposal for a Trading Fund. Shall I ask for David Woltsans advice?

PRIME MINISTER

Yes please

RESTRUCTURING WITHIN THE PROPERTY SERVICES AGENCY

JH

22/4

PK10

Michael Heseltine wrote to you on two occasions last year (22 July and 9 September) about proposals for reorganisation within the PSA, which would have implications for other Departments. He undertook to report again following further study and consultations at official level.

The further work has suggested some modifications to the proposals which are now based on a more evolutionary approach to the development of a Civil Property Directorate within the Agency (building on PRS), and concentrating more immediately on the reorganisation of the United Kingdom Territorial Organisation (the network of Regional Offices, Area Offices and District Works Offices throughout the country) with a view to greater efficiency.

Following an examination of a number of options, I have now asked my officials within PSA to look at a particular set of proposals. These are set out in more detail in the Annex to this minute, but in brief consist of:

- a. a reduction in the number of tiers in the territorial organisation from three to two; and
- b. the division of the resultant territorial organisation into two parts, one serving Defence clients, the other the Civil clients. (At the moment the organisation is not "dedicated" in this sense).

Do we need to do?



Both the Civil and Defence elements would continue to rely on the private sector for all new construction, some 80% of maintenance work, and an increasing volume of design work.

As far as the proposal for a Civil Property Directorate is concerned, I am now minded to see how PRS develops, and meanwhile undertake an internal reorganisation to facilitate better financial management based on more "commercial" disciplines and accounting systems, but which will not affect client Departments. This might ultimately lead to the establishment of a Civil Property Division with a Trading Fund, but that is a decision for the future.

I understand that MOD (who account for two-thirds of PSA's workload) welcome the proposals which will improve efficiency by shortening lines of communication. At this stage civil clients have expressed some concern that the current level of service they receive will deteriorate. The new arrangements would be intended to enhance both the levels and quality of service provided to the Civil and Defence clients alike - there would be no question of accepting a proposal that would reduce the level of service to any client, but this is an issue that can be explored in further discussions with Departments.

On this understanding, therefore, I have asked PSA to examine the proposals in detail in consultation with client and central Departments with a view to possible implementation by 1 April 1984.

TK

April 1983

PSA RESTRUCTURING

Civil Property

In the light of comments from Departments and further work within PSA it is now proposed that development in the Civil property area should be an evolutionary one based on the following steps:

- i. Implement PRS as now planned. This started in April 1983.
- ii. Extend PRS. We would seek to expand PRS as soon as possible to enable Departments to be more aware of and more able to control, their accommodation costs. The Treasury has asked us to set up an inter-departmental working party to take this forward with recommendations, some of which may be applied from April 1984.
- iii. Restructuring within PSA to produce a Civil Property Directorate. This would tie in with extended PRS, bring together responsibility for estate management and maintenance and would enable PSA to develop internal commercial style accounts and a balance sheet.
- iv. The question of further development into a Property Division with a Trading Fund would remain open. Such a course, if it were subsequently felt to be desirable, would then be much simpler to contemplate but it would not arise for a minimum of 4 years from 1983.

As evidence of the working of PRS comes in the Working Party referred to in (ii) should start monitoring progress and problems.

Territorial Organisation

The present territorial structure of PSA has three tiers - 10 Regional Headquarters, 34 Area Offices and 155 District Works Offices. And all of these offices serve all clients, Civil and Defence, within their territories.

Two changes now proposed and to be subject to further examination are:

- i. Merging the Regional and Area Offices into a single "controlling tier", thus reducing the number of tiers from three to two, with the number and level of offices to be yet determined.
- ii. Dividing the regional structure into two parts, one serving Defence clients and the other Civil clients.

In working up the detailed proposals over the next few months we shall of course take account of the different interests that arise in Scotland and Wales; and when determining the precise size, shape and location of the future organisations we shall tailor them as closely as we can to the needs of main Civil or Defence clients.

Eliminating one tier of the existing structure may require some offices to close but the number should be relatively

small (perhaps 6 locations out of 39 may have closures) and there could well be some choice on both locations and timing. The network of District Works Offices which is responsible for 85% of the day-to-day load and relates directly to the occupants and users of the two estates should not be significantly affected. Indeed, the proposals envisage some strengthening at this level.

The geographical pattern of our current workload would leave a small proportion of work not being carried out within the appropriate client stream. ^{However,} Civil clients, who are the main ones in this category, will be consulted to ensure that their operational needs are fully met.

Both the Civil and Defence elements would integrate estates management, works and design activities and hence provide a single line responsibility in relation to each client.

The proposals will also affect numbers of our non-industrial staff - perhaps 700 in all. Some of these will transfer to other PSA locations or to other government offices. The net effect may be a reduction of around 300 territorial posts - possibly more - out of the 3,400 in the relevant parts of the present organisation.

Constituency Members are likely to become involved in the consequential of these changes; and we shall clearly need to be alert to the sensitivities of particular cases which could well be exacerbated by the PSA Trade Union Side, who remain opposed to all the changes.

The proposals will be examined in conjunction with both the central and client departments, against a timetable which would produce a detailed plan in September and therefore allow for implementation to start on 1 April 1984.

19.4.83

CIVIL SERVICE : Long Term Management
Pt 12.

cc



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: H/PSO/16781/82

Your ref:

13 October 1982

H
14/10

Dear Janet,

Many thanks for your letter of 30 September to David Edmonds giving your reaction to my Secretary of State's minute of 23 July concerning the possibility of a Property Division within PSA and the subsequent exchange of letters from other Ministers.

The main impact of the proposed Property Division, supported by a trading fund, would be to pursue further the practice of accountability with the Civil Service but also to provide a better basis for tougher commercial discipline within ~~PSA~~ and between PSA and the outside world. We endorse your hope that benefits that accrue from such greater accountability might at least in part be left to the discretion of the Departments how to redeploy those savings.

The details of the role of the Property Division are being examined within PSA and discussed (along with other restructuring proposals) at a PSA Senior Management Conference on 18 and 19 October. The Chief Executive intends to circulate a paper to client Departments shortly after that meeting as a basis for formal discussion. We are clear that there must be full discussion at official level before any firm proposals are put to Ministers.

Meanwhile, let me comment on some of the points you raise.

1. We do not think it is certain that Departments would need to take on specialised staff to handle Estates Management matters. As my Secretary of State pointed out in some of his responses to Ministers (for example, those to Lord Hailsham and to Nicholas Edwards) we intend to maintain the present role of DCA (Directorate of Civil Accommodation) in acting as advisers to Civil Departments on all property matters and in acting as the Treasury arm as far as scales of accommodation etc are concerned. As as DCA will be outside the trading fund and as the trading fund will be required by its terms of reference to charge 'market rents' we do not believe that individual Departments will find it either necessary or desirable to set up their own specialised staff in this area.

2. You are quite right in saying that the Whitehall area is special in that buildings cannot be readily exchanged. However it is probably true even in Whitehall that a more commercially attuned approach might cause us all to recognise more readily the cases where refurbishment could give a more effective use of buildings; and we have many buildings within a mile of Whitehall which are standard office buildings which could be interchanged with the private sector if necessary.

3. The position of Departments occupying buildings in less desirable parts of inner London is basically that they will - in due course and after the problems of transition - be given the right to say whether they wish to stay there or not. In most cases we expect that given the lower costs involved they may well decide to stay put but if they wished to move and could obtain the extra funds from the Treasury then the workings of the Property Division would make it easier for that change to take place.

There have been a number of informal meetings between PSA officials and yours. These will be followed by the formal meetings I mentioned in paragraph 3. These will enable firm recommendations to be determined, we hope by the end of this year. If as a result, Ministers agree that we should proceed with the setting up of a Property Division, we shall continue to consult with Departments on the details of implementation.

I am copying this letter to recipients of yours.

Yours sincerely,
Helen Ghosh

MRS H F GHOSH
Private Secretary

cc Mr Chipperfield
Mr Sample

Civil Service, Long Term,
P711

140 OCT 1982





DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

David Edmonds Esq
 Private Secretary to the
 Secretary of State for the Environment
 Department of the Environment
 2 Marsham Street
 LONDON SW1

30 September 1982

Dear David

Your Secretary of State's minute to the Prime Minister about a Property Trading Fund was sent to Ministers inviting comments. I am sorry we have not responded earlier and other Ministers have commented meanwhile but we would like to add a few words.

We wholly support the steps which have been taken to make Departments more accountable for their property holdings, and to impress upon them the importance of maximising accommodation use. The Property Repayment Service which begins in April 1983 will have an important part to play, but we have as yet no experience of this scheme and we think a good number of points still remain for resolution. Not least those which concern the ability of Departments to redeploy savings from one year to another to improve buildings or step up essential maintenance. We are also conscious that the Property Repayment Scheme will involve Departments in some additional work and therefore the creation of additional posts.

We have seen no details of the Trading Fund proposals and it is therefore difficult to judge how far they will in practice contribute to better management of the estate, either centrally or by Departments individually. What seems certain is that Departments would need to take on specialist staff (which presently we do not have) to handle the estate management matters. Furthermore it is not clear how far accommodation in the Whitehall area could be readily exchanged, nor what the position would be of Departments who are currently occupying buildings in less desirable (and cheaper) parts of inner London.

For these reasons we think it would be helpful if the proposals you are preparing could be submitted for closer scrutiny before decisions are made, in principle or otherwise, about their feasibility.

We have a difficult task on advising NHS Authorities of the management of NHS land (for which they carry the main executive responsibility) and in February my Secretary of State set up a committee to examine the present arrangements and suggest how they might be improved.

I am copying this letter to Robin Butler (No 10), Cabinet colleagues and also Sir Derek Rayner and Sir Robert Armstrong.

Your av.
David

DAVID CLARK
 Private Secretary

Civil Service, Long Term, Pt 11



F10E SW

10 DOWNING STREET

CA

Source

From the Private Secretary

30 September, 1982

The Prime Minister has now seen your Secretary of State's minute of 9 September about the proposed Property Division in PSA. She has noted that Mr. Heseltine will now come back with further proposals towards the end of the year.

TIMOTHY FLESHER

D. A. Edmonds, Esq..
Department of the Environment

SEP

CIVIL SERVICE: L-T Management

Pt II

2 MARSHAM STREET 22
LONDON SW1P 3EB

My ref: H/PSO/16517/82

Your ref:

Sample
30 SEP 82



PSA ACCOMMODATION COSTS

Thank you for your letter of 21 September.

I agreed, as you say, to a 2% cut on the capital programme to be retained by PSA. I did not however agree to cut the sums which are to be transferred to Departments to pay for goods and services directly, and to enable them to meet the accommodation charge under PRS. I said, and I understood you to agree, that in accordance with the philosophy of the PRS system it must now be for you to pursue your suggestion of an overall cut on these items with our colleagues concerned and I do not think I can be expected to reduce the figures being transferred to Departments unilaterally.

Under the agreed timetable for getting PRS going by April next year, PSA are on the point of notifying Departments of the sums to be transferred if no cuts are imposed. To avoid delay these letters must issue but they will now indicate at the same time what the effects of an overall 2% cut on PSA's base line would be and explain the assumptions on which this is founded. This will enable colleagues to form a corporate view on the merit of making such a reduction and the final figures actually transferred will depend on the decisions taken when you have their reactions.

Govan
over
Michael

MICHAEL HESELTINE

Treasurer

The Rt Hon Leon Brittan QC MP

CIVIL SERVICE
L-T Management
Pt II

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
London SW1P 3EB

21 September 1982

2 Michael

PA 2/19

PSA: ACCOMMODATION COSTS

In our bilateral discussions last week you agreed to a 2% reduction in the capital monies for accommodation which would be retained by you. I am grateful for that. As I explained at the meeting I believe that I must look also for reductions of the same order in the expenditure which will be transferred to departments on the introduction of PRS.

Some of the money to be transferred - about £100 million - will be for goods and services for which departments will pay on the basis of actual expenditure. With our present commitment to bear down on administrative costs I am clear that it would be right to make a modest reduction there that should reflect the continuing efforts which colleagues are making to reduce their staff and other administrative costs. The amounts involved for any one department will be small and I hope that no one will foresee any difficulties in what I propose.

The other element of the present accommodation programme - amounting to some £290 million - involves rather more complications. Not only will what departments pay to PSA have to equal (in accordance with our earlier undertaking) the sums transferred to them but those sums will include a notional element. What we should seek is to reduce the underlying expenditure which will be laid out by PSA on providing accommodation services. Again the reductions which I believe we must make are modest and would, I hope, cause no particular problems.

Our officials have already been in touch about figures, I should be grateful if you could ensure that the sums passed on to departments reflect the 2% reduction in actual expenditure which I seek. That is of course without prejudice to consideration of the additional bid for £25 million for the improvement of substandard accommodation to which we shall return at a later stage.

I am sending copies of this letter to Cabinet colleagues.

Leon Brittan
LEON BRITTAN

CONFIDENTIAL

22 SEP 1962

10 9 8 7 6 5 4 3 2 1

Prime Minister:

Prime Minister (2)

2
9930

Dave Wolfson agreed
that we should simply
note Mr Heseltine's
minute and await his
proposals



Refer to David Wolfson
M 9

September 1982

Prime Minister

PROPERTY DIVISION IN PSA

22/9.
P411

I have now received responses to my minute to you of 22 July from most Ministers and I am grateful to you for the reply from your office of 31 August. (You will see that I have replied on some detailed points to individual Ministers.)

There has been general agreement that it would be useful for us to go ahead with the detailed studies necessary to see whether or not the concept of a Property Division is viable and I am arranging to have that done. I would hope to come back to you and colleagues with further proposals towards the end of the year.

Let me reassure you and others on one point - even if we do approve the idea of a Property Division there will be some time before it can be implemented so Departments would be able to absorb PRS before getting involved in a new system of managing their accommodation.

I entirely accept what you and some colleagues have stressed - that setting up a Property Division on a Trading Fund basis in a Governmental body is a radical and difficult operation. We will only decide to do it if the necessary investigation shows that any cost or effort would be amply rewarded. Nevertheless, I believe the gains that would accrue throughout Whitehall of a system which (a) would give individual Departments a real influence over their property matters (b) would require Departments to think much more seriously about the costs of their accommodation and services than they will ever have to do under PRS and (c) will more readily lead to effective development of the Government estate are so great that we must be sure that we have fully examined all aspects of the proposal.

I am copying this to recipients of your letter.

M

Murphy

MH

Civil Service, Long Term,
P411





10 DOWNING STREET

cc	DOT	WO	HO
	CDL	SO	Sir DR
	D/M	MAFF	CO
	D/N	MOD	
	LPSO	NIO	
	CSO	DES	
	DHSS	FCO	
	MOT	HMT	
	LPO	LCO	
	D/IND		31 August 1982

From the Private Secretary

Your Secretary of State minuted the Prime Minister on 22 July about the possible establishment of a property division as part of the Property Services Agency. The Prime Minister has also seen the views of those of her colleagues who have responded to your Secretary of State.

The Prime Minister notes that the original proposal was to "provide a sound, practicable and unbureaucratic basis for promoting in Departments a greater awareness of and changed attitudes towards the cost of accommodation and related services". The Prime Minister is concerned that a property division operating as a trading fund might well be more bureaucratic in that it will have to be more precise and deal with each item of business in a highly formal manner. Moreover its introduction before the Property Repayment Service is well established may well lead to extra work. The Prime Minister has further noted that the object of the proposed property division is to enable the PSA to act as closely as possible to a private sector property company. She believes however that most private sector companies with large property estates used for trading purposes do not form themselves into property companies but instead act as managers for their properties.

In short the Prime Minister thinks that the proposal to set up a property division acting as a trading fund may be a counsel of perfection which could prove administratively expensive. She agrees with Mr. Baker's letter of 23 August suggesting that Departments should be given time to absorb the lessons of the Property Repayment Service before moving to anything more ambitious.

The Prime Minister has no objection in principle to the studies proposed in your Secretary of State's minute, but considers that there is no immediate need to establish the arrangements envisaged in the minute.

I am sending a copy of this letter to the Private Secretaries to Members of the Cabinet, to Richard Hatfield (Cabinet Office), and to Clive Priestley (Sir Derek Rayner's Office).

Tim Flesher

David Edmonds, Esq.,
Department of the Environment.

DF

*Cecil
Sen*

*cf SV
DW*



Caxton House Tothill Street London SW1H 9NAF
Telephone Direct Line 01-213 6400
Switchboard 01-213 3000

Handwritten initials and date: 31/8

The Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON
SW1

27 August 1982

Dear Secretary of State

PROPERTY SERVICES AGENCY

- will request if required

Thank you for your letter of 16 August.

I am glad to learn that the forthcoming study to which you referred will deal in detail with the points I made in my letter of 5 August and in view of that I think it may be best to reserve any further comments until you are in a position to let us have the outcome of the study. I am grateful however for your helpful provisional reactions, although I still have some misgivings about whether Departments or PSA have most to gain from what you propose.

I am copying this letter to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely
Barbara Sen*

(Approved by the Secretary of State and signed in his absence)

CIVIL SERVICE: L-T Management
PT 11

PRIME MINISTER

You will recall Michael Heseltine's minute of 22 July, which is attached at Flag A, about the possible establishment of a property division within PSA. When you received the Chief Secretary's response to that minute (Flag B) you asked if David Wolfson could provide an assessment of Michael Heseltine's proposal. David's minute is attached; it expresses support for Mr. Heseltine's objectives but doubt as to whether the establishment of a property division is the best way of achieving them. I understand that Sir Derek Rayner is of much the same mind despite the quotation on the second page of Mr. Heseltine's minute. Most of the responses from colleagues which are attached, including that from the Chief Secretary, approve the principle but doubt the method. David's conclusion, which he shares with Kenneth Baker (Flag C), is that we should see how the Property Repayment Service operates before moving to anything more ambitious.

DS

26 August 1982

I agree with David Wolfson's advice which I understand corresponds with that of Derek Rayner (which seems to be wrongly described in MH's minute, taken as a whole) and is similar to that of other colleagues. There is therefore no present need to set up a property-division operating as a trading fund. MS

NG

A B F

12/8

IF 1981

Prime Minister :

4

cc J



Prime Minister

I understand that the Chief Secretary will also be nominating you. Await his comments?
 JF 23/7

I am now in a position to take the opportunity to respond to your note of May 17 on Financial Management. The paper you attached said that the main objectives of spending departments should be to have "a clear view of their objectives" and an ability to "measure performance in relation to those objectives". You also indicated that while the yardstick of profitability is lacking in most cases in government, nevertheless "the principle should be applied to the maximum possible extent".

In the context of PSA I recognise also the need to give individual departments a greater influence over their own spending programmes as far as property is concerned.

As colleagues will know, we are already moving to the PRS (Property Repayment Service) in April 1983 which goes part of the way to do this; but I am now considering the next step to go further in this direction and at the same time meet the objectives set in your letter.

The PSA is giving preliminary consideration to the possibility of establishing within it a Property Division - an outline of which is given at Appendix A.

As far as Departments are concerned, their relationship with PSA will essentially be an extension of the principles of PRS; and clearly there will need to be further discussion with Departments to take account of their views in working out the details.



As far as Government is concerned, the proposition would be in accord with your request and would hold out the prospect of tougher financial management in this important part of PSA's activity.

In order to make progress with this idea without risking wasted effort, I felt the need to inform colleagues in advance because if there is any disagreement in principle, I should like those issues resolved now. At this stage, therefore, I am merely asking for your reaction to the principle of a Property Division regulated by a trading fund. We would expect that it would take some 6 months before we were able to come back with flesh on the bones and to identify positively the costs and benefits.

Derek Rayner, who has been consulted, has said "I agree with the emphasis on incentives to rational economic behaviour likely in principle to flow from the more competitive environment of a trading fund."

I shall be grateful for your views, and those of Cabinet Colleagues to whom I am copying this minute. I am also copying this to Sir Derek Rayner and Sir Robert Armstrong.

MH

MH

22.7.82

POSSIBLE PROPERTY DIVISION WITHIN PSA

The essentials would be:

- i. the Division's portfolio would embrace those parts of the Government estate where there is a potential alternative use. It may cover 80% of the Civil Estate and maybe 20% of the Defence Estate and have an asset value of £3-5 billion;
- ii. the PD will negotiate a Memorandum of Understanding (see Note 1 attached) in respect of each property which will establish effectively a form of "contractual" relationship between itself and departmental tenants. This will build on PRS (Property Repayment Services) which starts in April 1983;
- iii. the object is to enable the PSA through the property division to act as closely as possible to a private sector property company and the individual departments to act as independently as possible in what they perceive as their best interests;
- iv. the PD would have Trading Fund status, which would enable:
 - a. the development of an objective measure of the financial utilisation of our property assets via a "Return on Capital"; the trend of which could then be compared with the private sector,
 - b. the real property costs of government decisions to be identified,
 - c. a longer term view to be taken of property matters,
 - d. a clearer distinction to be drawn between capital and revenue expenditure on property,
 - e. the introduction of more options or alternatives both for Departments and internally in the handling of maintenance,
 - f. more generally, a tougher commercial attitude to be developed both within the PD and by overspill in other parts of PSA.

Note 1 The "Memorandum of Understanding" would cover:

current market rent

rent reviews every 3, 5 or 7 years

extension of maintenance responsibility (including in most cases internal decoration) to the tenant

tenure, ie period tenant expects to require the property

Civil Service

✓
a DW



QUEEN ANNE'S GATE LONDON SW1H 9AT

at 11/8.

10 August 1962

Dear Michael

Thank you for sending me a copy of your recent minute to the Prime Minister about the possibility of establishing a Property Division within the Property Services Agency.

I can see that this concept has the attraction of being consistent with the current campaign to improve financial management in the Civil Service and I do not object to the principle of what you have in mind. As you say, it will take some time to put flesh on the bones of this scheme and to identify positively the costs and benefits. I hope that customer Departments will be closely involved in this process. We are due to introduce the Property Repayment Service (P.R.S.) next April, but as yet Departments have had little detailed guidance from the P.S.A. on how the service will work. Accordingly I should prefer to see the implications for Departments worked out in some detail before reaching a firm view on the proposal for a Property Division.

I am sending copies of this to the Prime Minister and others who received copies of your minute.

Yours truly
Billie



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CEO Service
CEDW
11
15/5

The Rt Hon Michael Heseltine
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

16 August 1982

Dear Michael,

PSA: PROPOSED PROPERTY DIVISION

22 July 82

Thank you for sending me a copy of your minute to the Prime Minister which I received on 26 July.

I fully endorse the principle of better accountability in Government and the promotion of commercial attitudes and practices wherever practicable. I support the move to PRS and the similar moves for HMSO, COI etc. But before moving to a full trading fund arrangement for the proposed Property Department I think we need to look carefully at some of the implications.

For example, what freedom will Departments have to look elsewhere than to the Property Department for their accommodation needs? If, either in principle or practice, there is no such freedom the Property Department risks becoming a large and powerful monopoly with the sort of market dominance that, for good reasons, we are trying to reduce in the case of many of the nationalised industries. If on the other hand Departments are free to go elsewhere we shall have introduced a fundamentally new, and I suspect unique, way for a Government to arrange its accommodation and one which will inevitably require scarce and expert staff within each Department to be devoted to its management. I wonder too about the availability of finance to Departments to meet the rents and other charges that achievement of the trading fund targets might require. I should be most reluctant to accept this as a continuing further source of pressure on already straitened resources.

These are very much preliminary reactions. I have also seen Quintin Hailsham's comments and agree with the general thrust of them. I look forward to seeing your fuller proposals in due course and I hope we shall have a full opportunity to study them before any decisions are sought.

I am sending copies of this letter to the Prime Minister and our Cabinet colleagues, to Sir Derek Rayner and to Sir Robert Armstrong.

Yours truly,
Cunze.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Chris Smith

FR
6/8

From the Minister

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

6 August 1982

PROPERTY SERVICES AGENCY

In your recent minute to the Prime Minister you asked for views on the possibility of establishing within PSA a Property Division which would have a Trading Fund status.

I appreciate that your proposals could have advantages for PSA, but they seem certain to add considerably to the responsibilities and workloads of client Departments. It is suggested, for example, that there should be an extension of responsibility for maintenance (including in most cases internal decoration) to the tenant department; this would be a significant enlargement of the PRS proposal to transfer responsibility for only certain jobs costing under £500. Your proposals do not seem to include any transfer of posts from PSA to client Departments to match the transfer of work. The initial negotiation of a Memorandum of Understanding in respect of each property occupied (my Department occupies some 200 buildings) and the subsequent renegotiations when "leases" fall in would also add to the functions of Departments. I think that, before trying to decide in principle on your proposal, we all need to be clearer about what exactly will be involved and in particular what it will imply for client Departments in terms of extra work and the need for extra staff.

/I should also add ...

I should also add that the introduction of repayment for PSA services on 1 April 1983 is going to create more work for Departments (without any transfer of posts from PSA). Departments must be given a reasonable period of time to adjust to these new arrangements before we start making any further changes. Moreover, it might be useful to have some experience of how the new PRS works in practice before trying to take any final decision on your latest proposal.

✧ I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

1-6 AUG 1982

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PETER WALKER



MO 8

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

11th August 1982

CC JV
CC DN
12/8

Dear Roger,

FINANCIAL MANAGEMENT : PROPOSED
PSA PROPERTY DIVISION

My Secretary of State saw Mr Heseltine's minute to the Prime Minister on this subject just before he departed on leave. He would like to see a much greater armslength/commercial basis for PSA operations and his initial reaction was, therefore, to favour the concept of a PSA Property Division. Although he wishes to defer a formal response to your Secretary of State's minute until he has had a chance to consult more closely with his officials about the detailed implications for the MOD, which he will do as soon as he returns from leave towards the end of August, he sees no reason in principle why the detailed studies referred to by Mr Heseltine should not proceed.

I am copying this letter to the Private Secretaries to the Prime Minister, other Cabinet Ministers and Sir Robert Armstrong.

Yours sincerely
Nick Evans

(N H R EVANS)

R Bright Esq



cc to DW

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222

JF
12/8

FROM THE SECRETARY OF STATE

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

12 August 1982

Dear Michael,

PROPERTY SERVICES AGENCY RESTRUCTURING

I was interested to see your proposal for a PSA Property Division in your recent minute to the Prime Minister.

If it is pursued one point which I think will need close attention is the extent to which any benefits which accrue from the trading fund arrangement are off-set by additional costs for Departments in dealing with a private sector kind of body. In particular the benefits will not be great if we are given current market rents on our buildings but not allowed to take advantage of that information in looking for alternatives on the market.

I hope that the aim will be to encourage Departments to make sensible economies where practicable in location as well as scale of offices.

I am sending copies of this minute to those who received yours.

Erin - Keir



Foreign and Commonwealth Office

London SW1A 2AH

16 August 1982

Civil Service

17/4

From The Minister of State

Rt Hon Douglas Hurd CBE MP

Dear Secretary of State,

PROPERTY DIVISION

In Francis Pym's absence on leave, I am writing to give our views on the proposal to establish a Property Division within the PSA which was described in your recent minute to the Prime Minister.

We can accept that a Property Division regulated by a trading fund is worth considering in the general interest of improving financial management. From the clients' point of view the proposed extension of maintenance responsibility to the tenant can be welcomed. But there will no doubt be limits to the extent to which PSA can act in the same way as a private sector company, with all that this would entail for profitability and the freedom of the client.

Moreover, there are staffing implications about all this and the practical and financial considerations will need to be considered by Departments, the Treasury and your own Department.

The Chief Secretary and other colleagues have made some relevant comments and I agree with the general theme that we need to see more of the details and study their implications before committing ourselves to the proposal.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Yours sincerely,

Annabel Russ

(Approved by Mr Hurd and signed for him in his absence by his Assistant Private Secretary)

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

All of these matters will be examined over the next few in consultation with the Departments. It will not be until these detailed examinations are complete that firm proposals will be submitted.

I am sending copies of this note to the others who received my original letter.

Yours sincerely

SRapp

PP. MICHAEL HESELTINE
(dictated by the Secretary
of State & signed in his
absence)

19 AUG 1982

19 AUG 1982



2 MARSHAM STREET
LONDON SW1P 3EB

My ref: 18

Your ref: 19/4

19 August 1982

Dear Secretary of State

PSA PROPOSED PROPERTY DIVISION

Thank you for your letter of 30 July.

I am glad to see that you welcome the concept in principle. Perhaps it would help if I spelt out some of the advantages which should accrue to a customer Department.

1. Although there may be problems at the transitional stage we plan to give the client Department the right to accept or reject accommodation which is offered to them.
2. If they reject what is offered then PSA would be under obligation to find an acceptable alternative. If the Department feels that PSA is laggardly in coming up with that alternative we intend giving the client Department the right to take initiatives to go to outside agents, although of course any final negotiation would be done by PSA.
3. Under PRS all Departments will be required to handle minor maintenance (under £500). We intend to give Departments discretion, in the 'Memoranda of Understanding' they agree with the Property Division, as to the degree of maintenance that they will handle for themselves. In most cases we expect Departments to opt for taking responsibility for minor maintenance plus all internal decoration leaving statutory and external maintenance responsibilities to PSA. But if some Departments wanted less or more this could be accommodated within the terms of the Memorandum of Understanding and charges adjusted accordingly.
4. In case my note suggests that we shall be encouraging Departments to set up mini PSAs within their own operation, I would emphasise that we intend to keep DCE in roughly its present form. I would in fact expect DCA to 'negotiate' on behalf of a client Department with the Property Division. In effect they would be your estate agent/property adviser. If as I am sure is the case the Welsh Office has many offices in use we are examining whether there might be a 'Departmental Enabling Lease' which would set the form of lease for all of your holdings leaving the details of rent, tenure and maintenance responsibilities to be covered in a schedule.

cmj

GWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

30 July 1982

De Michael

In your recent minute to the Prime Minister you invited the views of Cabinet colleagues on the proposed creation, within PSA, of a Property Division regulated by a trading fund.

Given that one of the main objectives of the proposal is "to give individual departments a greater influence over their own spending programmes as far as property is concerned" then I welcome it in principle. But the Appendix to your minute is, understandably, more concerned with the implications of this scheme for PSA than for customer Departments, and I must reserve judgement until I know precisely how it is proposed to operate the new arrangements.

I am copying this letter to the recipients of your minute.

John
Nick

The Rt Hon Michael Heseltine Esq MP
Secretary of State for the Environment
2 Marsham Street
London
SW1



cc JW
cc DW

From the Secretary of State

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

17
26/8

25 August 1982

Dear Michael

P+10

I have seen a copy of your minute to the Prime Minister outlining your proposals for a PSA Property Division.

In principle I favour the concept of a Property Division regulated by a trading fund; it would seem to be a logical extension of the Property Repayment System. In developing the details of your proposals, however, it will be essential to identify whether in reality Departments will benefit, as opposed to the PSA, and to ensure that any tangible advantages in terms of meeting accommodation requirements, which I would certainly welcome, are not more than offset by increased administrative costs and burdens on limited manpower resources.

I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and to Sir Robert Armstrong.

[Handwritten signature]
[Handwritten signature]

LORD COCKFIELD



HOUSE OF LORDS,
SW1A 0PW

29 July 1982

My dear Michael:

Possible Property Division within PSA

Thank you for sending me a copy of your recent minute to the Prime Minister about your idea for the establishment of a Property Division within PSA. This is certainly an interesting idea but I am bound to say that it is not apparent to me at this stage that the benefits which will flow from the change will justify the formidable difficulties and costs which will be entailed.

I can see the attraction in principle of setting the Property Division a target return on capital, although I wonder how real a constraint this will be since the PSA will still presumably retain the monopoly for the provision of accommodation to client departments. On the other hand, I do not think we should under-rate the amount of administrative time and effort involved in negotiating leases between the PSA and its clients. Even my own comparatively small department occupies some 500 different locations. Some 70 of these are Crown Court Centres which will presumably be excluded from the new arrangement as having no potential alternative use, but even so I would not relish the prospect of requiring my officials to negotiate leases on the remaining 430. There will be particular problems with buildings which are shared between two or more departments, and in catering for changed requirements which departments cannot always anticipate.

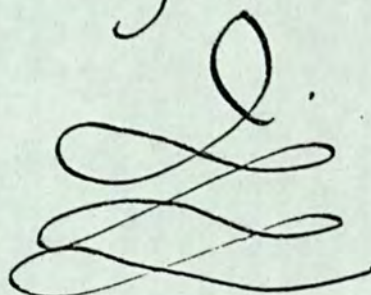
/ ...

The Right Honourable
Michael Heseltine, M.P.,
Secretary of State for Environment.

From the point of view of the client departments themselves I am less clear what advantages will flow from the new arrangements. I suppose there would be an advantage if we secured a greater say over what accommodation we should have and if it were open to us to reject what we regard as unsatisfactory premises. But will this in fact be possible? More fundamentally, the change would appear to imply a major shift in the relationship between PSA and its clients. At present, notwithstanding the inevitable occasional difficulty, PSA are reasonably successful in meeting my Department's accommodation needs. If in future we find ourselves in a position of negotiating against the PSA I am not at all clear that our accommodation needs will be as well served. It will certainly be necessary for my Department to develop an expertise in property matters, and perhaps in maintenance as well, with a consequential commitment of additional staff who would not be directly concerned with the Department's own operational needs.

I am not seeking to reject your proposals out of hand, but I suggest that there are a number of important questions which need to be resolved before we can form a view. I have no objection to work being put in hand to explore these problems, but I suggest it would be wrong even to take a decision in principle to adopt the scheme until we have a clearer idea of what will be involved, particularly from the point of view of the client departments.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Yrs :


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It will not be until
e that. firm proposals
who received my
incent

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

cc ✓
✓CDK
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Jenni

18 AUG 82

De la

PROPERTY SERVICES AGENCY: POSSIBLE PROPERTY DIVISION

I am glad to read in your letter of 4 August that you do not oppose the further study of this proposal as a matter of principle.

With respect to the reservations that you mention, perhaps I could comment on some of them. Many of the others I have already commented on in my response to the Lord Chancellor.

1. While it is true that the introduction of ten ure could introduce a rigidity in the management of the office estate I believe that in fact it would not be an impediment to the sort of office rationalisation that is now being carried out in London and elsewhere. That rationalisation essentially stemmed from a recognition that with reduced numbers many Departments had reduced space requirements; and those space requirements could most efficiently be met by shuffling the buildings that were in use (and in the process releasing some for sale). That shuffling would still have taken place had there been leases because the pressures on Departments to save space would have been there (a) from the Treasury and (b) from the Directorate of Civil Accommodation (DCA), who are and will continue to be charged with applying Treasury scales and other administrative measures to achieve effective space rationalisation. In fact in my view the leases would have ensured (a) that the costs of change were recognised and (b) by the full application of market rents - instead of zonal rents as now anticipated in PRS - would have provided an incentive where necessary for Departments to move. I would emphasise that tenure does not mean inflexibility; it simply means that Departments have to indicate their time expectations and that the costs of change are identified.
2. I do not accept that the principles of accountability would make it difficult for DCA to continue to act as the 'property department and advisers' of the Civil Departments. If the Property Division has trading fund status their accountability would be distinct from that of the rest of PSA.

3. We have never suggested that the efficiency of the P. Division would be measured by the absolute level of return on capital. There are too many historical accidents both in the case of Government property and companies in the private sector for that to be meaningful. I do feel however, that the trend over time will have some value. Much more importantly the development of the objective measure of performance will provide continuous pressure for more effective commercial management.

I of course accept that the Treasury should be associated with any study that is carried out and we plan to consult all the major user Departments in some depth.

I am sending copies of this letter to recipients of yours.

yes
MHE

MICHAEL HESELTINE

How many complaints about some activities of PSA
PRIME MINISTER



I wonder if David Lloyd would look at it and advise on their merits.

You have seen Michael Heseltine's minute (attached) about a restructuring of the PSA. The Chief Secretary is sceptical but agrees to further study. In these circumstances, invite Mr Heseltine to pursue his proposal in consultation with the Treasury?

unlabeled J7
5/8

PROPERTY SERVICES AGENCY RESTRUCTURING

I have seen Michael Heseltine's minute to you of 27 July which outlines a proposal for the establishment within PSA of a property division operating as a trading fund, and puts this in the context of our financial management initiative. The Lord Chancellor commented in his letter of 29 July.

2. I have some doubts about the proposal, but do not oppose further study if colleagues generally are interested in pursuing it. This should be on the understanding that we are not committed on principle, but will decide when the study is complete.

3. I accept that the proposals may have advantages for PSA. An unambiguous statement of the role and objectives for the PSA should be helpful. The psychological impact may be difficult to quantify, but it may well be a useful spur to cost-consciousness; and I attach weight to the views of those responsible for the management of the PSA.

4. What is less clear is whether there will be a net benefit for PSA and user departments taken together, or for the management of the office estate as a whole.

5. The introduction of tenured leases for user departments could introduce a rigidity in the management of the office estates which would prevent the best use being made of it. As leaseholders, departments would almost certainly have to acquire expertise of their own in the property field, or to employ outside consultants, in order to be satisfied that they achieve proper value for money

in dealings with the property division. The principles of accountability would make it difficult for this function to be done by another part of PSA. It is doubtful whether the resulting diffusion of property expertise amongst departments would lead to a net gain in efficiency. The Lord Chancellor has also made this point.

6. Nor should we underestimate the amount of work required first to set up the system, and then to operate it. Witness the difficulty which has attended the introduction of the repayment system (PRS) to operate from 1 April 1983. The new proposal envisages creating some 20,000 individual leases. The suggested arbitration panel to settle disputes between the property division and departments on the terms of leases would add to bureaucratic machinery.

7. There is also a question as to the organisation proposed for PSA. It is proposed that the efficiency of the property division should be measured by its return on capital. But in the property world capital values reflect market rents quite directly. By definition PSA will be charging market rents, so any return on capital will be pretty arbitrary. The trend over time might tell us something, but little about the absolute level of PSA efficiency. It will be hard to find any private sector companies which combine the diverse functions of PSA and with which PSA's return on capital could meaningfully be compared.

8. It is in my view more important to push forward the work at the more disaggregated level covered by the financial management initiative. Budgetary control, measures of output and cost information all come into it. This work will be substantial. It needs to be pursued in accordance with your directive, irrespective of whether the major restructuring proposal is carried forward.

9. If the study is to go forward, the Treasury will wish to be closely associated with it. Major user departments will also have a substantial input. And I hope that Michael Heseltine will

be able to assure us that it will not be to the detriment of other work called for in the PSA as described under the financial management initiative.

10. I send copies of this minute to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

L. B.

LEON BRITTAN
4 AUGUST 1982

Prime Minister.

August 26, 1982.

Property Repayment Service.

The original proposal by Rayner was to "Provide a sound, practicable and unbureaucratic basis for promoting in Departments a greater awareness of and changed attitudes towards the cost of accomodation and related services". The proposed system was thought to be capable of refinement and improvement.

The Property Division operating as a Trading Fund must surely be more bureaucratic. A Trading Fund will have to be much more precise, deal with everyitem correctly and quickly, and its contemplation before the P.R.S. system is working will lead to extra work before the present work is properly settled.

The object of the Property Division is "to enable the P.S.A. through the Property Division to act as closely as possible to a Private Sector Property Company". But most private sector companies with large property estates used for trading purposes do not form themselves into property companies, merely try to act as property managers for their properties. G.U.S. has some 2,000 properties used for retail, a central property department of a dozen people, but not a central property holding company formed as a trading fund.

I think the new proposal is a counsel of perfection, which will prove administratively expensive for both P.S.A. and the departments. Kenneth Baker's advice seems excellent. Let's see how PRS operates before moving on to something more complicated! Without offense to Environment it should be possible to mothball any further study until we have had a full year of PRS in operation. A moderate plan well carried out is better than a good plan constantly changed.

Daniel Wefun



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

23 August 1982

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

Dear Secretary of State

In his absence from the office, Patrick Jenkin has asked me to comment on your recent minute to the Prime Minister about the establishment of a PSA Property Division.

2 I have no objection in principle to the concept which you have outlined but I very much share the reservations expressed by colleagues about the need to examine the details very carefully and consider whether real benefits will accrue to Departments. Furthermore, before any final decision is taken, I feel it would be helpful to allow time for Departments to absorb the lessons of the introduction of the Property Repayment System, and, in particular, to assess the impact on resources which seems to have been somewhat neglected in the PRS context.

3 I am copying this letter to the Prime Minister, Cabinet members, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely

Niall Mitchell

for KENNETH BAKER
approved by the
Minister, but signed
in his absence.



cc JW
cc DW

From the Secretary of State

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

D
26/8

25 August 1982

Dear Michael

P+10

I have seen a copy of your minute to the Prime Minister outlining your proposals for a PSA Property Division.

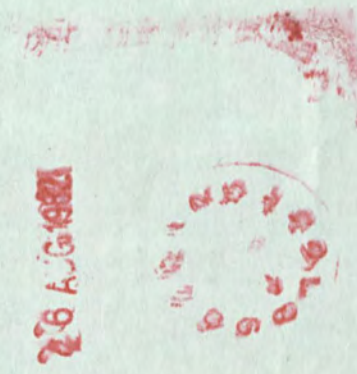
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[Handwritten signature]
[Handwritten signature]

LORD COCKFIELD

Civil Service E-T Manning
PT 11



JF1446



FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

CCDW *Civil Services* *CF SV*
DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

23 August 1982

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

IT
24/8

Dear Secretary of State

22/7. p. 10.
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Yours sincerely

Nail Mitchell

for KENNETH BAKER
approved by the
Minister, but signed
in his absence.

CIVIL SERVICE
L-7 Management
Pr 11

24 AUG 1982
8 9 0 1 2 3 4 5 6 7 8 9
U S P S

2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

19 August 1982



Dear Secretary of State
PSA PROPOSED PROPERTY DIVISION

Thank you for your letter of 30 July.

I am glad to see that you welcome the concept in principle. Perhaps it would help if I spelt out some of the advantages which should accrue to a customer Department.

1. Although there may be problems at the transitional stage we plan to give the client Department the right to accept or reject accommodation which is offered to them.
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CIVIL SERVICE
L-T Management
Pt II

All of these matters will be examined over the next few months in consultation with the Departments. It will not be until these detailed examinations are complete that firm proposals will be submitted.

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Yours sincerely

SRaps

PP. MICHAEL HESELTINE
(dictated by the Secretary
of State & signed in his
absence)

19 AUG 1982



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

18 AUG 82

PROPERTY SERVICES AGENCY: POSSIBLE PROPERTY DIVISION

I am glad to read in your letter of 4 August that you do not oppose the further study of this proposal as a matter of principle.

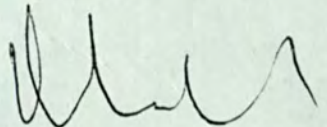
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I of course accept that the Treasury should be associated with any study that is carried out and we plan to consult all the major user Departments in some depth.

I am sending copies of this letter to recipients of yours.

yes *am.*


MICHAEL HESELTINE



Foreign and Commonwealth Office

London SW1A 2AH

16 August 1982

From The Minister of State

Rt Hon Douglas Hurd CBE MP

*C.C. JV
DW*

*Civil Servant
L-T Man.
17/4 Pt 11*

Dear Secretary of State,

PROPERTY DIVISION

In Francis Pym's absence on leave, I am writing to give our views on the proposal to establish a Property Division within the PSA which was described in your recent minute to the Prime Minister.

We can accept that a Property Division regulated by a trading fund is worth considering in the general interest of improving financial management. From the clients' point of view the proposed extension of maintenance responsibility to the tenant can be welcomed. But there will no doubt be limits to the extent to which PSA can act in the same way as a private sector company, with all that this would entail for profitability and the freedom of the client.

Moreover, there are staffing implications about all this and the practical and financial considerations will need to be considered by Departments, the Treasury and your own Department.

The Chief Secretary and other colleagues have made some relevant comments and I agree with the general theme that we need to see more of the details and study their implications before committing ourselves to the proposal.

I am sending copies of this minute to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

Yours sincerely,

Annabel Russ

(Approved by Mr Hurd and signed for him in his absence by his Assistant Private Secretary)

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

11 6 / AUG 1982





*ce JD
DW*

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH
TELEPHONE 01-928 9222
FROM THE SECRETARY OF STATE

*DF
12/8*

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

12 August 1982

Dear Michael,

PROPERTY SERVICES AGENCY RESTRUCTURING

I was interested to see your proposal for a PSA Property Division in your recent minute to the Prime Minister.

If it is pursued one point which I think will need close attention is the extent to which any benefits which accrue from the trading fund arrangement are off-set by additional costs for Departments in dealing with a private sector kind of body. In particular the benefits will not be great if we are given current market rents on our buildings but not allowed to take advantage of that information in looking for alternatives on the market.

I hope that the aim will be to encourage Departments to make sensible economies where practicable in location as well as scale of offices.

I am sending copies of this minute to those who received yours.

Kevin - Kerz

Civil Service
LT Management
12-11





MO 8

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-~~938 7022~~ 218 2111/3

11th August 1982

Dear Roger,

FINANCIAL MANAGEMENT : PROPOSED
PSA PROPERTY DIVISION

My Secretary of State saw Mr Heseltine's minute to the Prime Minister on this subject just before he departed on leave. He would like to see a much greater arm's length/commercial basis for PSA operations and his initial reaction was, therefore, to favour the concept of a PSA Property Division. Although he wishes to defer a formal response to your Secretary of State's minute until he has had a chance to consult more closely with his officials about the detailed implications for the MOD, which he will do as soon as he returns from leave towards the end of August, he sees no reason in principle why the detailed studies referred to by Mr Heseltine should not proceed.

I am copying this letter to the Private Secretaries to the Prime Minister, other Cabinet Ministers and Sir Robert Armstrong.

Yours sincerely
Nick Evans

(N H R EVANS)

R Bright Esq

ALL SENT
LET MANEY
PX 11

12 AUG 1968

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Civil Service

~~cc DV~~
CDW



QUEEN ANNE'S GATE LONDON SW1H 9AT

11/r.

10 August 1982

Dear Michael

Thank you for sending me a copy of your recent minute to the Prime Minister about the possibility of establishing a Property Division within the Property Services Agency.

I can see that this concept has the attraction of being consistent with the current campaign to improve financial management in the Civil Service and I do not object to the principle of what you have in mind. As you say, it will take some time to put flesh on the bones of this scheme and to identify positively the costs and benefits. I hope that customer Departments will be closely involved in this process. We are due to introduce the Property Repayment Service (P.R.S.) next April, but as yet Departments have had little detailed guidance from the P.S.A. on how the service will work. Accordingly I should prefer to see the implications for Departments worked out in some detail before reaching a firm view on the proposal for a Property Division.

I am sending copies of this to the Prime Minister and others who received copies of your minute.

M
for the
Director

Civil Service
C-T Management
Pt II



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

Civil Service

GDW

15/8

The Rt Hon Michael Heseltine
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
SW1P 3EB

16 August 1982

Dear Michael,

PSA: PROPOSED PROPERTY DIVISION

22 July 82

Thank you for sending me a copy of your minute to the Prime Minister which I received on 26 July.

I fully endorse the principle of better accountability in Government and the promotion of commercial attitudes and practices wherever practicable. I support the move to PRS and the similar moves for HMSO, COI etc. But before moving to a full trading fund arrangement for the proposed Property Department I think we need to look carefully at some of the implications.

For example, what freedom will Departments have to look elsewhere than to the Property Department for their accommodation needs? If, either in principle or practice, there is no such freedom the Property Department risks becoming a large and powerful monopoly with the sort of market dominance that, for good reasons, we are trying to reduce in the case of many of the nationalised industries. If on the other hand Departments are free to go elsewhere we shall have introduced a fundamentally new, and I suspect unique, way for a Government to arrange its accommodation and one which will inevitably require scarce and expert staff within each Department to be devoted to its management. I wonder too about the availability of finance to Departments to meet the rents and other charges that achievement of the trading fund targets might require. I should be most reluctant to accept this as a continuing further source of pressure on already straitened resources.

These are very much preliminary reactions. I have also seen Quintin Hailsham's comments and agree with the general thrust of them. I look forward to seeing your fuller proposals in due course and I hope we shall have a full opportunity to study them before any decisions are sought.

I am sending copies of this letter to the Prime Minister and our Cabinet colleagues, to Sir Derek Rayner and to Sir Robert Armstrong.

Yours truly,
Cunze.

Civil Service
ET Management
Pt 11



110 AUG 1982

BK

file

MR. WOLFSON

Michael Heseltine has, in the context of the Prime Minister's financial management initiative, proposed a number of changes to the Property Services Agency including the establishment of a Property Division operating as a trading fund. His minute of 22 July is attached. A number of Cabinet Ministers have commented on Michael Heseltine's proposal including the Lord Chancellor (letter of 29 July), the Welsh Secretary (letter of 30 July) and the Minister for Agriculture, Fisheries and Food (letter of 6 August). The main comment is from the Chief Secretary (minute of 4 August) which casts some doubt on the proposal but concedes further study which I understand is proceeding.

Before responding to Michael Heseltine's minute the Prime Minister would be grateful for your advice. She still hears some complaints about the PSA and wonders whether Michael Heseltine's proposal is the best way ahead. There is no immediate urgency about these papers since I have explained to Environment that a formal response is unlikely before the Prime Minister returns from her holiday. Could I therefore trouble you for your views in due course.

TF

10 August 1982

Civil Service
LT Management
Pg 11



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Civil Service

RF
GVR

From the Minister

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

6 August 1982

PROPERTY SERVICES AGENCY

In your recent minute to the Prime Minister you asked for views on the possibility of establishing within PSA a Property Division which would have a Trading Fund status.

I appreciate that your proposals could have advantages for PSA, but they seem certain to add considerably to the responsibilities and workloads of client Departments. It is suggested, for example, that there should be an extension of responsibility for maintenance (including in most cases internal decoration) to the tenant department; this would be a significant enlargement of the PRS proposal to transfer responsibility for only certain jobs costing under £500. Your proposals do not seem to include any transfer of posts from PSA to client Departments to match the transfer of work. The initial negotiation of a Memorandum of Understanding in respect of each property occupied (my Department occupies some 200 buildings) and the subsequent renegotiations when "leases" fall in would also add to the functions of Departments. I think that, before trying to decide in principle on your proposal, we all need to be clearer about what exactly will be involved and in particular what it will imply for client Departments in terms of extra work and the need for extra staff.

/I should also add ...

I should also add that the introduction of repayment for PSA services on 1 April 1983 is going to create more work for Departments (without any transfer of posts from PSA). Departments must be given a reasonable period of time to adjust to these new arrangements before we start making any further changes. Moreover, it might be useful to have some experience of how the new PRS works in practice before trying to take any final decision on your latest proposal.

✓ I am copying this letter to the Prime Minister, Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

6 AUG 1982



PETER WALKER

Civil Service
C-T Management



Handwritten initials: X/64

Caxton House Tothill Street London SW1H 9NAF

Telephone Direct Line 01-213.....6400
Switchboard 01-213 3000

Rt Hon Michael Heseltine MP
Secretary of State
Department of the Environment
2 Marsham Street
LONDON SW1

5 August 1982

Dear Secretary of State
REFORM OF THE PSA

You asked for views on the proposal in your minute to the Prime Minister of 22 July to establish a Property Division within the PSA.

My reaction to your brief sketch of how this would operate is that I would see great potential benefits in putting PSA operations on something nearer a commercial basis, provided that it leaves Departments free to go to the market instead of to the Agency for alternative accommodation and for maintenance work; provided this is not stultified by the PSA offering only exclusive contracts - ie supplying all services or none; and provided Departments stuck with premises larger than they need will be free to sublet.

I am copying this letter to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

Yours sincerely
Brendan Shaw

(Approved by the Secretary of State and signed in his absence)

CS: LT Management
PT 11

6 AUG 1982



1. How many complaints about some initiatives of PSA
1. Would it be worth it to look at it and then make a decision on this matter?



PRIME MINISTER

Prime Minister:

You have seen Michael Heseltine's minute (attached) about a restructuring of the PSA. The Chief Secretary is sceptical but agrees to further study. In these circumstances, invite Mr Heseltine to pursue his proposal in consultation with the Treasury?

unlabeled JF
S/S

PROPERTY SERVICES AGENCY RESTRUCTURING

I have seen Michael Heseltine's minute to you of 27 July which outlines a proposal for the establishment within PSA of a property division operating as a trading fund, and puts this in the context of our financial management initiative. The Lord Chancellor commented in his letter of 29 July.

2. I have some doubts about the proposal, but do not oppose further study if colleagues generally are interested in pursuing it. This should be on the understanding that we are not committed on principle, but will decide when the study is complete.

3. I accept that the proposals may have advantages for PSA. An unambiguous statement of the role and objectives for the PSA should be helpful. The psychological impact may be difficult to quantify, but it may well be a useful spur to cost-consciousness; and I attach weight to the views of those responsible for the management of the PSA.

4. What is less clear is whether there will be a net benefit for PSA and user departments taken together, or for the management of the office estate as a whole.

5. The introduction of tenured leases for user departments could introduce a rigidity in the management of the office estates which would prevent the best use being made of it. As leaseholders, departments would almost certainly have to acquire expertise of their own in the property field, or to employ outside consultants, in order to be satisfied that they achieve proper value for money

in dealings with the property division. The principles of accountability would make it difficult for this function to be done by another part of PSA. It is doubtful whether the resulting diffusion of property expertise amongst departments would lead to a net gain in efficiency. The Lord Chancellor has also made this point.

6. Nor should we underestimate the amount of work required first to set up the system, and then to operate it. Witness the difficulty which has attended the introduction of the repayment system (PRS) to operate from 1 April 1983. The new proposal envisages creating some 20,000 individual leases. The suggested arbitration panel to settle disputes between the property division and departments on the terms of leases would add to bureaucratic machinery.

7. There is also a question as to the organisation proposed for PSA. It is proposed that the efficiency of the property division should be measured by its return on capital. But in the property world capital values reflect market rents quite directly. By definition PSA will be charging market rents, so any return on capital will be pretty arbitrary. The trend over time might tell us something, but little about the absolute level of PSA efficiency. It will be hard to find any private sector companies which combine the diverse functions of PSA and with which PSA's return on capital could meaningfully be compared.

8. It is in my view more important to push forward the work at the more disaggregated level covered by the financial management initiative. Budgetary control, measures of output and cost information all come into it. This work will be substantial. It needs to be pursued in accordance with your directive, irrespective of whether the major restructuring proposal is carried forward.

9. If the study is to go forward, the Treasury will wish to be closely associated with it. Major user departments will also have a substantial input. And I hope that Michael Heseltine will

be able to assure us that it will not be to the detriment of other work called for in the PSA as described under the financial management initiative.

10. I send copies of this minute to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

L.B.

LEON BRITTAN
4 AUGUST 1982

EX-105

1952

CONTRACT

1952



cmj



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Llinell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

THE RT HON NICHOLAS EDWARDS MP

30 July 1982

De Michael
with 904 dip

In your recent minute to the Prime Minister you invited the views of Cabinet colleagues on the proposed creation, within PSA, of a Property Division regulated by a trading fund.

Given that one of the main objectives of the proposal is "to give individual departments a greater influence over their own spending programmes as far as property is concerned" then I welcome it in principle. But the Appendix to your minute is, understandably, more concerned with the implications of this scheme for PSA than for customer Departments, and I must reserve judgement until I know precisely how it is proposed to operate the new arrangements.

I am copying this letter to the recipients of your minute.

John
Nick

The Rt Hon Michael Heseltine Esq MP
Secretary of State for the Environment
2 Marsham Street
London
SW1



HOUSE OF LORDS,
SW1A 0PW

29 July 1982

My dear Michael:

Possible Property Division within PSA

Thank you for sending me a copy of your recent minute to the Prime Minister about your idea for the establishment of a Property Division within PSA. This is certainly an interesting idea but I am bound to say that it is not apparent to me at this stage that the benefits which will flow from the change will justify the formidable difficulties and costs which will be entailed.

I can see the attraction in principle of setting the Property Division a target return on capital, although I wonder how real a constraint this will be since the PSA will still presumably retain the monopoly for the provision of accommodation to client departments. On the other hand, I do not think we should under-rate the amount of administrative time and effort involved in negotiating leases between the PSA and its clients. Even my own comparatively small department occupies some 500 different locations. Some 70 of these are Crown Court Centres which will presumably be excluded from the new arrangement as having no potential alternative use, but even so I would not relish the prospect of requiring my officials to negotiate leases on the remaining 430. There will be particular problems with buildings which are shared between two or more departments, and in catering for changed requirements which departments cannot always anticipate.

/ ...

The Right Honourable
Michael Heseltine, M.P.,
Secretary of State for Environment.

From the point of view of the client departments themselves I am less clear what advantages will flow from the new arrangements. I suppose there would be an advantage if we secured a greater say over what accommodation we should have and if it were open to us to reject what we regard as unsatisfactory premises. But will this in fact be possible? More fundamentally, the change would appear to imply a major shift in the relationship between PSA and its clients. At present, notwithstanding the inevitable occasional difficulty, PSA are reasonably successful in meeting my Department's accommodation needs. If in future we find ourselves in a position of negotiating against the PSA I am not at all clear that our accommodation needs will be as well served. It will certainly be necessary for my Department to develop an expertise in property matters, and perhaps in maintenance as well, with a consequential commitment of additional staff who would not be directly concerned with the Department's own operational needs.

I am not seeking to reject your proposals out of hand, but I suggest that there are a number of important questions which need to be resolved before we can form a view. I have no objection to work being put in hand to explore these problems, but I suggest it would be wrong even to take a decision in principle to adopt the scheme until we have a clearer idea of what will be involved, particularly from the point of view of the client departments.

I am sending a copy of this letter to the Prime Minister, other members of the Cabinet, Sir Robert Armstrong and Sir Derek Rayner.

yrs :

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and flourishes.

Prime Minister



I understand that the Chief Secretary will also be meeting you. Await in comments? 23/7

Prime Minister

attached

I am now in a position to take the opportunity to respond to your note of May 17 on Financial Management. The paper you attached said that the main objectives of spending departments should be to have "a clear view of their objectives" and an ability to "measure performance in relation to those objectives". You also indicated that while the yardstick of profitability is lacking in most cases in government, nevertheless "the principle should be applied to the maximum possible extent".

In the context of PSA I recognise also the need to give individual departments a greater influence over their own spending programmes as far as property is concerned.

As colleagues will know, we are already moving to the PRS (Property Repayment Service) in April 1983 which goes part of the way to do this; but I am now considering the next step to go further in this direction and at the same time meet the objectives set in your letter.

The PSA is giving preliminary consideration to the possibility of establishing within it a Property Division - an outline of which is given at Appendix A.

As far as Departments are concerned, their relationship with PSA will essentially be an extension of the principles of PRS; and clearly there will need to be further discussion with Departments to take account of their views in working out the details.



As far as Government is concerned, the proposition would be in accord with your request and would hold out the prospect of tougher financial management in this important part of PSA's activity.

In order to make progress with this idea without risking wasted effort, I felt the need to inform colleagues in advance because if there is any disagreement in principle, I should like those issues resolved now. At this stage, therefore, I am merely asking for your reaction to the principle of a Property Division regulated by a trading fund. We would expect that it would take some 6 months before we were able to come back with flesh on the bones and to identify positively the costs and benefits.

Derek Rayner, who has been consulted, has said "I agree with the emphasis on incentives to rational economic behaviour likely in principle to flow from the more competitive environment of a trading fund."

I shall be grateful for your views, and those of Cabinet Colleagues to whom I am copying this minute. I am also copying this to Sir Derek Rayner and Sir Robert Armstrong.

MH

MH

22. 7. 82

POSSIBLE PROPERTY DIVISION WITHIN PSA

The essentials would be:

- i. the Division's portfolio would embrace those parts of the Government estate where there is a potential alternative use. It may cover 80% of the Civil Estate and maybe 20% of the Defence Estate and have an asset value of £3-5 billion;
- ii. the PD will negotiate a Memorandum of Understanding (see Note 1 attached) in respect of each property which will establish effectively a form of "contractual" relationship between itself and departmental tenants. This will build on PRS (Property Repayment Services) which starts in April 1983;
- iii. the object is to enable the PSA through the property division to act as closely as possible to a private sector property company and the individual departments to act as independently as possible in what they perceive as their best interests;
- iv. the PD would have Trading Fund status, which would enable:
 - a. the development of an objective measure of the financial utilisation of our property assets via a "Return on Capital"; the trend of which could then be compared with the private sector,
 - b. the real property costs of government decisions to be identified,
 - c. a longer term view to be taken of property matters,
 - d. a clearer distinction to be drawn between capital and revenue expenditure on property,
 - e. the introduction of more options or alternatives both for Departments and internally in the handling of maintenance,
 - f. more generally, a tougher commercial attitude to be developed both within the PD and by overspill in other parts of PSA.

Note 1 The "Memorandum of Understanding" would cover:

current market rent

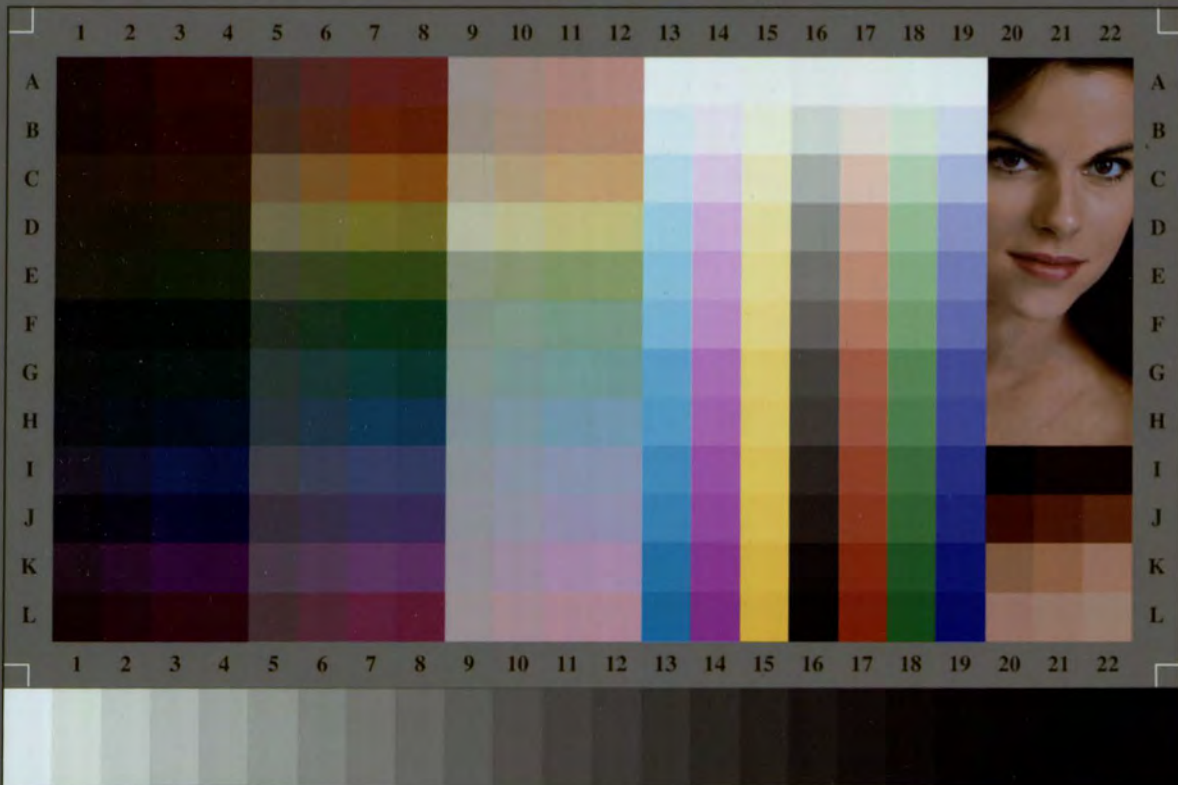
rent reviews every 3, 5 or 7 years

extension of maintenance responsibility (including in
most cases internal decoration) to the tenant

tenure, ie period tenant expects to require the property

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